

December 10, 2021

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 - COMMITTEE OF THE WHOLE** of the Salinas Valley Memorial Healthcare