November 5, 2024

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 **MONDAY, NOVEMBER 11, 2024, AT 4:30 P.M., DOWNING RESOURCE CENTER, CONFERENCE ROOMS, A, B, & C, SALINAS VALLEY HEALTH MEDICAL CENTER, 450 E. ROMIE LANE, SALINAS, CALIFORNIA.**
(V*isit* **https://www.salinasvalleyhealth.com/~/about-us/healthcare-district-information-reports/board-of-directors/board-committee-meetings-virtual-link/** *for Public Access Information*).

Allen Radner, MD
President/Chief Executive Officer

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

Committee Voting Members: **Juan Cabrera**, Chair; **Catherine Carson**, Vice Chair; **Allen Radner, M.D.**, President/CEO; **Gary Ray**, Chief Legal Officer, and **Rakesh Singh**, M.D., Medical Staff Member.

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

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

MONDAY, NOVEMBER 11, 2024, 4:30 P.M.
DOWNING RESOURCE CENTER, CONFERENCE ROOMS A, B & C

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 September 18, 2024. (CABRERA)
   - Motion/Second
   - Action by Committee
4. Review Draft Reports of
   - Years Ended 2024 and 2023 Draft Audited Financial Statements for Salinas Valley Memorial Healthcare System.
   - Years Ended 2023 and 2022 Draft Audited Financial Statements for the Salinas Valley Memorial Healthcare District Employee's Pension Plan.
5. Closed Session
6. Reconvene Open Session/Report on Closed Session
7. Consider Recommendation for Board of Directors Approval of the Years Ended 2024 and 2023 Draft Audited Financial Statements for Salinas Valley Memorial Healthcare System. (LOPEZ/CLEVELAND/CHRIS PRITCHARD & KIMBERLY SOKOLOFF of MOSS ADAMS)
   - Questions to Committee Chair/Staff
   - Motion/Second
   - Public Comment
   - Board Discussion/Deliberation
   - Action by Board/Roll Call Vote

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

8. Consider Recommendation for Board of Directors Approval of the Years Ended 2023 and 2022 Draft Audited Financial Statements for the Salinas Valley Memorial Healthcare District Employee's Pension Plan. (LOPEZ/CLEVELAND/ KORY HOGGAN of MOSS ADAMS)
   - Questions to Committee Chair/Staff
   - Motion/Second
   - Public Comment
   - Board Discussion/Deliberation
   - Action by Board/Roll Call Vote

9. Adjournment

   The Corporate Compliance and Audit Committee meets quarterly. The next meeting is scheduled for 2025, date and time to be determined.

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

The Committee packet is available at the Committee Meeting, at https://www.salinasvalleyhealth.com/about-us/healthcare-district-information-reports/board-of-directors/meeting-agendas-packets/2024/, and in the Human Resources Department of the District located at 611 Abbott Street, 2nd Floor, Salinas, California, 93901. All items appearing on the agenda are subject to action by the Committee.

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

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

AGENDA FOR CLOSED SESSION

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

CLOSED SESSION AGENDA ITEMS

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

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

1. Audit Report

ADJOURN TO OPEN SESSION

[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 SEPTEMBER 18, 2024

Committee Member Attendance:

Voting Members Present: **Juan Cabrera**, Chair, **Catherine Carson,** Vice-Chair, appearing via teleconference pursuant to Government Code Section 54953(f)(2)(A)(i), **Allen Radner, M.D.,** President/CEO**,** and **Gary Ray,** CLO;

Voting Members Absent: **Rakesh Singh,** Medical Staff Member**;**

Advisory Non-Voting Members Present: Via Teleconference: Mike Nolan

Other Board Members Present, Constituting Committee of the Whole:
Via teleconference: Director Victor Rey *(Arrived at 4:37 p.m.)*.

1. CALL TO ORDER/ROLL CALL

A quorum was present and Chair Cabrera called the meeting to order at 4:31 p.m. at the Downing Resource Center Rooms A, B, & C.

2. PUBLIC COMMENT

None

3. APPROVAL OF MINUTES FROM THE CORPORATE COMPLIANCE AND AUDIT COMMITTEE MEETING OF DECEMBER 12, 2023.

Approve the minutes of the December 12, 2023, 2024 Quality and Efficient Practices Committee meeting. The information was included in the Committee packet.

PUBLIC COMMENT: None

MOTION:

Upon motion by Committee member Dr. Radner, second by Committee member Ray, the minutes of the December 12, 2023 Corporate Compliance and Audit Committee Meeting were approved as presented.

ROLL CALL VOTE:
Ayes: Chair Cabrera, Vice-Chair Carson, Dr. Radner, Ray;
Noes: None;
Abstentions: None;
Absent: Dr. Singh.

Motion Carried

4. COMPLIANCE PROGRAM REPORT

Gary Ray, Chief Legal Officer, reported the Compliance Program has been restructured combining two (2) positions into Director of Contracting and Compliance reporting to him as Chief Legal Officer. Natalie James, JD, was introduced as Director of Contracting and Compliance. The following was reported:

- Seven elements necessary for effective compliance: (1) Implement written policies, procedures, and standards of conduct, (2) Designate a compliance officer and a compliance committee,

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

(3) Conduct effective training and education, (4) Develop effective lines of communication, (5) Conduct internal monitoring and auditing, (6) Enforce standards through well-publicized disciplinary guidelines, and (7) Respond promptly to detected offenses and undertake corrective action. The Director of Contracting & Compliance and Chief Legal Officer will be collaborating in the coming months to identify Compliance Program status & goals which will be reported back to the Board.

- Upcoming Internal Audit Activity: Q3/Q4 CY 2024 Annual Internal Mock Audit of 340B Program Activity partnering with SpendMend, Annual Financial Audit for FY2024 by Moss Adams in collaboration with CFO, and other internal audits as planned in consultation with executive team based on risk assessment and guidance from CLO.
- Controlled Substance Oversight Committee: Relaunched August 30, 2024; acts as an advisory group for the implementation and ongoing development of a drug diversion prevention, detection and response program and is a line of communication between the Drug Diversion Response Team (DDRT) and executive leadership, and oversees program structure, development and policies. The next meeting is scheduled for October 2024. **Committee Discussion:** What is diversion? Illegal distribution or abuse of prescription drugs not for their intended use.
- Biennial Conflict of Interest Code Update – Form 700: Political Reform Act requires every local government agency and special district to review Conflict of Interest Code biennially. There are time regulations for notice and filing of amendments (updated list of required filers) and will be reviewed by the Board. District Legal Counsel is involved in this process.

5. CLOSED SESSION

Chair Cabrera announced that the items to be discussed in Closed Session are *Hearings/Reports* as listed on the closed session agenda. The meeting recessed into Closed Session under the Closed Session protocol at 4:46 p.m.

6. RECONVENE OPEN SESSION/REPORT ON CLOSED SESSION

The Committee reconvened for Open Session at 4:54 p.m. Chair Cabrera reported that in Closed Session, the Committee received and accepted the (1) *Hearings/Reports* as published on the closed session agenda, as follows:

Hearings and Reports: Quality Assurance Report

7. ADJOURNMENT

There being no other business, the meeting adjourned at 4:55 p.m. The next Corporate Compliance & Audit Committee Meeting is scheduled for **Wednesday, December 11, 2024**.

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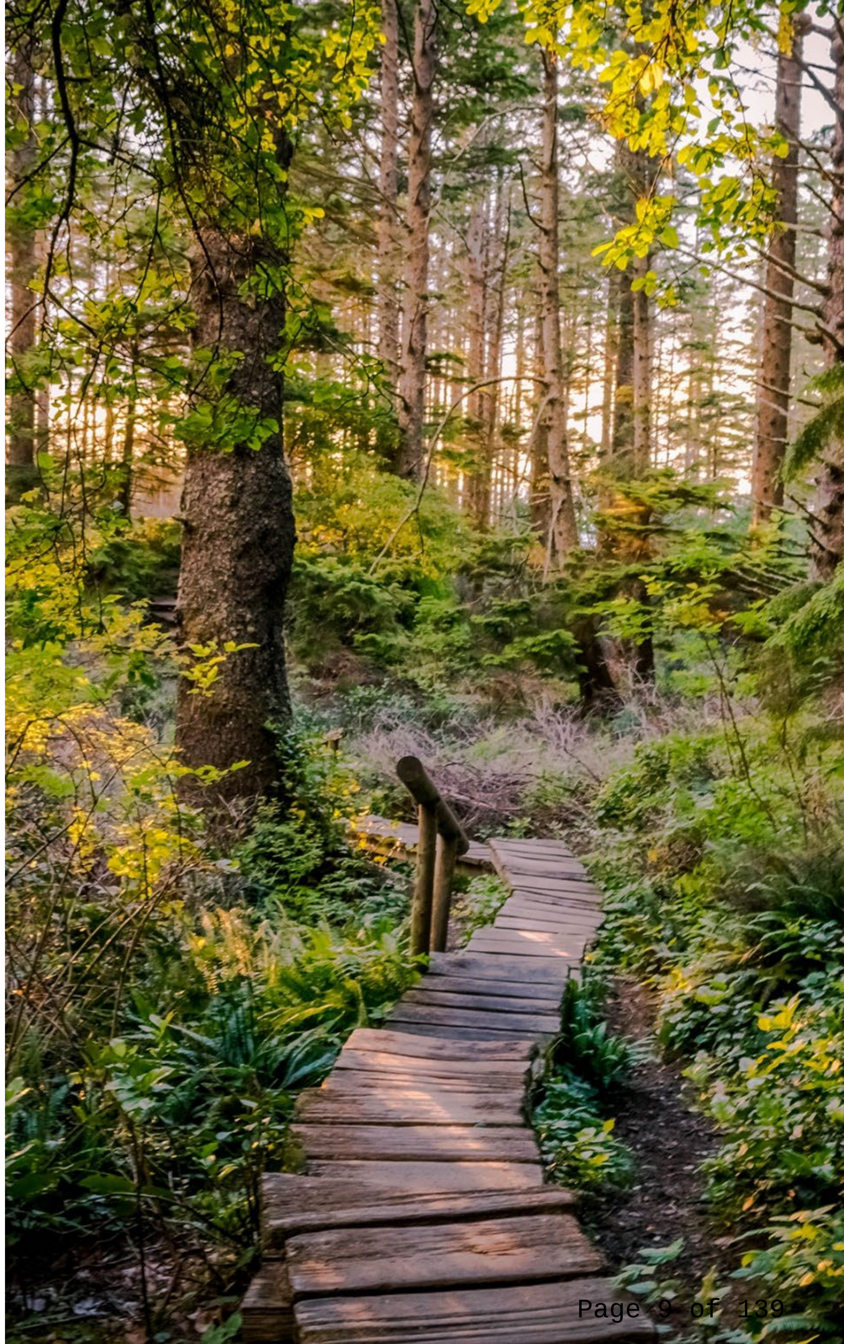
Juan Cabrera, Chair
Corporate Compliance and Audit Committee

Salinas Valley Health

2024 AUDIT RESULTS

Agenda

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



Scope of Services

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

Annual Audits

- Annual consolidated financial statement audit as of and for the year ended June 30, 2024

Nonattest Services

- Assisted in drafting the consolidated financial statements and related footnotes as of and for the year ended June 30, 2024

Auditor Report on the Consolidated Financial Statements

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

Significant Risks

During the audit, we noted the following:

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	- Journal entry testing using risk-based criteria - Inquiries with executive, finance, and operational personnel

Hospital Patient Accounts Receivable – trend analysis

($ in 000's)	2024	2023	2022	2021	2020
Net Patient Accounts Receivable	$111,334	$85,106	$83,766	$70,975	$69,081
Subsequent Cash Receipts 2 months after 6/30	$60,833	$55,127	$53,349	$55,047	$46,733
% Collected 2 months after 6/30	55%	65%	64%	66%	68%
Exposure after 2 months' collections	$50,501	$29,979	$30,417	$15,928	$22,348
Collected 14 months after 6/30	n/a	$86,285	$89,091	$83,550	$75,674
% Collected 14 months after 6/30	n/a	101%	106%	118%	110%

Matters to Be Communicated to the Governing Body

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

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

Matters to Be Communicated to the Governing Body

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

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

Matters to Be Communicated to the Governing Body

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

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

Matters to Be Communicated to the Governing Body

MATTERS TO BE COMMUNICATED

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

MOSS ADAMS COMMENTS

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

Matters to Be Communicated to the Governing Body

MATTERS TO BE COMMUNICATED

Significant Accounting Practices:

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

MOSS ADAMS COMMENTS

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

- Management has the responsibility for selection and use of appropriate accounting policies. The significant accounting policies used by Salinas Valley Health are described in the notes to the consolidated financial statements. During the year, SVH adopted GASB 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*. There were no other changes to significant accounting policies for the year ended June 30, 2024.
- We believe management has selected and applied significant accounting policies appropriately and consistent with those of the prior year.

Matters to Be Communicated to the Governing Body

MATTERS TO BE COMMUNICATED

Management Judgments & Accounting Estimates:

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

MOSS ADAMS COMMENTS

- Management's judgments and accounting estimates are based on knowledge and experience about past and current events and assumptions about future events. We apply audit procedures to management's estimates to ascertain whether the estimates are reasonable under the circumstances and do not materially misstate the consolidated financial statements.

- Significant management estimates impacted the consolidated financial statements including the following: estimated net realizable amounts from patient accounts receivable, useful lives of capital assets and right-of-use assets, discount rates and lease terms related to SVH's operating lease right-of-use assets, lease liabilities, lease receivable, deferred inflows of resources – leases, subscription assets, and subscription liabilities, actuarial estimates for self insured liabilities, and discount rates and other assumptions related to determining net pension and post-retirement benefit liabilities.

Matters to Be Communicated to the Governing Body

MATTERS TO BE COMMUNICATED

Management Judgments & Accounting Estimates:

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

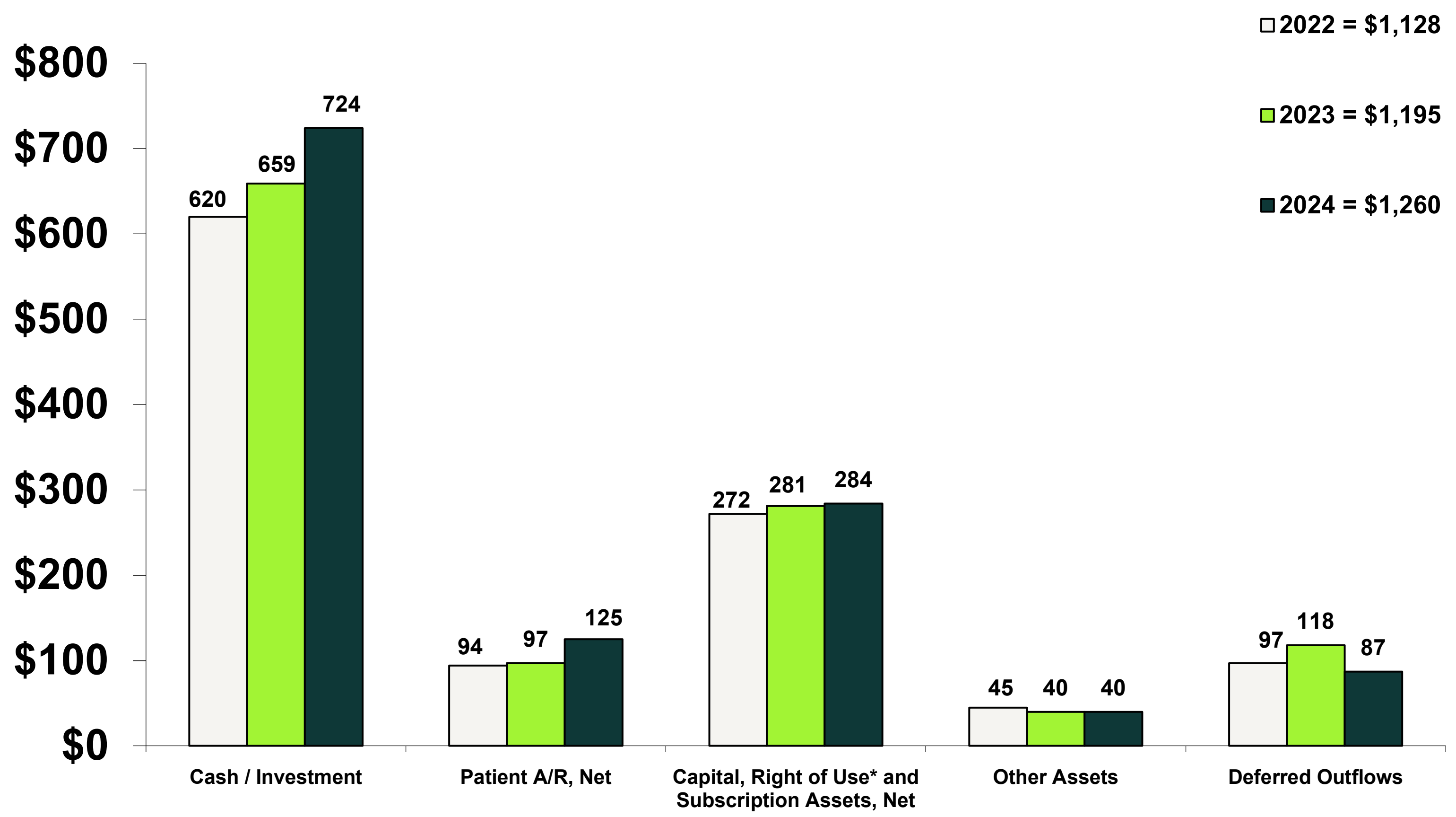
MOSS ADAMS COMMENTS

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

MOSSADAMS

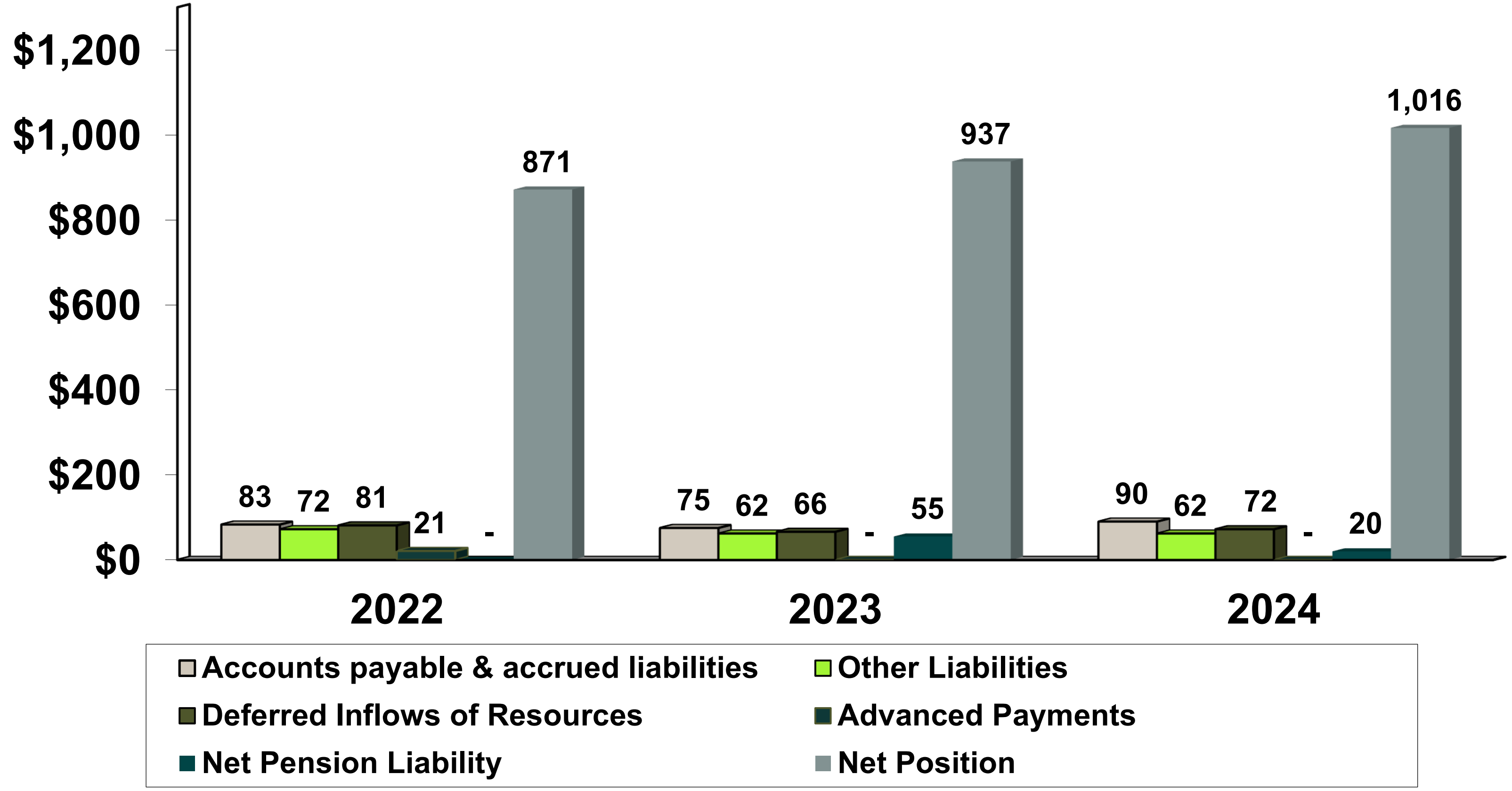
Consolidated Statements of Net Position

Asset and Deferred Outflows (in millions)



*represents GASB 87 operating lease right of use asset

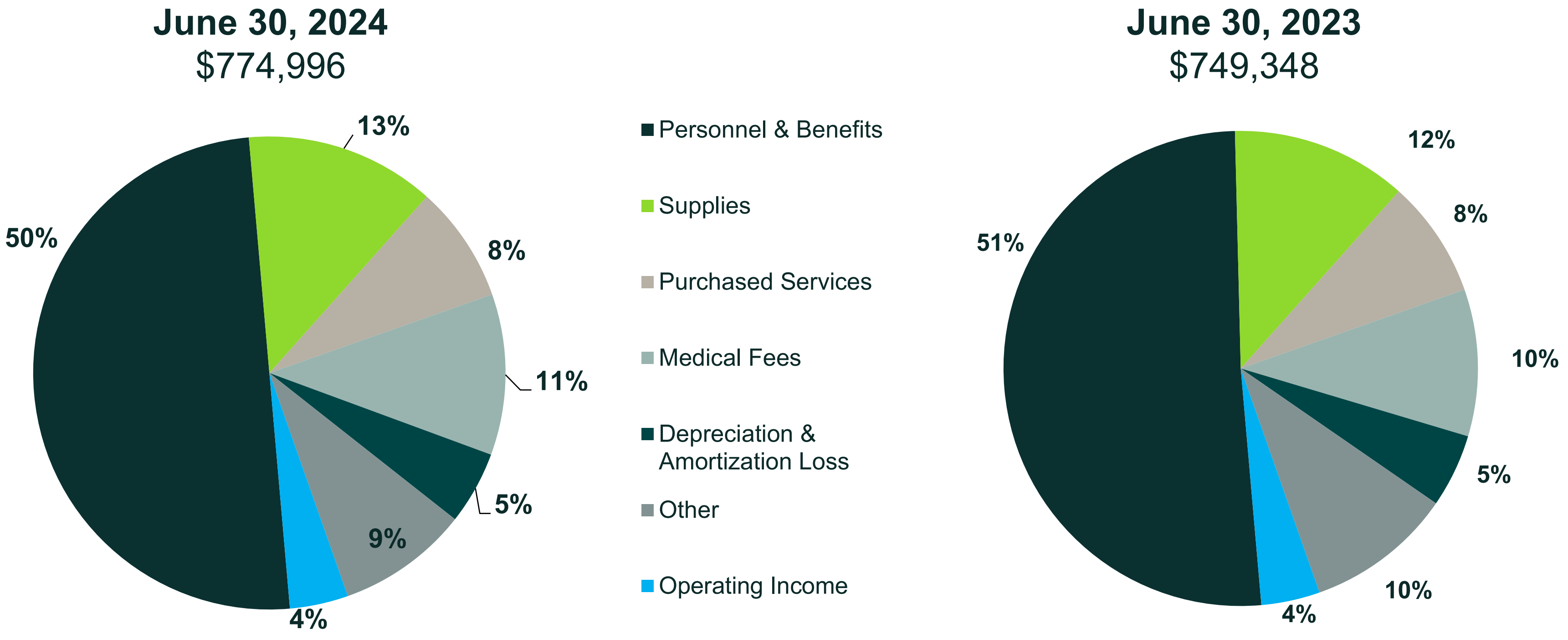
Liabilities, Deferred Inflows, and Net Position (in millions)



Consolidated Operations

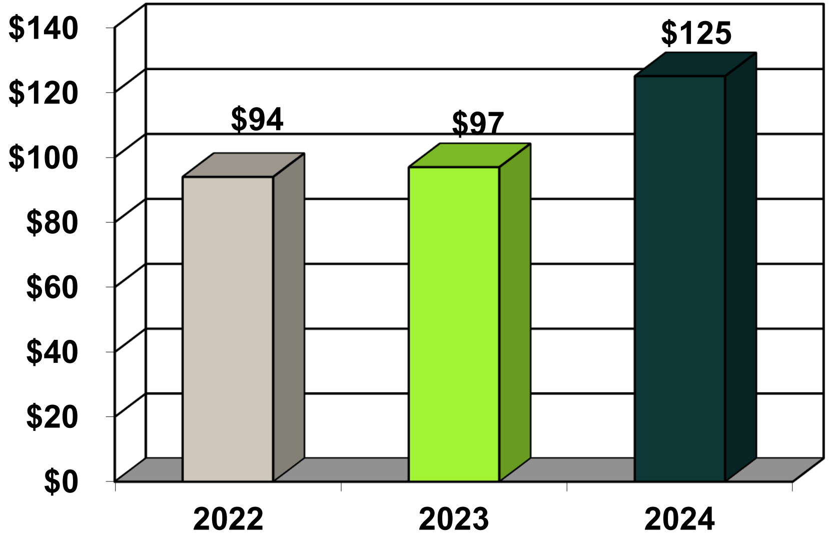
Income Statements Year-to-Year Comparison

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

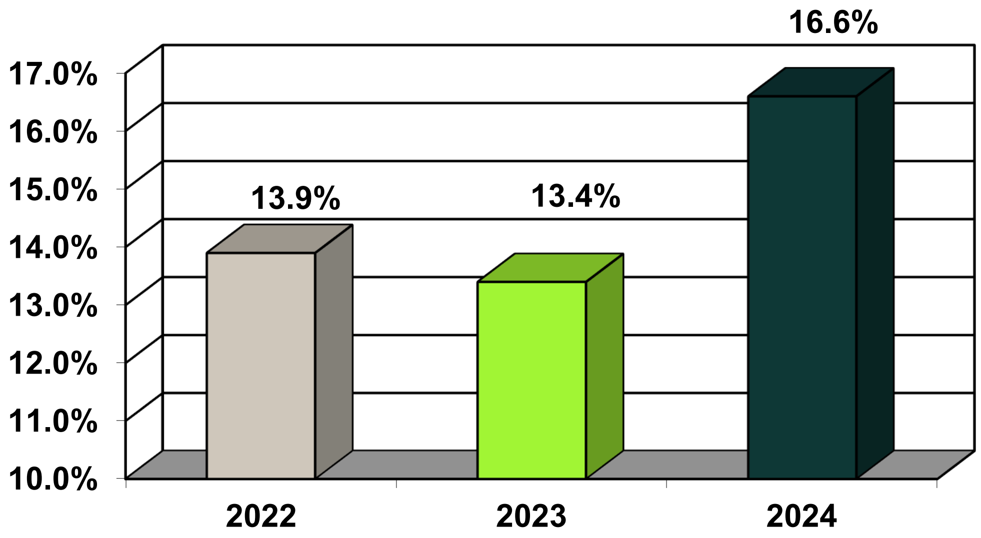


Net Patient Service Accounts Receivable

Dollars (in millions)



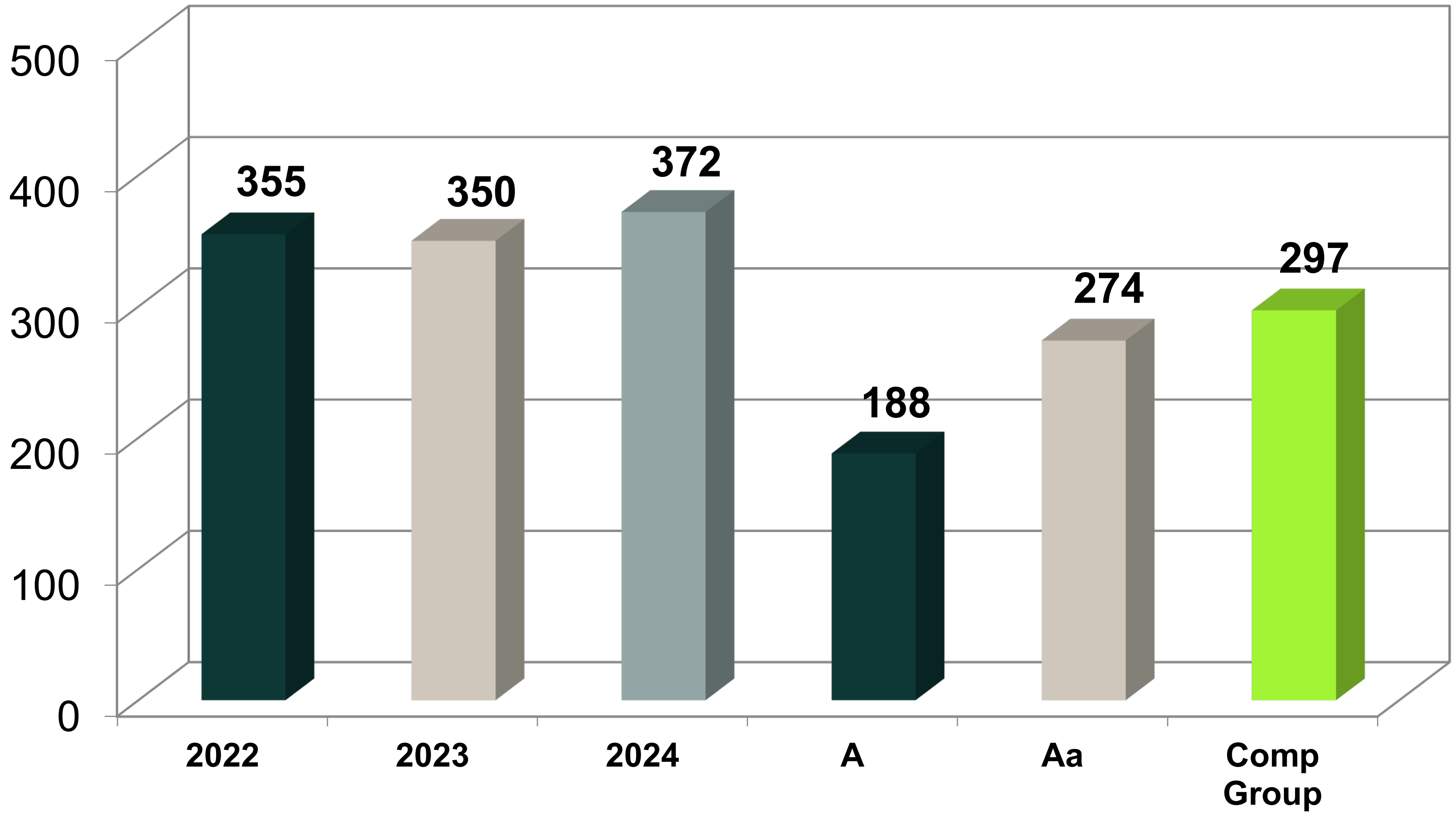
% Net Revenues



MOSSADAMS

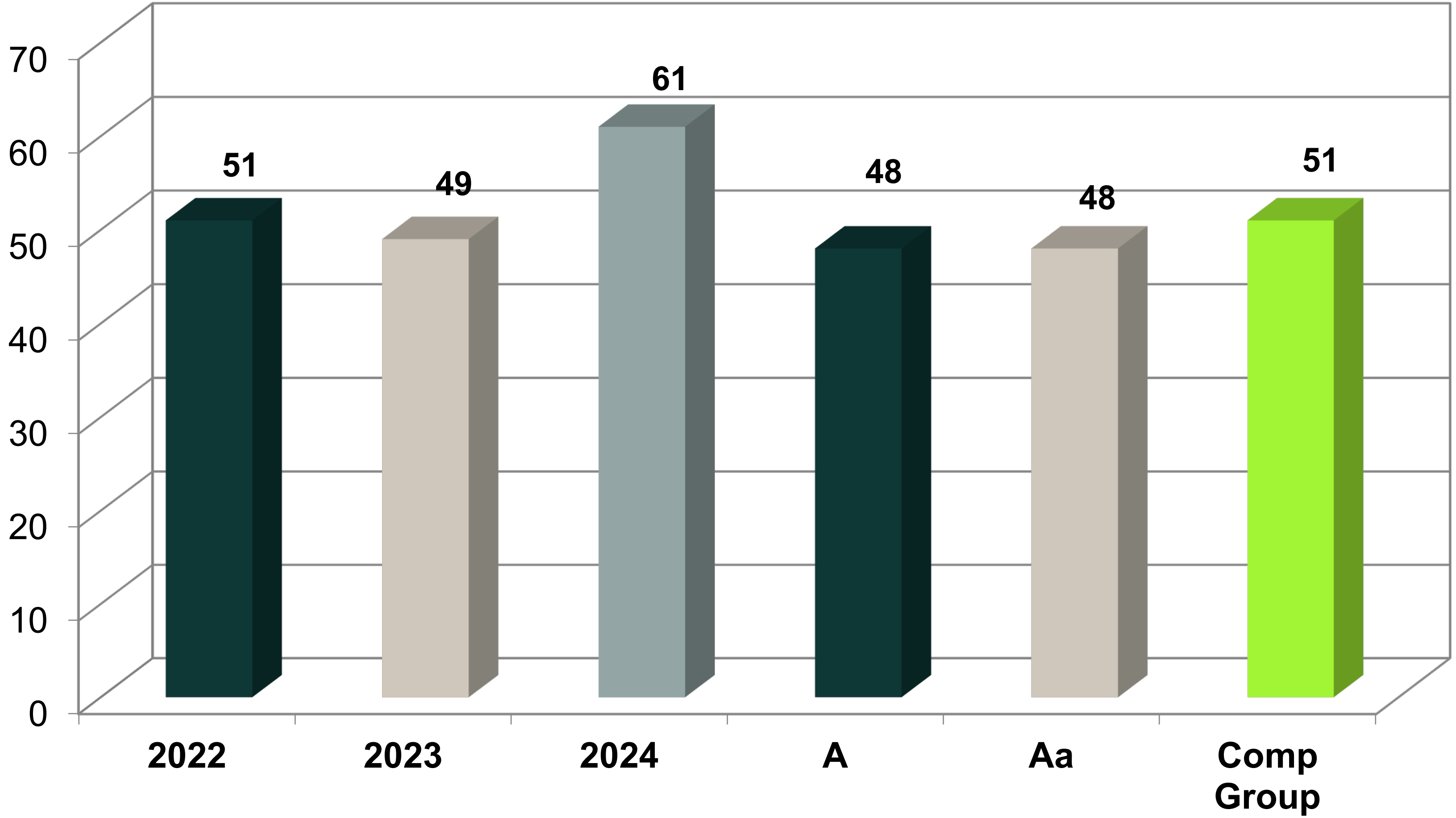
Other Information

Days Unrestricted Cash and Investments



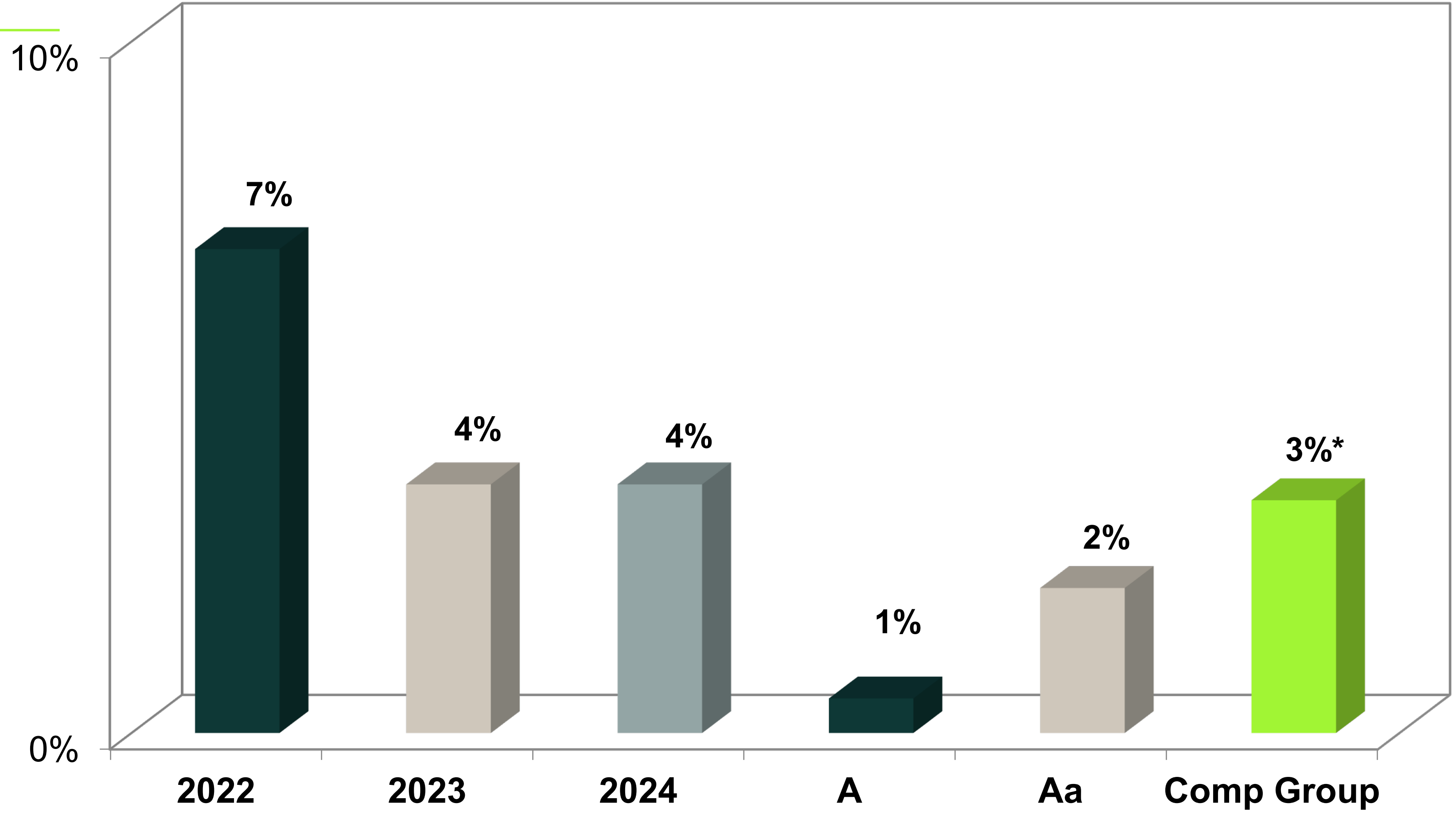
Moody's Investors Services: *Fiscal Year 2023 Not-for-Profit Health Care Medians August 2024*

Days in Accounts Receivable



Moody's Investors Services: *Fiscal Year 2023 Not-for-Profit Health Care Medians August 2024*

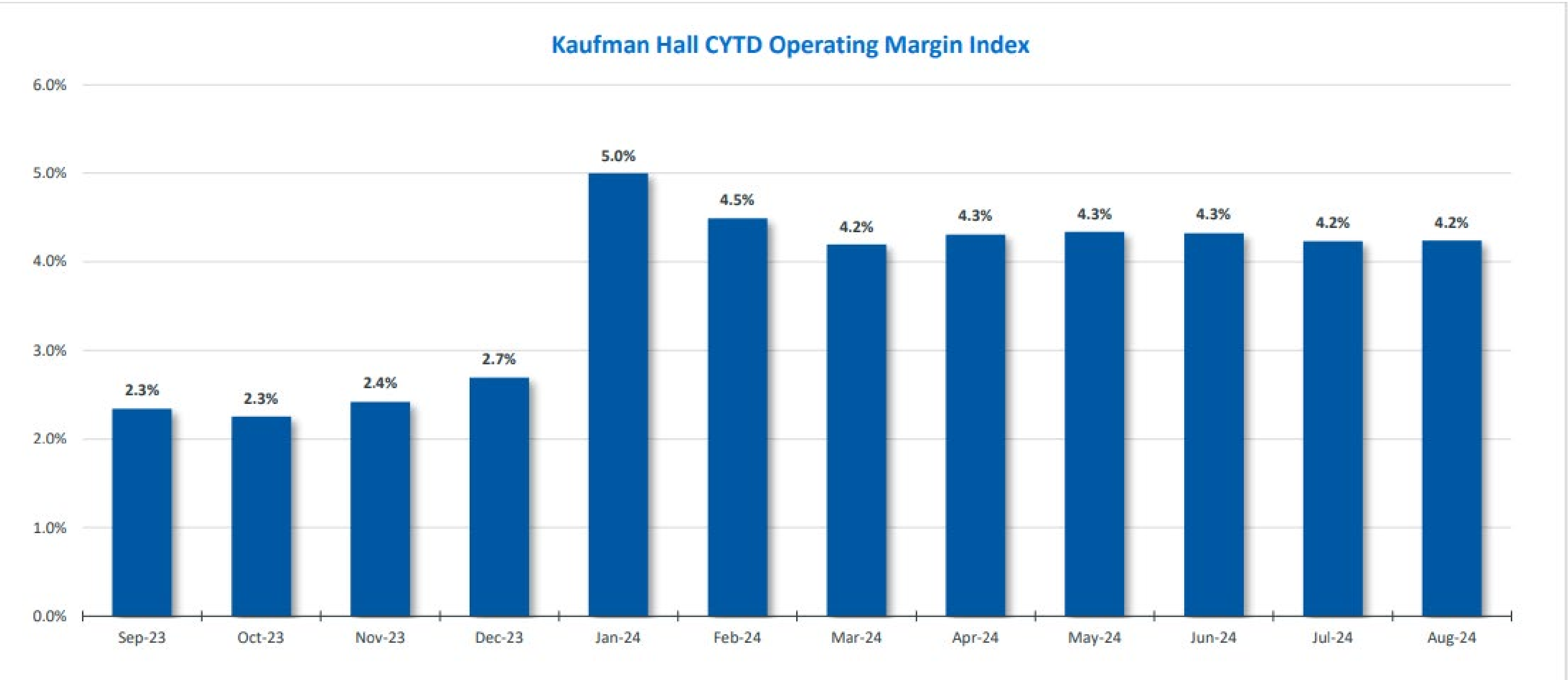
Operating Margin
(Operating Income/Total Revenue)



*Comp Group Operating Margin ranges from (6.3%) to 11% with 1 negative margin and 4 positive margins

Moody's Investors Services: *Fiscal Year 2023 Not-for-Profit Health Care Medians August 2024*

Operating Margin Index



Source: *National Hospital Flash Report,* August 2024, Kaufman Hall

GASB Accounting Updates

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

- GASB Statement No. 101, Compensated Absences. Effective for Salinas Valley Health beginning July 1, 2024.

- GASB Statement No. 102, Certain Risk Disclosures. Effective for Salinas Valley Health beginning July 1, 2024.

- GASB Statement No. 103, Financial Reporting Model Improvements. Effective for Salinas Valley Health beginning July 1, 2025.

Your Service Team

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THANK YOU

Communications with the Board of Directors

Salinas Valley Memorial Healthcare System

June 30, 2024

MOSSADAMS

MOSSADAMS

Communications with the Board of Directors

The Board of Directors
Salinas Valley Memorial Healthcare System

We have audited the consolidated financial statements of the business-type activities and the aggregate remaining fund information of Salinas Valley Memorial Healthcare System (the "System") as of and for the year ended June 30, 2024, and have issued our report thereon dated November XX, 2024. 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 26, 2024, we are responsible for forming and expressing an opinion about whether the consolidated financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the consolidated financial statements does not relieve you or management of your responsibilities.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS) and the California Code of Regulations, Title 2 Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Systems. As part of an audit conducted in accordance with the standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

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

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

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 26, 2024 and during our planning meeting with you on June 18, 2024.

Significant Audit Findings and Issues

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the System are described in Note 2 to the consolidated financial statements. In 2024, the System adopted Governmental Accounting Standards Board ("GASB") Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*. No other new accounting policies were adopted and there were no changes in the application of existing policies during 2024. We noted no transactions entered into by the System during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the consolidated financial statements in a different period than when the transaction occurred.

Significant Accounting Estimates

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

- Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. We evaluated the key factors and assumptions used to develop the estimated net realizable amounts and determined that it is reasonable in relation to the consolidated financial statements taken as a whole.
- The System provides care to patients without requiring collateral or other security. Patient charges not covered by a third-party payor are billed directly to the patient if it is determined that the patient has the ability to pay. A provision for uncollectible accounts is recognized based on management's estimate of amounts that ultimately may be uncollectible. We evaluated the key factors and assumptions used to develop the provision for uncollectible accounts and determined that it is reasonable in relation to the consolidated financial statements taken as a whole.
- Management's estimate of the fair market values of investments in the absence of readily-determinable fair values is based on information provided by the fund managers. We have gained an understanding of management's estimate methodology and examined the documentation supporting this methodology. We evaluated the key factors and assumptions used to develop the fair market value of investments. We found management's basis to be reasonable in relation to the consolidated financial statements taken as a whole.
- The System is self-insured for workers' compensation benefits for employees. An actuarial estimate is accrued based on an expected, undiscounted estimate. We found management's basis to be reasonable in relation to the consolidated financial statements taken as a whole.
- The System provides eligible employees with health benefits through a self-insured program. The liability for claims arising from this program is estimated based upon historical experience and trending. We found management's basis to be reasonable in relation to the consolidated financial statements taken as a whole.

- The useful lives of capital assets have been estimated based on the intended use and are within accounting principles generally accepted in the United States of America. We found management's basis to be reasonable in relation to the consolidated financial statements taken as a whole.
- Management's estimate of the net pension liability is actuarially determined using assumptions on the long-term rate of return on pension plan assets, the discount rate used to determine the present value of benefit obligations. These assumptions are provided by management. We have evaluated the key factors and assumptions used to develop the estimate. We found management's basis to be reasonable in relation to the consolidated financial statements taken as a whole.
- Management's estimated liability for post-retirement medical benefits is actuarially determined using assumptions on the discount rate and the health care cost trend rate used to determine the present value of benefit obligations, and the rate of compensation increases. These assumptions are provided by management. We have evaluated the key factors and assumptions used to develop the estimate. We found management's basis to be reasonable in relation to the consolidated financial statements taken as a whole.
- Management's estimates of the discount rate, useful lives, lease terms related to the System's operating lease right of use assets, lease liabilities, lease receivable, and deferred inflows of resources - leases. We have gained an understanding of management's key factors and assumptions and examined the documentation supporting the estimates. We found management's basis to be reasonable in relation to the System's consolidated financial statements taken as a whole.
- Management's estimates of the discount rate, useful lives, and subscription terms related to the System's subscription assets and subscription liabilities. We have gained an understanding of management's key factors and assumptions and examined the documentation supporting the estimates. We found management's basis to be reasonable in relation to the System's consolidated financial statements taken as a whole.

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.

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 Systems. There were no circumstances that affected the form and content of the auditor's report.

Corrected and Uncorrected Misstatements

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November XX, 2024.

Management Consultation with Other Independent Accountants

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

Other Significant Audit Findings or Issues

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

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

San Francisco, California
November XX, 2024

Report of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information

Salinas Valley Memorial Healthcare System

June 30, 2024 and 2023

Table of Contents

Management's Discussion and Analysis

INTRODUCTION

This section of Salinas Valley Memorial Healthcare System's ("Salinas Valley Health" or "SVH") annual financial report provides an overview of SVH's financial activities as of and for the year ended June 30, 2024, with comparative financial information as of and for the years ended June 30, 2023 and 2022. Additionally, this section provides an overview of the financial activities of the Salinas Valley Memorial Healthcare District Employees Pension Plan (the "Plan" or "Fiduciary") as of and for the year ended June 30, 2024, with comparative financial information as of and for the years ended June 30, 2023 and 2022.

MANAGEMENT'S DISCUSSION AND ANALYSIS – Salinas Valley Health

General Salinas Valley Health Description

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

SVH is anchored by Salinas Valley Health Medical Center (the "Hospital"), an acute care facility licensed for 263 beds. As one of the area's largest employers, the Hospital has a staff of approximately 2,100 people and is recognized as a leader in providing nationally recognized quality care. Principal services include a comprehensive heart program providing advanced diagnostics and treatments such as those in its structural heart program, heart catheterization labs, and heart surgical suites; and orthopedic, perinatal, and oncology services. Collaboration is an important operating principle for SVH in such key areas as:

- SVH's Level III Neonatal Intensive Care Unit and Perinatal Diagnostic Center, which are operated in a joint venture with Stanford Children's Health;
- the Madison Clinic for Pediatric Diabetes, a partnership with UCSF;
- Aspire Health Plan, Monterey County's only Medicare Advantage program;
- Taylor Family Farms Health and Wellness Center (Rural Health Clinic);
- Blue Zones Project Monterey County, dedicated to building a community where people live longer and healthier lives.
- SVH includes Salinas Valley Health Clinics, a multi-location clinic expanding access to primary and specialty care. SVH includes 9 urgent care locations and a system-wide information network.

Overview of the Consolidated Financial Statements

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

Components of the Basic Consolidated Financial Statements

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

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

Salinas Valley Memorial Healthcare System

Financial Highlights

The following table illustrates comparable statistics (excluding newborns) for the year ended June 30, 2024, as compared to the years ended June 30, 2023 and 2022:

	Year Ended June 30,			Change	
	2024	2023	2022	2024/2023	2023/2022
Admissions	11,015	11,808	10,926	(793)	882
Average daily census	117	130	118	(13)	12
Average length of stay	4	4	4	-	-
Patient days:					
Medicare	21,375	23,421	21,162	(2,046)	2,259
Managed care	7,634	8,590	8,763	(956)	(173)
Medi-Cal and CCAH	12,535	13,892	11,895	(1,357)	1,997
Other	1,208	1,435	1,241	(227)	194
Total patient days	42,752	47,338	43,061	(4,586)	4,277
Outpatient visits:					
Hospital outpatients	67,092	60,316	57,830	6,776	2,486
Laboratory	57,619	7,430	8,865	50,189	(1,435)
Emergency room	64,522	65,873	56,626	(1,351)	9,247
Total outpatient visits	189,233	133,619	123,321	55,614	10,298

As shown above, patient days decreased 9.7% during 2024, from the levels of the prior year. Outpatient visits increased 41.6% during 2024, from the levels of the prior year, with an increase in hospital outpatient visits and laboratory visits, and a decrease in emergency room patients. The increase in total outpatient visits in 2024 is largely due to laboratory visits which have increased substantially due to Salinas Valley Health Clinic lab tests being referred to Salinas Valley Health Medical Center which started in October of 2023.

Abbreviated Consolidated Statements of Net Position

The following abbreviated consolidated statements of net position compare the balances as of June 30, 2024, to that of June 30, 2023 and 2022 (in thousands):

	As of June 30,			Change	
	2024	2023	2022	2024/2023	2023/2022
Current assets:					
Cash and cash equivalents	$ 273,204	$ 335,989	$ 315,889	$ (62,785)	$ 20,100
Patient accounts receivable, net	124,912	97,434	94,115	27,478	3,319
Other	151,279	85,886	107,364	65,393	(21,478)
Total current assets	549,395	519,309	517,368	30,086	1,941
Board-designated funds	166,414	157,875	148,633	8,539	9,242
Capital assets, net	259,854	256,235	249,724	3,619	6,511
Other assets, net	197,825	143,852	115,625	53,973	28,227
Total assets	1,173,488	1,077,271	1,031,350	96,217	45,921
Deferred outflows	86,622	118,048	97,245	(31,426)	20,803
Total assets and deferred outflows	$ 1,260,110	$ 1,195,319	$ 1,128,595	$ 64,791	$ 66,724
Current liabilities	$ 120,498	$ 101,993	$ 141,390	$ 18,505	$ (39,397)
Noncurrent liabilities	51,124	89,839	34,881	(38,715)	54,958
Deferred inflows	72,278	66,000	81,468	6,278	(15,468)
Total liabilities and deferred inflows	243,900	257,832	257,739	(13,932)	93
Net position:					
Invested in capital assets, net	260,205	254,730	236,018	5,475	18,712
Reserved for minority interest	(6,629)	(4,705)	(4,003)	(1,924)	(702)
Restricted - expendable	4,581	5,602	5,900	(1,021)	(298)
Restricted - nonexpendable	1,268	1,205	1,131	63	74
Unrestricted	756,785	680,655	631,810	76,130	48,845
Total net position	1,016,210	937,487	870,856	78,723	66,631
Total liabilities, deferred inflows, and net position	$ 1,260,110	$ 1,195,319	$ 1,128,595	$ 64,791	$ 66,724

Analysis – 2024 and 2023

Total current assets increased by $30.1 million in 2024, compared to 2023, due primarily to an increase in other current assets consisting primarily of the current portion of investments in marketable securities previously held in cash savings and patient accounts receivables attributed to an increase in untimely payments from commercial payers. There are ongoing collection efforts to address this matter.

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

Current liabilities increased by $18.5 million in 2024, primarily due to increases in accounts payable and accrued expenses partially due to timing of the last major bi-weekly check run for the fiscal year coming 13 days before year end. Noncurrent liabilities decreased by $38.7 million in 2024, primarily due to a decrease in the net pension liability.

Analysis – 2023 and 2022

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

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

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

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

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

The following abbreviated consolidated statements of revenues, expenses, and changes in net position and detail summary of net patient service revenues compare the activity for the year ended June 30, 2024, to that of the years ended June 30, 2023 and 2022 (in thousands):

	Year Ended June 30, 2024	2023	2022	Change 2024/2023	2023/2022
Net patient service revenues	$ 752,195	$ 726,870	$ 676,259	$ 25,325	$ 50,611
Other revenues	22,801	22,478	19,394	323	3,084
Total operating revenues	774,996	749,348	695,653	25,648	53,695
Total operating expenses	(746,544)	(721,916)	(649,641)	(24,628)	(72,275)
Operating income	28,452	27,432	46,012	1,020	(18,580)
Total nonoperating income (loss), net	50,271	39,199	(4,087)	11,072	43,286
Increase in net position	$ 78,723	$ 66,631	$ 41,925	$ 12,092	24,706

Analysis – 2024 and 2023

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

Operating expenses increased in 2024 by approximately $24.6 million or 3.4% over 2023 primarily from increases in supplies and medical fees required for services to increased patient volumes. Operating income in 2024 increased by $1.0 million to $28.4 million from $27.4 million for 2023.

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

Analysis – 2023 and 2022

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

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

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

Net Patient Service Revenues

Net patient service revenues by funding source for 2024, 2023, and 2022 (in thousands) were as follows:

	Year Ended June 30,			Change	
	2024	2023	2022	2024/2023	2023/2022
Payor:					
Hospital operations:					
Medicare	$ 172,162	$ 174,595	$ 135,237	$ (2,433)	$ 39,358
Managed care	333,913	322,294	320,067	11,619	2,227
Medi-Cal and CCAH	108,042	104,474	79,771	3,568	24,703
Other	26,664	23,916	43,244	2,748	(19,328)
Consolidated subsidiaries	111,414	101,591	97,940	9,823	3,651
Total net patient service revenues	$ 752,195	$ 726,870	$ 676,259	$ 25,325	$ 50,611

Net patient service revenues increased by 3.5% in 2024, compared to 2023. Net patient service revenues increased by 7.5% in 2023, as compared to 2022.

Liquidity and Other Key Ratios

Following is a table showing liquidity and other key ratios for the fiscal year ended June 30, 2024, as compared to June 30, 2023 and 2022:

	Year Ended June 30,		
	2024	2023	2022
Liquidity ratios:			
Current ratio	4.6	5.1	3.7
Days of revenue in patient accounts receivable	60.6	48.9	50.8
Margins:			
Operating income to total operating revenues	3.7%	3.7%	6.6%
Increase in net position (net income) to total operating revenues	10.2%	8.9%	6.0%
Return on total net position	7.7%	7.1%	4.8%

SVH's current ratio (ratio of current assets to current liabilities) decreased from 2023 to 2024, while it increased substantially year over year from 2022 and 2023. The decrease in the current ratio in 2024 was attributed to purchase of investments in securities funded by cash previously held in bank savings.

Other Operational Information

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

Physician Recruitment

Anticipated physician retirement and the growth of the local community have caused SVH to continue its emphasis on physician recruitment in 2024, which will be a continuing issue for SVH in the next several years. In order to keep the facility in the forefront of medical excellence, SVH has adopted a recruitment program to attract physicians in various specialties to the area.

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

Management Focus

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

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

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

Federal and State Net Revenue Estimates

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

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

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

California Intergovernmental Transfers Received

Section 14164 of the California Welfare & Institutions Code provides for transfers between participating hospitals and the State Department of Healthcare Services to be used as a portion of the nonfederal share of providing services to Medi-Cal recipients. SVH received $23.8 million, $9.7 million, and $7.9 million net funding under this program in the years ended June 30, 2024, 2023, and 2022, respectively.

Charity Care and Community Funding

SVH delivered charity care, community benefits, and unreimbursed patient care totaling $155 million, $160 million, and $132 million in the years ended June 30, 2024, 2023, and 2022, respectively. SVH has made additional investments in the community, in alignment with our Community Health Needs Assessment (CHNA), develop collaborative community partnerships that create a lasting impact on the well-being of our community by optimizing the environment in which people live, work, learn, and play.

Cautionary Note Regarding Forward-Looking Statements

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

MANAGEMENT'S DISCUSSION AND ANALYSIS – FIDUCIARY

Overview

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

General Plan Description

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

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

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

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

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

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

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

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

Financial Analysis of the Plan

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

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

The following are abbreviated statements of fiduciary net position as of June 30, 2024, 2023, and 2022 (in thousands):

	As of June 30,			Change	
	2024	2023	2022	2024/2023	2023/2022
Cash and investments	$ 459,539	$ 403,720	$ 442,375	$ 55,819	$ (38,655)
Net position held in trust for pension benefits	$ 459,539	$ 403,720	$ 442,375	$ 55,819	$ (38,655)

The following are abbreviated statements of changes in fiduciary net position as of June 30, 2024, 2023, and 2022 (in thousands):

	Year Ended June 30,			Change	
	2024	2023	2022	2024/2023	2023/2022
Investment income (loss), net	$ 62,101	$ (83,746)	$ 47,033	$ 145,847	$ (130,779)
Employer contributions	11,270	61,579	23,127	(50,309)	38,452
Member contributions	2,506	2,578	2,673	(72)	(95)
Benefit payments to members and beneificiaries	(19,961)	(18,961)	(16,352)	(1,000)	(2,609)
Administrative expenses	(97)	(105)	(112)	8	7
Net change in fiduciary net position	$ 55,819	$ (38,655)	$ 56,369	$ 94,474	$ (95,024)

Analysis – 2024 and 2023

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

Analysis – 2023 and 2022

During 2023, the net position held in trust for pension benefits decreased by approximately 8.7%, compared to 2022. Employer contributions were $61.6 million in 2023 compared to $23.1 million in 2022. Benefit payments were $19.0 million in 2023 compared to $16.4 million in 2021. Net investment income was $83.7 million in 2023 compared to $47.0 million in 2022.

Report of Independent Auditors

The Board of Directors
Salinas Valley Memorial Healthcare System

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of the business-type activities and the aggregate remaining fund information of Salinas Valley Memorial Healthcare System (the "System") as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the System's consolidated financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the System as of June 30, 2024 and 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 to 12 and supplemental pension and post-retirement benefit information on page 63 be presented to supplement the consolidated financial statements. Such information is the responsibility of management and, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinion on the consolidated financial statements that collectively comprise the System's consolidated financial statements. The consolidating statement of net position and consolidating statement of revenues, expenses, and changes in net position on pages 58 to 60 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating statement of net position and consolidating statement of revenues, expenses, and changes in net position are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

The accompanying supplemental schedule of community benefit on page 61 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, 2024

Consolidated Financial Statements

Salinas Valley Memorial Healthcare System
Consolidated Statements of Net Position
June 30, 2024 and 2023
(in Thousands)

	2024	2023
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Cash and cash equivalents	$ 273,204	$ 335,989
Patient accounts receivable, net of estimated uncollectibles of $55,096 and $27,288 at June 30, 2024 and 2023, respectively	124,912	97,434
Short-term investments	127,818	62,285
Supplies inventory	7,763	8,171
Lease receivable, current portion	785	1,267
Other current assets	14,913	14,163
Total current assets	549,395	519,309
BOARD-DESIGNATED FUNDS	166,414	157,875
CAPITAL ASSETS		
Nondepreciable	44,528	60,067
Depreciable, net	215,326	196,168
Total capital assets, net	259,854	256,235
OTHER ASSETS		
Right-of-use assets, net of amortization	14,000	13,922
Subscription assets, net of amortization	10,207	10,755
Lease receivable, net of current portion	467	1,169
Long-term investments	156,598	102,498
Investments in affiliates	14,987	14,067
Other long-term assets	1,566	1,441
Total other assets	197,825	143,852
Total assets	1,173,488	1,077,271
DEFERRED OUTFLOWS - ACTUARIAL	85,734	116,911
DEFERRED OUTFLOWS - GOODWILL	888	1,137
Total deferred outflows	86,622	118,048
Total assets and deferred outflows	$ 1,260,110	$ 1,195,319

See accompanying notes.

Salinas Valley Memorial Healthcare System
Consolidated Statements of Net Position (Continued)
June 30, 2024 and 2023
(in Thousands)

	2024	2023
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES		
Notes payable, current portion	$ 104	$ 101
Accounts payable	20,037	11,788
Accrued expenses	70,179	63,545
Estimated third-party payor settlements	3,689	5,404
Lease liabilities, current portion	4,336	3,650
Subscription liabilities, current portion	4,228	4,631
Self-insurance liabilities, current portion	17,925	12,874
Total current liabilities	120,498	101,993
NET PENSION LIABILITY	19,697	55,011
NET POST-RETIREMENT MEDICAL BENEFITS LIABILITY	4,160	4,001
NOTES PAYABLE, net of current portion	548	654
LEASE LIABILITIES, net of current portion	11,179	11,431
SUBSCRIPTION LIABILITIES, net of current portion	3,461	5,715
SELF-INSURANCE LIABILITIES, net of current portion	12,079	13,027
Total liabilities	171,622	191,832
DEFERRED INFLOWS - ACTUARIAL	71,166	63,781
DEFERRED INFLOWS - LEASES	1,112	2,219
Total deferred inflows	72,278	66,000
Total liabilities and deferred inflows	243,900	257,832
NET POSITION		
Invested in capital assets, net of related debt	260,205	254,730
Reserved for minority interest	(6,629)	(4,705)
Restricted - expendable	4,581	5,602
Restricted - nonexpendable	1,268	1,205
Unrestricted	756,785	680,655
Total net position	1,016,210	937,487
Total liabilities, deferred inflows, and net position	$ 1,260,110	$ 1,195,319

See accompanying notes.

Salinas Valley Memorial Healthcare System
Consolidated Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2024 and 2023
(in Thousands)

	2024	2023
OPERATING REVENUES		
Net patient service revenues	$ 752,195	$ 726,870
Other revenues	22,801	22,478
Total operating revenues	774,996	749,348
OPERATING EXPENSES		
Salaries and wages	238,285	233,119
Compensated absences	40,407	37,885
Employee benefits	107,065	112,372
Supplies	101,259	90,793
Purchased services	64,825	60,878
Medical fees	85,854	74,168
Other fees	44,191	49,074
Depreciation and amortization	36,263	35,844
Other expenses	28,395	27,783
Total operating expenses	746,544	721,916
Operating income	28,452	27,432
NONOPERATING REVENUES AND EXPENSES		
Grants and contributions	3,753	20,467
Property tax revenue	5,680	5,721
Investment income, net	39,603	19,282
Provision for credit losses	(5,447)	(5,914)
Gain (loss) on disposal of capital assets	157	(1,042)
Income from investments in affiliates	2,422	2,171
Other	2,374	(2,023)
Nonoperating income, net	48,542	38,662
INCOME BEFORE MINORITY INTEREST	76,994	66,094
MINORITY INTEREST IN INCOME OF CONSOLIDATED AFFILIATES	1,729	537
INCREASE IN NET POSITION	78,723	66,631
NET POSITION, beginning of year	937,487	870,856
NET POSITION, end of year	$ 1,016,210	$ 937,487

See accompanying notes.

Salinas Valley Memorial Healthcare System
Consolidated Statements of Cash Flows
Years Ended June 30, 2024 and 2023
(in Thousands)

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	$ 681,638	$ 676,191
Cash paid to employees for services	(378,918)	(384,270)
Cash paid to suppliers for goods and services	(267,031)	(270,582)
Other receipts from operations	22,801	22,478
Net cash provided by operating activities	58,490	43,817
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from property taxes levied by the County	5,680	5,721
Grants and donations received	3,753	20,467
Net cash provided by noncapital financing activities	9,433	26,188
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(31,819)	(35,346)
Proceeds from sale of capital assets	1,762	352
Proceeds from lease receivable	1,184	21
Payments on lease liabilities	(5,735)	(2,572)
Payments on subscription liabilities	(7,743)	(5,906)
Purchase of subscription assets	-	(360)
Principal payments on notes payable	(103)	(100)
Net cash used in capital and related financing activities	(42,454)	(43,911)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(645,243)	(99,886)
Proceeds from sales of investments	565,213	110,206
Changes in board designated funds	(8,539)	(9,242)
Other nonoperating distribution	(1,711)	(9,110)
Distribution from minority interest in affiliates, net	2,026	2,038
Net cash used in investing activities	(88,254)	(5,994)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(62,785)	20,100
CASH AND CASH EQUIVALENTS, beginning of year	335,989	315,889
CASH AND CASH EQUIVALENTS, end of year	$ 273,204	$ 335,989

See accompanying notes.

Salinas Valley Memorial Healthcare System
Statements of Cash Flows (Continued)
Years Ended June 30, 2024 and 2023
(in Thousands)

	2024	2023
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 28,452	$ 27,432
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	36,263	35,844
Provision for doubtful accounts	41,364	47,598
Net loss on disposal of capital and subscription assets	306	1,042
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(68,842)	(50,917)
Supplies and other assets	(467)	3,236
Net pension liability	(35,314)	56,901
Deferred grants	-	(12,237)
Deferred outflows	31,426	(20,803)
Deferred inflows	6,278	(15,468)
Accounts payable and accrued expenses	14,883	(7,174)
Advance payments - Medicare	-	(21,045)
Self-insurance liabilities	4,262	(1,505)
Estimated third-party payor settlements	(1,715)	238
Right-of-use assets/lease liabilities	1,594	(143)
Subscription liabilities/assets	-	818
Net cash provided by operating activities	$ 58,490	$ 43,817
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITY		
Noncash acquisition of ROU assets	$ 4,575	$ 10,176
Noncash acquisition of subscription assets	$ 5,086	$ -

See accompanying notes.

Salinas Valley Memorial Healthcare System
Employees' Pension Plan – Statements of Fiduciary Net Position
June 30, 2024 and 2023
(in Thousands)

	2024	2023
ASSETS		
Investments, at fair value:		
Mutual funds	$ 459,539	$ 403,720
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	$ 459,539	$ 403,720

See accompanying notes.

Salinas Valley Memorial Healthcare System
Statements of Changes in Fiduciary Net Position
Years Ended June 30, 2024 and 2023
(in Thousands)

	2024	2023
ADDITIONS		
Investment income:		
Net appreciation (depreciation) in fair value of investments	$ 50,748	$ (93,981)
Dividends	11,353	10,235
Net investment income (loss)	62,101	(83,746)
Contributions:		
Employer	11,270	61,579
Members	2,506	2,578
Total contributions	13,776	64,157
Total additions (reductions)	75,877	(19,589)
DEDUCTIONS		
Benefit payments	19,962	18,961
Administrative expenses	96	105
Total deductions	20,058	19,066
NET CHANGE IN NET POSITION	55,819	(38,655)
NET POSITION HELD IN TRUST FOR PENSION BENEFITS		
Beginning of the year	403,720	442,375
End of the year	$ 459,539	$ 403,720

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

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

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

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

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

Note 2 – Summary of Significant Accounting Policies

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

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

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

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

New accounting pronouncements – In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62.* This statement enhances accounting and financial reporting requirements for accounting changes and error corrections. It defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity. This statement requires that (1) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (2) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (3) changes in accounting estimates be reported prospectively by recognizing the change in the current period. SVH adopted this standard in the current fiscal year. The adoption did not result in a material impact to the SVH's consolidated financial statements.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. The statement updates the recognition and measurement guidance for compensated absences. This statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used, and (2) leave that has been used but not yet paid, provided the services have occurred, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or noncash means. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. The statement amends the existing requirements to disclose only the net change in the liability instead of the gross additions and deductions to the liability. This statement is effective for fiscal years beginning after December 15, 2023. SVH is currently evaluating the potential impact of this statement on its consolidated financial statements.

In January 2024, the GASB issued Statement No. 102, *Certain Risk Disclosures*. The purpose of the statement is to inform users of financial statements about risks associated with specific concentrations or constraints that the user might assess as making the government subject to certain vulnerabilities to loss. Concentrations and constraints may limit a government's ability to acquire resources or control spending. The statement defines a concentration as a lack of diversity related to a significant inflow or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. This statement is effective for fiscal years beginning after June 15, 2024. SVH is currently assessing the potential impact of this statement on its consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

SVH evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Impairment losses on capital assets are measured using the method that best reflects the diminished service utility of the capital asset. Management evaluates prominent events or changes in circumstances to determine whether an impairment loss should be recognized. There were no impairment losses during the years ended June 30, 2024 and 2023.

Right-of-use assets – SVH has recorded right-of-use assets in accordance with GASB Statement No. 87, *Leases* ("GASB No. 87"). The right-of-use assets are initially measured at an amount equal to the initial measurement of the related lease liability, plus any lease payments made prior to the lease term and ancillary charges necessary to place the lease into service, less any lease incentives received. The right-of-use assets are amortized on a straight-line basis over the life of the related lease. See Note 13 for further discussion of right-of-use assets.

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

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

	2024	2023
Deferred outflows - actuarial:		
Pension	$ 84,902	$ 116,122
Post-retirement medical plans	832	789
Total deferred outflows - actuarial	85,734	116,911
Deferred outflows - goodwill	888	1,137
Total deferred outflows	$ 86,622	$ 118,048
Deferred inflows - actuarial:		
Pension	$ 69,533	$ 62,029
Post-retirement medical plans	1,633	1,752
Total deferred inflows - actuarial	71,166	63,781
Deferred inflows - leases	1,112	2,219
Total deferred inflows	$ 72,278	$ 66,000

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.

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, 2024 and 2023.

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

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

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

- *Invested in capital assets, net of related debt* – Capital assets, net of accumulated depreciation, subscription assets and right of use assets, net, reduced by outstanding principal balances of debt (including subscription and lease liabilities) attributable to the acquisition, construction, or improvement of those assets.

- *Reserved for minority interest* – Net position of legally separate organization attributable to other participants.

- *Restricted* – SVH classifies net position resulting from transactions with purpose restrictions as restricted net assets until the resources are used for the specific purpose or for as long as the provider requires the resources to remain intact.
  - *Expendable* – Net position whose use by SVH is subject to externally imposed restrictions that can be fulfilled by actions of SVH pursuant to those restrictions or that expire by the passage of time.
  - *Nonexpendable* – Net position that includes donor restricted requirements to invest the principal portion in perpetuity.

- *Unrestricted* – Net position that is neither restricted nor invested in capital assets, net of related debt. Unrestricted net position may be designated for specific purposes by management or the Board of Directors.

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

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

Grants and contributions – On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by the novel coronavirus, a pandemic. The Centers for Medicare & Medicaid Services ("CMS") distributed $50 billion of the $100 billion in the form of grants to hospitals. For the year ended June 30, 2022, SVH received approximately $12.2 million of provider relief funds. SVH did not receive additional funds in the fiscal years ended June 30, 2024 and 2023. SVH recognized $0 and $12.2 million for the fiscal years ended June 30, 2024 and 2023, respectively, included as grants and contributions in the consolidated statement of revenues, expenses, and changes in net position. SVH submitted reports documenting lost revenue and expenses incurred to support the grant funds, among other terms and conditions for the year ended June 30, 2023.

Separately, CMS initiated an Accelerated Payment Program ("Medicare Accelerated Payments") to hospitals. The Medicare Accelerated Payments represent advance payments for services to be provided and were based on a hospital's historical Medicare volume. In April 2020, SVH received approximately $66 million in Medicare Accelerated Payments. CMS began recoupment of these payments in April 2021 and continued to recoup the accelerated payments from billings for services rendered until they were fully repaid. During the year ended June 30, 2024 and 2023, the remaining outstanding amount of $21.0 million was fully recouped.

For the years ended June 30, 2024 and 2023, SVH was obligated and received approximately $254,000 and $5,643,000, respectively, in Disaster Relief Funds from the Federal Emergency Management Agency and has recognized this in grant and contribution revenue in the consolidated statements of revenues, expenses and changes in net position.

Charity care – SVH provides care without charge or at less than its established rates to patients who meet certain criteria under its charity care policy. Because SVH does not pursue collection of amounts determined to qualify as charity care, such amounts are not included in net patient service revenues. Cost of services rendered to patients who qualified for financial assistance under SVH's charity care policy, calculated using the cost-to-charge ratio, totaled $1.4 million and $1.5 million for the years ended June 30, 2024 and 2023, respectively.

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

Aspire Health Plan – SVH provided funding to Aspire Health Plan, a California nonprofit mutual benefit corporation that operates a Medicare Advantage plan, in exchange for a 49% membership voting interest. Initial funding of $1.5 million was reported as other long-term assets in the consolidated statement of net position as of June 30, 2017. Additional funding of $5.8 million and $6.4 million was included within nonoperating expenses in the consolidated statements of revenue, expense, and changes in net position, for the years ended June 30, 2024 and 2023, respectively, due to the uncertain nature of repayments of ongoing funding.

Concentration of credit risk – SVH is highly dependent upon government programs and nongovernmental third-party payors for its revenues. Net patient service revenue from Medicare amounted to 23% and 24% and negotiated third-party payors amounted to 44% and 44% of total net patient service revenues for the years ended June 30, 2024 and 2023, respectively. Significant concentrations of net patient accounts receivable include Medicare at 13% and 14% and negotiated third-party payors at 71% and 67% at June 30, 2024 and 2023, 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 years' balances have been made to conform with the current year presentations. Such reclassifications did not affect the total increase in net position or total current or long-term assets or liabilities.

Note 3 – Net Patient Service Revenues

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

	2024	2023
Gross patient service revenues:		
Routine inpatient services	$ 439,283	$ 448,297
Ancillary services	2,198,393	2,017,083
Outpatient services	580,622	553,109
Total gross patient service revenues	3,218,298	3,018,489
Deductions from gross patient service revenues:		
Contractual allowance for statutory and negotiated rates	(2,417,329)	(2,236,297)
Provision for doubtful accounts	(41,364)	(47,598)
Charity care	(7,410)	(7,724)
Net patient service revenues	$ 752,195	$ 726,870

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

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

Certain inpatient and outpatient pass-through costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. SVHMC is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by SVHMC and audits thereof by the Medicare administrative contractor. SVHMC's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with SVHMC. SVHMC's Medicare cost reports have been audited by the Medicare administrative contractor through June 30, 2021

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, 2020

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

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

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

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

Under Assembly Bill 1383 of 2009, as amended by Assembly Bill 1653 on September 8, 2010 (collectively, the "Bill"), which establishes a hospital fee program, SVH is exempt from the quality assurance fee but is eligible for supplemental payments under the second part of the Bill, and received $9.7 million and $0 million, respectively, in the years ended June 30, 2024 and 2023, as included in net patient service revenue in the accompanying consolidated statements of revenues, expenses, and changes in net position.

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:

	2024	2023
Cash and cash equivalents	$ 273,204	$335,989
Short-term investments	127,818	62,285
Board-designated funds	166,414	157,875
Long-term investments	156,598	102,498
Total	$ 724,034	$ 658,647

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

	2024	2023
By Board for capital improvements	$ 166,324	$ 157,785
By agreement with secured vendor	90	90
Total	$ 166,414	$ 157,875

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

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

As of June 30, 2023, 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	$ 335,989	$ 335,989	$ -	$ -	$ -
U.S. Treasury notes	99,766	-	80,088	13,816	5,862
Municipal notes	128,977	-	35,320	52,477	41,180
Corporate notes	71,133	-	16,841	5,305	48,987
Bank certificates of deposit	90	-	90	-	-
Money market accounts	4,201	4,201	-	-	-
Mutual funds	18,491	18,491	-	-	-
Total	$ 658,647	$ 358,681	$ 132,339	$ 71,598	$ 96,029

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

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

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

Credit risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization such as Moody's or S&P.

The following table illustrates the fair value and associated credit ratings of investments held by SVH at June 30, 2024 and 2023, in thousands:

Ratings	Fair Value at June 30, 2024	Fair Value at June 30, 2023
A+ /A / A- / A-1+ / A1 / A2 / A3	$ 108,705	$ 61,416
AAA / AA+ / AA / AA- / AA1 / AA2 / AA3	286,695	127,583
BBB+	12,631	-
SP-1+	4,000	-
WR	-	2,886
NA	9,890	101,912
NR	302,113	364,850
Total	$ 724,034	$ 658,647

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

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

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

As of June 30, 2024 and 2023, approximately $7.5 million and $6.4 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 three levels of inputs that may be used to measure fair value under GASB Statement No. 72, *Fair Value Measurement and Application*:

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

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

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

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the consolidated statements of net position at June 30, 2024 and 2023, 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.

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, 2024 and 2023, as stratified by fair value hierarchy level, in thousands:

Description	Level 1	Level 2	Level 3	June 30, 2024
Investments by fair value level:				
U.S. Treasury notes	$ 34,845	$ -	$ -	$ 34,845
Municipal notes	38,536	-	-	38,536
Corporate notes	74,284	-	-	74,284
Federal agency notes	67,721	-	-	67,721
Mutual funds	20,230	-	-	20,230
Government securities	199,318	-	-	199,318
Total by fair value level	$ 434,934	$ -	$ -	434,934
Cash equivalents:				
Local agency investment fund				94
Cash holdings				273,110
Total cash equivalents				273,204
Commercial paper				9,972
Bank certificates of deposit				90
Money market accounts				5,834
Total investments				$ 724,034

Description	Level 1	Level 2	Level 3	June 30, 2023
Investments by fair value level:				
U.S. Treasury notes	$ 99,766	$ -	$ -	$ 99,766
Municipal notes	128,977	-	-	128,977
Corporate notes	71,133	-	-	71,133
Mutual funds	18,491	-	-	18,491
Total by fair value level	$ 318,367	$ -	$ -	318,367
Cash equivalents:				
Local agency investment fund				94
Cash holdings				335,895
Total cash equivalents				335,989
Bank certificates of deposit				90
Money market accounts				4,201
Total investments				$ 658,647

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, 2024 and 2023, as stratified by fair value hierarchy level, in thousands:

June 30, 2024	Level 1	Level 2	Level 3	Total
Mutual funds:				
Equity securities	$ 326,465	$ -	$ -	$ 326,465
Fixed income	133,074	-	-	133,074
Total	$ 459,539	$ -	$ -	$ 459,539

June 30, 2023	Level 1	Level 2	Level 3	Total
Mutual funds:				
Equity securities	$ 282,251	$ -	$ -	$ 282,251
Fixed income	121,469	-	-	121,469
Total	$ 403,720	$ -	$ -	$ 403,720

Note 6 – Capital Assets

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

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

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

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

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

Note 7 – Investments in Affiliates

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

- Community Health Innovations, LLC ("CHI"), an integrated population health initiative.
- Monterey Peninsula Surgery Center ("MPSC"), a partnership that operates an outpatient Surgery Center.
- Monterey Bay Endoscopy Center, LLC ("MBEC"), an outpatient diagnostic center for gastroenterology procedures.

- 21st Century Oncology ("MRKS"), a partnership with MRKS, Inc. (the successor organization after the bankruptcy of Genesis Care), a partnership to provide outpatient cancer care.

- Mood Health ("MOOD HEALTH"), equity investment in a start-up company specializing in using technology to help provide psychiatry and therapy and is used by Salinas Valley Health patients.

The following table summarizes the percentage interest of and balance of investments in affiliates (in thousands) at June 30, 2024 and 2023:

	Percentage Interest		Investment Balance	
Affiliate	2024	2023	2024	2023
CHI	49%	49%	$ 1,877	$ 1,681
MPSC	12%	12%	7,156	6,523
MRKS	40%	40%	2,605	2,577
MBEC	14%	14%	1,849	1,786
MOOD HEALTH	6%	6%	1,500	1,500
			$ 14,987	$ 14,067

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 $318 thousand and $309 thousand during the years ended June 30, 2024 and 2023, respectively.

The Salinas Valley Memorial Hospital Service League ("Service League") is an organization formed for the benefit of SVHMC. Expenses paid by SVHMC on behalf of the Service League during the years ended June 30, 2024 and 2023, totaled $2.1 million and $2.2 million, respectively.

Note 9 – Self-Insurance Liability

SVHMC is self-insured for workers' compensation claims. Estimated losses of $14.6 million and $15.5 million have been accrued under actuarially determined calculations at June 30, 2024 and 2023, of which approximately $2.5 million and $2.5 million are considered current liabilities, respectively.

The following is a summary of changes in workers' compensation self-insurance liabilities for June 30, 2024 and 2023, in thousands:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2024	$ 15,523	$ 2,938	$ (3,909)	$ 14,552	$ 2,474
2023	$ 15,594	$ 3,757	$ (3,828)	$ 15,523	$ 2,495

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, 2024 and 2023, were approximately $12.8 million and $8.0 million, respectively, included in self-insurance liabilities, current portion in the consolidated statement of net position.

SVHMC maintains a $40.0 million claims-made medical malpractice policy with BETA, a shared risk pool for California hospital districts. Membership of the Board of BETA is comprised of management of district hospitals. Hospital premiums are established annually based on the experience of the pool and SVHMC. SVHMC paid premiums of approximately $1.6 million and $1.8 million to BETA for the years ended June 30, 2024 and 2023, respectively. SVHMC's policy with BETA is renewed every 12 months; the most recent renewal date was July 1, 2023. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be uninsured. SVHMC may purchase extended reporting endorsements upon cancellation. The length of the reporting endorsement is not limited. As SVHMC has retained risk for claims incurred during the policy period that are not reported prior to the expiration of the policy, the liability for such retained medical malpractice risk has been recorded on SVH's consolidated financial statements. Such liability has been actuarially determined, is considered a current liability, and at June 30, 2024 and 2023, was approximately $2.7 million and $2.3 million, respectively.

Note 10 – Notes Payable, Net

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

	June 30, 2023	Decreases	June 30, 2024 Total	June 30, 2024 Current Portion	June 30, 2024 Long-Term Portion
Note payable, due in monthly installments of approximately $10 thousand including interest at 3.99%, with balance due in 2030, collateralized by specified property.	$ 755	$ (103)	$ 652	$ 104	$ 548
	755	$ (103)	652	$ 104	$ 548
Less: current portion	101		104		
Notes payable, net of current portion	$ 654		$ 548		

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

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

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, 2024, and thereafter are as follows, in thousands:

Years Ending June 30,	Principal	Interest	Total
2025	$ 104	$ 25	$ 129
2026	109	20	129
2027	114	16	130
2028	118	11	129
2029	123	6	129
Thereafter	84	1	85
Total	$ 652	$ 79	$ 731

Note 11 – Employee Benefit Plans

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

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

Contributions – The Plan directs SVH to make contributions based on actuarially determined contribution amounts. SVH reserves the right to suspend or reduce contributions to the Plan at any time, upon appropriate action by the Board. In accordance with 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 10 years of service. Participants may receive early retirement benefits after a minimum of 15 years of service.

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

Summary of Significant Accounting Policies – Fiduciary

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

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, disclosure of contingent assets and liabilities, and the actuarial value of assets and actuarial accrued liability at the date of the financial statements. Actual results could differ from those estimates.

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

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

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

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

SVHMC's net pension liability was measured as of June 30, 2024 and 2023, as determined by an actuarial valuation as of December 31, 2023 and 2022, rolled forward to June 30, 2024 and 2023, 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 $11.3 million and $10.1 million for the years ended June 30, 2024 and 2023, respectively, all of which were contributed to the Plan as directed and approved by the Board. SVH, at the decision of the Board of Directors, contributed amounts greater than the actuarially determined contribution amounts. During the years ended June 30, 2024 and 2023, actual contributions were $11.3 million and $61.6 million, respectively, representing excesses of $0 and $51.5 million, respectively.

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

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

	January 1, 2024	January 1, 2023
Active	1,372	1,265
Inactive	220	236
Retired and beneficiaries	423	438
Vested terminated	816	794
Total participants	2,831	2,733

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, 2024	June 30, 2023
Deferred outflows - actuarial:		
Difference between expected and actual experience	$ 2,384	$ 2,895
Changes in assumptions	7,393	16,331
Net difference between projected and actual earnings on pension plan investments	68,893	91,858
Contribution to the pension plan after measurement date	6,232	5,038
Total	$ 84,902	$ 116,122
Deferred inflows - actuarial:		
Difference between expected and actual experience	$ 4,634	$ 7,794
Changes in assumptions	7,979	10,379
Net difference between projected and actual earnings on pension plan investments	41,587	28,189
Additional pension expense recognition	15,333	15,667
Total	$ 69,533	$ 62,029

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,	
2025	$ 2,872
2026	6,943
2027	7,575
2028	(8,214)
2029	(71)
Thereafter	32
	$ 9,137

The following tables summarize changes in pension liability for fiscal years ended June 30, 2024 and 2023, with a measurement date of January 1, 2024 and 2023, respectively, in thousands:

	2024	2023
Total pension liability:		
Service cost	$ 10,277	$ 10,508
Interest on total pension liability	29,843	28,712
Difference between expected and actual experience	152	(2,138)
Benefit payments	(19,767)	(18,836)
Net change in total pension liability	20,505	18,246
Total pension liability, beginning of year	458,731	440,485
Total pension liability, end of year	$ 479,236	$ 458,731

The following table summarizes the net pension liability at June 30, 2024 and 2023, as well as other required disclosures of financial measures, in thousands:

	2024	2023
Total pension liability	$ 479,236	$ 458,731
Plan fiduciary net position	(459,539)	(403,720)
Net pension liability	$ 19,697	$ 55,011
Plan fiduciary net position as a percentage of the total pension liability	95.89%	88.01%
Covered-employee payroll	$ 142,050	$ 142,050
Plan net pension liability as of a percentage of covered-employee payroll	13.87%	38.73%

The following table summarizes the actuarial assumptions used to determine net pension liability and plan fiduciary net position as of June 30, 2024 and 2023:

Valuation date:	Actuarially determined contributions are calculated as of January 1, the first day of the fiscal year in which the contributions are reported
Methods and assumptions used:	
Actuarial cost method	Entry age normal
Inflation	2.25%
Salary increases	3.50% or 3.75% depending on unit, including inflation, plus step increases
Investment rate of return	6.50%, net of investment expense, including inflation
Retirement age:	
Normal retirement	65
Early retirement	50 and 15 years of vesting service
Mortality	PubG-2010 Generational Mortality Table for Males & Females, projected using MP-2021

The following table summarizes the impact of a 1% change in discount rate on the value of the net pension liability at June 30, 2024 and 2023, in thousands:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
June 30, 2024	$ 82,388	$ 19,697	$ (32,612)
June 30, 2023	$ 115,491	$ 55,011	$ 4,568

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, 2024 and 2023, SVHMC contributed $258 thousand and $189 thousand, respectively, to fund benefits.

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

	2024	2023
Active employees	1,250	1,194
Retirees receiving benefits	87	100
Total plan participants	1,337	1,294

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:

	2024	2023
Service cost	$ 144	$ 211
Interest	164	111
Differences between expected and actual experience	(47)	(48)
Changes of assumptions	(29)	(36)
Total post-retirement medical benefits expense	$ 232	$ 238

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

	2024	2023
Deferred outflows of resources as of June 30:		
Difference between expected and actual experience	$ 343	$ 348
Changes in assumptions	489	441
Total	$ 832	$ 789
Deferred inflows of resources as of June 30:		
Difference between expected and actual experience	$ 841	$ 893
Changes in assumptions	792	859
Total	$ 1,633	$ 1,752

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

Year Ending June 30,	
2025	$ (76)
2026	(76)
2027	(76)
2028	(76)
2029	(76)
Thereafter	(421)
	$ (801)

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

	2024	2023
Service cost	$ 144	$ 211
Interest	164	111
Differences between expected and actual experience	11	(556)
Changes in assumptions	98	(583)
Contributions - employer	(258)	(189)
Net change	159	(1,006)
Net post-retirement medical benefits liability, beginning of year	4,001	5,007
Net post-retirement medical benefits liability, end of year	$ 4,160	$ 4,001

The following table summarizes the actuarial assumptions used to determine net post-retirement medical benefits liability as of June 30, 2024 and 2023:

Valuation Date	June 30, 2024
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-2010; Mortality Improvement Scale – MP-2021
Discount rate	3.65%
Healthcare cost trend rates:	6.00% for 2024, graded to 5.00% for year 2028 and beyond for ages pre-65; and 5% for year 2021 and beyond for ages post-65.

The following table summarizes the impact of a 1% change in discount rate on the value of the post-retirement medical benefits liability at June 30, 2024 and 2023, in thousands:

	1% Decrease	Current Discount Rate	1% Increase
June 30, 2024	$ 3,938	$ 4,160	$ 4,391
June 30, 2023	$ 4,272	$ 4,001	$ 3,783

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, 2024 and 2023, in thousands:

	1% Decrease	Current Cost Trend Rate	1% Increase
June 30, 2024	$ 4,110	$ 4,160	$ 4,204
June 30, 2023	$ 3,996	$ 4,001	$ 4,084

Note 12 – Compensated Absences

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

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2024	$ 21,463	$ 35,759	$ (36,766)	$ 20,456	$ 20,456
2023	$ 20,753	$ 34,443	$ (33,733)	$ 21,463	$ 21,463

Note 13 – Leases

As discussed in Note 2, SVH recognizes right-of-use assets and lease liabilities at lease inception in an amount equal to the present value of the undiscounted future minimum lease payments. SVH uses a discount rate that is explicitly stated or implicit in the contract. When a readily determinable discount rate is not available, the discount rate is determined using SVH's incremental borrowing rate at start of the lease for a similar asset type and term length to the contract.

SVH is a lessee for various noncancelable leases of office space and equipment with lease terms through 2031. During the years ended June 30, 2024 and 2023, 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, 2024 and 2023. SVH incurred no termination penalties during the years ended June 30, 2024 and 2023.

The following tables summarize right-of-use asset activity during the years ended June 30, 2024 and 2023, in thousands:

June 30, 2024	Beginning Balance	Increases	Decreases	Ending Balance
Right-of-use assets	$ 26,643	$ 5,905	$ (247)	$ 32,301
Less: accumulated amortization	(12,720)	(4,497)	(1,084)	(18,301)
Right-of-use assets, net	$ 13,923	$ 1,408	$ (1,331)	$ 14,000

June 30, 2023	Beginning Balance	Increases	Decreases	Ending Balance
Right-of-use assets	$ 13,118	$ 11,207	$ (2,487)	$ 21,838
Less: accumulated amortization	(5,827)	(3,545)	1,456	(7,916)
Right-of-use assets, net	$ 7,291	$ 7,662	$ (1,031)	$ 13,922

During the years ended June 30, 2024 and 2023, SVH recognized $4,497 thousand and $3,545 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, 2024 and 2023, in thousands:

Year Ended June 30,	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2024	$ 15,117	$ 6,133	$ (5,735)	$ 15,515	$ 4,336
2023	$ 7,620	$ 10,033	$ (2,572)	$ 15,081	$ 3,650

SVH's future principal and interest lease payments under lease agreements as of June 30, 2024, were as follows, in thousands:

Year Ending June 30,	Principal	Interest	Total
2025	$ 4,336	$ 480	$ 4,816
2026	3,580	303	3,883
2027	2,995	193	3,188
2028	1,810	115	1,925
2029	1,236	66	1,302
Thereafter	1,558	88	1,646
Total	$ 15,515	$ 1,245	$ 16,760

SVH evaluated the right-of-use assets for impairment and determined no impairment occurred during the years ended June 30, 2024 and 2023.

SVH is also a lessor for noncancelable leases of office space with lease terms through 2026. For the years ended June 30, 2024 and 2023, SVH recognized $1,106 thousand and $138 thousand, respectively, in lease revenue released from the deferred inflows of resources related to the office lease included in other revenue within the consolidated statement of revenues, expenses, and changes in net position. No inflows of resources were recognized in the year related to termination penalties or residual value guarantees during fiscal years ended June 30, 2024 and 2023.

Note 14 – Subscription-Based Information Technology Arrangements

As discussed in Note 2, SVH accounts for SBITAs in accordance with GASB No. 96. SVH has entered into various SBITAs, with ranging maturities extending until 2030. During the years ended June 30, 2024 and 2023, total payments under SBITAs were $6.1 million and $5.9 million, respectively. Additionally, the SVH incurred no variable SBITA expenses during the years ended June 30, 2024 and 2023. SVH did not enter into any additional SBITAs that have yet to commence as of June 30, 2024.

The following tables summarize subscription asset activity during the years ended June 30, 2024 and 2023, in thousands:

June 30, 2024	Beginning Balance	Increases	Decreases	Ending Balance
Subscription assets	$ 20,280	$ 5,086	$ (750)	$ 24,616
Less: accumulated amortization	(9,525)	(5,171)	287	(14,409)
Subscription assets, net	$ 10,755	$ (85)	$ (463)	$ 10,207

June 30, 2023	Beginning Balance	Increases	Decreases	Ending Balance
Subscription assets	$ 19,920	$ 360	$ -	$ 20,280
Less: accumulated amortization	(4,667)	(4,858)	-	(9,525)
Subscription assets, net	$ 15,253	$ (4,498)	$ -	$ 10,755

The following table summarizes subscription liability activity during the years ended June 30, 2024 and 2023, in thousands:

Year Ended June 30,	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2024	$ 10,346	$ 5,086	$ (7,743)	$ 7,689	$ 4,228
2023	$ 15,434	$ 359	$ (5,447)	$ 10,346	$ 4,631

SVH's future principal and interest payments under SBITAs as of June 30, 2024 were as follows, in thousands:

Year Ending June 30,	Principal	Interest	Total
2025	$ 4,228	$ 332	$ 4,560
2026	1,671	179	1,850
2027	625	114	739
2028	669	76	745
2029	411	35	446
Thereafter	85	-	85
Total	$ 7,689	$ 736	$ 8,425

Note 15 – Commitments and Contingencies

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

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

Regulatory environment – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Note 16 – Subsequent Events

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

Supplementary Information

Salinas Valley Memorial Healthcare System
Consolidating Statement of Net Position
June 30, 2024
(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	$ 268,872	$ 4,014	$ 318	$ -	$ -	$ 273,204
Patient accounts receivable, net of estimated uncollectibles of $55,096	123,444	1,468	-	-	-	124,912
Short-term investments	127,818	-	-	-	-	127,818
Supplies inventory	7,608	155	-	-	-	7,763
Lease receivable, current portion	785	-	-	-	-	785
Other current assets	13,771	1,299	12	-	(169)	14,913
Total current assets	542,298	6,936	330	-	(169)	549,395
BOARD-DESIGNATED FUNDS	166,414	-	-	-	-	166,414
CAPITAL ASSETS						
Nondepreciable	43,337	1,191	-	-	-	44,528
Depreciable, net	211,357	3,356	-	613	-	215,326
Total capital assets, net	254,694	4,547	-	613	-	259,854
OTHER ASSETS						
Right-of-use assets, net of amortization	10,282	3,718	-	-	-	14,000
Subscription assets, net of amortization	10,207	-	-	-	-	10,207
Lease receivable, net of current portion	467	-	-	-	-	467
Long-term investments	135,472	-	21,126	-	-	156,598
Investments in affiliates	24,203	-	-	-	(9,216)	14,987
Other long-term assets	-	1,133	456	-	(23)	1,566
Total other assets	180,631	4,851	21,582	-	(9,239)	197,825
Total assets	1,144,037	16,334	21,912	613	(9,408)	1,173,488
DEFERRED OUTFLOWS - ACTUARIAL	85,734	-	-	-	-	85,734
DEFERRED OUTFLOWS - GOODWILL	888	-	-	-	-	888
Total deferred outflows	86,622	-	-	-	-	86,622
Total assets and deferred outflows	$ 1,230,659	$ 16,334	$ 21,912	$ 613	$ (9,408)	$ 1,260,110

Salinas Valley Memorial Healthcare System
Consolidating Statement of Net Position (Continued)
June 30, 2024
(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	$ -	$ 273	$ -	$ -	$ (169)	$ 104
Accounts payable	19,190	125	722	-	-	20,037
Accrued expenses	67,752	2,395	32	-	-	70,179
Estimated third-party payor settlements	3,689	-	-	-	-	3,689
Lease liabilities, current portion	3,387	949	-	-	-	4,336
Subscription liabilities, current portion	4,228	-	-	-	-	4,228
Self-insurance liabilities, current portion	17,925	-	-	-	-	17,925
Total current liabilities	116,171	3,742	754	-	(169)	120,498
NET PENSION LIABILITY	19,697	-	-	-	-	19,697
NET POST-RETIREMENT MEDICAL BENEFITS LIABILITY	4,160	-	-	-	-	4,160
NOTES PAYABLE, net of current portion	-	571	-	-	(23)	548
LEASE LIABILITIES, net of current portion	7,594	3,585	-	-	-	11,179
SUBSCRIPTION LIABILITIES, net of current portion	3,461	-	-	-	-	3,461
SELF-INSURANCE LIABILITIES, net of current portion	12,079	-	-	-	-	12,079
Total liabilities	163,162	7,898	754	-	(192)	171,622
DEFERRED INFLOWS - ACTUARIAL	71,166	-	-	-	-	71,166
DEFERRED INFLOWS - LEASES	1,112	-	-	-	-	1,112
Total deferred inflows	72,278	-	-	-	-	72,278
Total liabilities and deferred inflows	235,440	7,898	754	-	(192)	243,900
NET POSITION (DEFICIT)						
Invested in capital assets, net of related debt	256,513	2,887	-	613	192	260,205
Reserved for minority interest	-	-	-	-	(6,629)	(6,629)
Restricted - expendable	-	-	4,581	-	-	4,581
Restricted - nonexpendable	-	-	1,268	-	-	1,268
Unrestricted	738,706	5,549	15,309	-	(2,779)	756,785
Total net position (deficit)	995,219	8,436	21,158	613	(9,216)	1,016,210
Total liabilities, deferred inflows, and net position (deficit)	$ 1,230,659	$ 16,334	$ 21,912	$ 613	$ (9,408)	$ 1,260,110

Salinas Valley Memorial Healthcare System
Consolidating Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2024
(in Thousands)

	SVHMC/SVHC	Central Coast Medical Service Organization	Salinas Valley Memorial Hospital Foundation	SVMH-LPCH NICU JV	Eliminations Increase (Decrease)	Salinas Valley Memorial Healthcare System
OPERATING REVENUES						
Net patient service revenues	$ 720,890	$ 23,213	$ -	$ 8,092	$ -	$ 752,195
Other revenues	22,801	-	-	-	-	22,801
Total operating revenues	743,691	23,213	-	8,092	-	774,996
OPERATING EXPENSES						
Salaries and wages	224,263	9,706	-	4,316	-	238,285
Compensated absences	38,507	901	-	999	-	40,407
Employee benefits	103,360	1,669	-	2,036	-	107,065
Supplies	98,975	1,837	-	447	-	101,259
Purchased services	63,558	896	1,674	371	(1,674)	64,825
Medical fees	79,223	3,903	-	2,728	-	85,854
Other fees	42,466	1,258	-	467	-	44,191
Depreciation and amortization	34,520	1,577	-	166	-	36,263
Other expenses	25,162	1,999	3,079	185	(2,030)	28,395
Total operating expenses	710,034	23,746	4,753	11,715	(3,704)	746,544
Operating income (loss)	33,657	(533)	(4,753)	(3,623)	3,704	28,452
NONOPERATING REVENUES AND EXPENSES						
Grants and contributions	3,753	-	3,703	-	(3,703)	3,753
Property tax revenue	5,680	-	-	-	-	5,680
Investment income (loss), net	37,292	15	2,296	-	-	39,603
(Provision for) reversal of credit losses	(5,856)	409	-	-	-	(5,447)
(Loss) gain on disposal of capital assets	(11)	168	-	-	-	157
(Loss) income from investments in affiliates	1,079	-	-	-	1,343	2,422
Other	2,551	494	(120)	-	(551)	2,374
Nonoperating (loss) income, net	44,488	1,086	5,879	-	(2,911)	48,542
Income (loss) before minority interest	78,145	553	1,126	(3,623)	793	76,994
CAPITAL TRANSFERS	-	(1,300)	-	3,646	(2,346)	-
MINORITY INTEREST IN NET INCOME OF CONSOLIDATED AFFILIATES	-	-	-	-	1,729	1,729
INCREASE (DECREASE) IN NET POSITION	78,145	(747)	1,126	23	176	78,723
NET POSITION (DEFICIT), beginning of year	917,074	9,183	20,032	590	(9,392)	937,487
NET POSITION (DEFICIT), end of year	$ 995,219	$ 8,436	$ 21,158	$ 613	$ (9,216)	$ 1,016,210

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, 2024 and 2023, the estimated costs of providing community benefit in excess of reimbursement from governmental programs were as follows, in thousands:

	2024	2023
Unpaid costs of Medi-Cal programs	$ 143,211	$ 148,730
Indigent charity care and bad debt	11,362	11,005
	$ 154,573	$ 159,735

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 $188.7 million and $184.3 million for the years ended June 30, 2024 and 2023, respectively.

SVH also provides services to the community through the operations of the Service League. Services provided by volunteers of the Service League, free of charge to the community, include assistance and counseling to patients and visitors, daily personal contact with members of the community who are living alone, career counseling and programs for local students, spiritual care volunteers representing many local faith community congregations, palliative care program assistance, and provision of scholarship awards to qualifying students in the medical professions. During the year ended June 30, 2024 and 2023, these volunteers contributed approximately 15,179 and 13,800 hours, respectively, in providing these services, the value of which is not recorded in the accompanying consolidated financial statements.

Required Supplementary Information

Defined Benefit Pension Plan

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

	2024	2023
Number of active members	1,372	1,265
Number of frozen active participants	220	236
Number of retired members and beneficiaries	820	794
Number of vested terminated members	423	438
	2,835	2,733

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, 2014	$ 10,799	$ 10,799	$ -	$ 97,719	11.05%
December 31, 2015	$ 12,147	$ 17,190	$ (5,043)	$ 121,074	14.20%
December 31, 2016	$ 11,970	$ 16,970	$ (5,000)	$ 130,810	12.97%
December 31, 2017	$ 12,883	$ 19,883	$ (7,000)	$ 108,395	18.34%
December 31, 2018	$ 11,927	$ 21,927	$ (10,000)	$ 112,353	19.52%
December 31, 2019	$ 11,809	$ 26,809	$ (15,000)	$ 119,261	22.48%
December 31, 2020	$ 18,766	$ 23,766	$ (5,000)	$ 127,771	18.60%
December 31, 2021	$ 13,127	$ 23,127	$ (10,000)	$ 138,820	16.66%
December 31, 2022	$ 10,158	$ 61,580	$ (51,422)	$ 142,050	43.35%
December 31, 2023	$ 11,270	$ 11,270	$ -	$ 142,050	7.93%

MOSSADAMS

Salinas Valley Memorial Healthcare District Employees Pension Plan

Report to Corporate Compliance and Audit Committee

November 11, 2024

Issued Report

Report of Independent Auditors

- Financial statements of Salinas Valley Memorial Healthcare District Employees Pension Plan for year ended December 31, 2023
- Audit report will be dated following management approval

Unmodified Opinion

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

Non-Attest Service

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

Pension Financial Highlights

Salinas Valley Memorial Healthcare System

	2021	2022	2023
Total pension liability (a)	**$ 440,485,078**	**$ 458,730,891**	**$ 479,235,862**
Plan fiduciary net position			
Employer contributions	$ 23,126,725	$ 61,579,392	$ 11,269,905
Member contributions	2,673,070	2,577,706	2,506,514
Net investment income (loss)	47,033,347	(83,884,411)	61,892,945
Administrative expense	(111,880)	(92,272)	(83,035)
Benefit payments	(16,352,414)	(18,835,673)	(19,767,150)
Net change in plan fiduciary net position	56,368,848	(38,655,258)	55,819,179
Plan fiduciary net position			
Beginning of year	386,005,926	442,374,774	403,719,516
End of year (b)	**$ 442,374,774**	**$ 403,719,516**	**$ 459,538,695**
System net pension liability (asset) (a) - (b)	**$ (1,889,696)**	**$ 55,011,375**	**$ 19,697,167**
Funded status (GASB basis)	**100.4%**	**88.0%**	**95.9%**

3

Significant Audit Areas

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

Required Communications

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

THANK YOU

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

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Communications with the
Personnel and Pension Committee

Salinas Valley Memorial Healthcare District
Employees Pension Plan

December 31, 2023

Communications with the Personnel and Pension Committee

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

We have audited the financial statements of Salinas Valley Memorial Healthcare District Employees Pension Plan (the Plan) as of and for the year ended December 31, 2023, and have issued our report thereon dated November 11, 2024. 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 February 8, 2024, we are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

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

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in the engagement letter dated February 8, 2024, and planning discussions during June 2024.

Significant Audit Findings and Issues

Qualitative Aspects of Accounting Practices

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

No new accounting policies were adopted and there were no changes in the application of existing policies during 2023. We noted no transactions entered into by the Plan during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Significant Accounting Estimates

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

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

Financial Statement Disclosures

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

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

Significant Unusual Transactions

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

Significant Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

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

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

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 11, 2024.

Management Consultation with Other Independent Accountants

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

Other Significant Audit Findings or Issues

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

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

Albuquerque, New Mexico
November 11, 2024

Report of Independent Auditors and
Financial Statements with
Required Supplementary Information

Salinas Valley Memorial Healthcare District
Employees Pension Plan

December 31, 2023 and 2022

Table of Contents

Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Salinas Valley Memorial Healthcare District Employees Pension Plan (the Plan), which comprise the statements of fiduciary net position as of December 31, 2023 and 2022, the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the Salinas Valley Memorial Healthcare District Employees Pension Plan as of December 31, 2023 and 2022, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 Plan 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 opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Salinas Valley Memorial Healthcare District Employees Pension Plan's ability to continue as a going concern within twelve months after the financial statement date.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

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

Required Supplementary Information

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

Salinas, California
November 11, 2024

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, 2023 and 2022. This section also includes selected comparative information as of and for the year ended December 31, 2021. 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, 2023, the net position held in trust for pension benefits increased by approximately 14%. Employer contributions were $11.3 million in 2023 compared to $61.6 million in 2022. Benefit payments were $20.0 million during 2023 compared to $19.0 million during 2022. Net investment income was $62.1 million during 2023 compared to a net investment loss of $83.7 million during 2022.

Financial analysis – Total contributions have exceeded the actuarially determined contribution amounts since 2015, due to decisions made by the System's Board of Directors to fund the Plan at amounts above actuarially determined contributions. During the year ended December 31, 2023, the System's Board of Directors approved and funded employer contributions totaling $11,269,905 to the Plan.

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

The System's net pension liability (asset) is calculated as the total pension liability, defined as the portion of the actuarial present value of projected benefit payments that is attributed to past periods of member service, less the Plan's fiduciary net position. A comparison of the components of the net position liability (asset) as of December 31, 2023, 2022, and 2021 are as follows:

	December 31, 2023	December 31, 2022	December 31, 2021
Total pension liability	$ 479,235,862	$ 458,730,891	$ 440,485,078
Plan fiduciary net position	(459,538,695)	(403,719,516)	(442,374,774)
System's net pension liability (asset)	$ 19,697,167	$ 55,011,375	$ (1,889,696)
System's fiduciary net position as a percentage of total pension liability	95.89%	88.01%	100.43%

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

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

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

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

	December 31, 2023	2022	2021
Cash and investments	$ 459,539	$ 403,720	$ 442,375

During the years ended December 31, 2023 and 2022, the Plan's fiduciary net position increased by 14% and decreased by 9%, respectively. The Plan's policies allow investments consisting of fixed income securities, equity securities, and money market funds. The Plan's investments are held in a portfolio of registered investment companies (mutual funds).

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

	Year Ended December 31, 2023	2022	2021
Investment income (loss), net	$ 62,101	$ (83,746)	$ 47,033
Employer contributions	11,270	61,579	23,127
Member contributions	2,506	2,578	2,673
Benefit payments to members and beneficiaries	(19,962)	(18,961)	(16,352)
Administrative expenses	(96)	(106)	(112)
Change in fiduciary net position	$ 55,819	$ (38,656)	$ 56,369

The change in fiduciary net position during the years ended December 31, 2023, 2022, and 2021 is due primarily to the employer contributions made each year and the investment (loss) income from the performance of equity markets during each year. Benefit payments to members and beneficiaries continue to increase each year due to the increased number of retirees and beneficiaries receiving benefits.

Financial Statements

Salinas Valley Memorial Healthcare District
Employees Pension Plan
Statements of Fiduciary Net Position
December 31, 2023 and 2022

	2023	2022
ASSETS		
Investments, at fair value		
Mutual funds	$ 459,538,695	$ 403,719,516
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	$ 459,538,695	$ 403,719,516

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, 2023 and 2022

	2023	2022
ADDITIONS		
Investment income (loss)		
Net appreciation (depreciation) in fair value of investments	$ 50,748,380	$ (93,981,045)
Dividends	11,352,580	10,235,226
Net investment income (loss)	62,100,960	(83,745,819)
Contributions		
Employer	11,269,905	61,579,392
Members	2,506,514	2,577,706
Total contributions	13,776,419	64,157,098
Net additions	75,877,379	(19,588,721)
DEDUCTIONS		
Benefit payments	19,961,806	18,960,982
Administrative expenses	96,394	105,555
Total deductions	20,058,200	19,066,537
CHANGE IN NET POSITION	55,819,179	(38,655,258)
NET POSITION HELD IN TRUST FOR PENSION BENEFITS		
Beginning of the year	403,719,516	442,374,774
End of the year	$ 459,538,695	$ 403,719,516

See accompanying notes to these financial statements.

Note 1 – Description of the Plan

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

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

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

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

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

Membership in the Plan consists of the following:

	December 31,	
	2023	2022
Active members		
Number of active members under and over the normal retirement age	1,372	1,265
Nonactive members and other beneficiaries receiving benefits		
Number of retirees or beneficiaries	816	794
Number terminated with vested benefits	423	438
Inactive members	220	236
	2,831	2,733

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.

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

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

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

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

Note 2 – Summary of Significant Accounting Policies

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

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, disclosure of contingent assets and liabilities, and the total pension liability at the date of the financial statements. Actual results could differ from those estimates.

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

Income recognition – Purchases and sales of investments are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Net appreciation (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 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 (loss) 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:

	2023		2022	
	Fair Value	%	Fair Value	%
Mutual funds				
Domestic equity	$ 200,330,828	44%	$ 173,431,007	43%
Fixed income	133,074,347	29%	121,469,099	30%
International equity	101,619,815	22%	88,364,818	22%
Real estate fund	24,513,705	5%	20,454,592	5%
	$ 459,538,695	100%	$ 403,719,516	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, 2023 or 2022.

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

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

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

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

Annual Money-weighted rate of return – During the years ended December 31, 2023 and 2022, the annual money-weighted rate of return on the Plan's investments, net of investment expenses, was 15.45% and (18.04)%, respectively. The annual money-weighted rate of return expresses investment performance, net of investment fees, adjusted for the changing amounts actually invested.

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

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

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

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

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

Custodial credit risk – Custodial credit risk is the risk that in the event of the failure of the investment custodian, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2023 and 2022, 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, 2023 and 2022, 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 $11,269,905 and $10,157,917 for the years ended December 31, 2023 and 2022, respectively, and contributed to the Plan as directed and approved by the Board of Directors. Employer contributions in excess of the actuarially determined contribution amounts totaling $0 and $51,421,475 were also contributed at the direction of the Board of Directors for the years ended December 31, 2023 and 2022, respectively.

Note 5 – System Net Pension Liability

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

	December 31, 2023	December 31, 2022
Total pension liability	$ 479,235,862	$ 458,730,891
Plan fiduciary net position	(459,538,695)	(403,719,516)
System net pension liability (asset)	$ 19,697,167	$ 55,011,375
Plan fiduciary net position as a percentage of total pension liability (funded status)	95.89%	88.01%

Note 6 – Actuarial Methods and Significant Assumptions

The total pension liability was determined as part of actuarial valuations as of December 31, 2023 and 2022, respectively, using actuarial methods and assumptions in accordance with GASB No. 67, *Financial Reporting for Pension Plans*. The total pension liability was calculated using the entry age cost method and PubG-2010 Generational Mortality Tables projected using MP-2021 as of December 31, 2023 and 2022. 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).

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, 2023 and 2022, the long-term expected rates of return for each major investment class in the Plan's portfolio are as follows:

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

Discount rate – As of December 31, 2023 and 2022, 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.

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	$ 82,388,484	$ 19,697,167	$ (32,612,325)

Note 7 – Tax Status

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

Note 8 – Risks and Uncertainties

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

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

Required Supplementary Information

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

	Year Ended December 31,									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability										
Service cost	$ 10,276,815	$ 10,507,936	$ 9,971,347	$ 9,739,474	$ 8,353,779	$ 8,078,739	$ 7,171,959	$ 7,005,009	$ 7,743,929	$ 6,982,137
Interest on total pension liability	29,843,069	28,712,023	27,964,724	26,944,092	25,007,386	24,405,221	22,569,994	21,000,849	19,178,200	18,169,063
Change of benefit terms	-	-	-	(201,797)	-	-	-	-	-	-
Difference between expected and actual experience	152,237	(2,138,473)	4,182,887	(3,872,216)	(8,841,924)	(3,353,687)	(3,076,492)	4,487,813	(280,070)	(4,074,023)
Changes in actuarial assumptions	-	-	(13,644,957)	(1,835,817)	36,231,315	14,767,302	11,277,838	2,602,234	(1,465,873)	15,352,227
Benefit payments	(19,767,150)	(18,835,673)	(16,232,653)	(14,266,188)	(12,525,484)	(11,578,811)	(10,404,996)	(8,726,267)	(7,762,380)	(7,344,187)
Net change in total pension liability	20,504,971	18,245,813	12,241,348	16,507,548	48,225,072	32,318,764	27,538,303	26,369,638	17,413,806	29,085,217
Total pension liability										
Beginning of year	458,730,891	440,485,078	428,243,730	411,736,182	363,511,110	331,192,346	303,654,043	277,284,405	259,870,599	230,785,382
End of year (a)	$ 479,235,862	$ 458,730,891	$ 440,485,078	$ 428,243,730	$ 411,736,182	$ 363,511,110	$ 331,192,346	$ 303,654,043	$ 277,284,405	$ 259,870,599
Plan fiduciary net position										
Employer contributions	$ 11,269,905	$ 61,579,392	$ 23,126,725	$ 23,765,862	$ 26,808,785	$ 21,927,309	$ 19,883,437	$ 16,938,956	$ 17,189,514	$ 10,798,666
Member contributions	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)	61,892,945	(83,884,411)	47,033,347	43,530,843	52,346,352	(13,802,482)	32,509,516	8,198,171	1,301,163	14,217,051
Administrative expenses	(83,035)	(92,272)	(111,880)	(115,720)	(115,586)	(112,397)	(109,194)	(64,788)	-	-
Benefit payments	(19,767,150)	(18,835,673)	(16,352,414)	(14,266,188)	(12,525,484)	(11,578,811)	(10,404,996)	(8,726,267)	(7,762,380)	(7,344,187)
Net change in plan fiduciary net position	55,819,179	(38,655,258)	56,368,848	54,890,462	68,107,797	(2,356,883)	42,718,776	16,820,731	10,728,297	17,671,530
Plan fiduciary net position										
Beginning of year	403,719,516	442,374,774	386,005,926	331,115,464	263,007,667	265,364,550	222,645,774	205,825,043	195,096,746	177,425,216
End of year (b)	$ 459,538,695	$ 403,719,516	$ 442,374,774	$ 386,005,926	$ 331,115,464	$ 263,007,667	$ 265,364,550	$ 222,645,774	$ 205,825,043	$ 195,096,746
Employer net pension liability (asset) (a) - (b)	$ 19,697,167	$ 55,011,375	$ (1,889,696)	$ 42,237,804	$ 80,620,718	$ 100,503,443	$ 65,827,796	$ 81,008,269	$ 71,459,362	$ 64,773,853
Discount rate	6.5%	6.5%	6.5%	6.5%	7.0%	7.5%	7.5%	7.5%	7.5%	7.5%
Plan fiduciary net position as percentage of total pension liability	95.89%	88.01%	100.43%	90.14%	80.42%	72.35%	80.12%	73.32%	74.23%	75.07%
Covered payroll	$ 151,837,187	$ 142,049,836	$ 138,819,740	$ 127,771,097	$ 119,260,723	$ 112,353,126	$ 108,395,254	$ 95,639,978	$ 92,759,619	$ 97,718,804
Net pension liability (asset) as percentage of covered payroll	12.97%	38.73%	-1.36%	33.06%	67.60%	89.45%	60.73%	84.70%	77.04%	66.29%

Notes to schedule

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

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

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

Year Ended December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Excess	Covered Payroll	Contribution as a % of Covered Payroll
2023	$ 11,269,905	$ 11,269,905	$ -	$ 151,837,187	7.42%
2022	10,157,917	61,579,392	51,421,475	142,049,836	43.35%
2021	13,126,725	23,126,725	10,000,000	138,819,740	16.66%
2020	18,765,859	23,765,862	5,000,003	127,771,097	18.60%
2019	11,808,783	26,808,785	15,000,002	119,260,723	22.48%
2018	11,927,309	21,927,309	10,000,000	112,353,126	19.52%
2017	12,883,435	19,883,437	7,000,002	108,395,254	18.34%
2016	11,970,458	16,938,956	4,968,498	95,639,978	17.71%
2015	12,146,278	17,189,514	5,043,236	92,759,619	18.53%
2014	10,798,666	10,798,666	-	97,718,804	11.05%

Notes to schedule

Valuation date	Actuarially determined contributions are calculated as of January 1, the first day of the fiscal year in which the contributions are reported.
Methods and assumptions used	
Actuarial cost method	Entry Age
Inflation	2.25%
Salary increases	2015 - 2017: 3.75% (NUHW) and 4.00% (CNA), including inflation 3.75% plus merit increases (NUHW) and 4.00% plus merit increases (CNA) 2018 - 2023: 3.75% (NUHW) and 3.50%(CNA), including inflation 3.75% plus merit increases (NUHW) and 3.50% plus merit increases (CNA)
Investment rate of return	2014 - 2017: 7.50%, net of investment expense, including inflation 2018: 7.00%, net of investment expense, including inflation 2019 - 2023: 6.50%, net of investment expense, including inflation
Retirement age	
Normal retirement	65
Early retirement	Classic participant: 50 and 15 years of vesting service New participant: 52 and 15 years of vesting service
Mortality	2015 - 2017: RP-2000 Mortality Table for Males and Females, projected to 2033 2018: RP-2014 Mortality Table for Males and Females, projected to 2033 2019: PubG-2010 Generational Mortality Tables for Males and Females, projected using MP-2019 2020: PubG-2010 Generational Mortality Tables for Males and Females, projected using MP-2020 2021 - 2023: PubG-2010 Generational Mortality Tables for Males and Females, projected using MP-2021

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

	Year Ended December 31,									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expenses	15.45%	-18.04%	12.01%	12.92%	19.53%	-5.11%	14.22%	3.74%	0.68%	8.17%

ADJOURNMENT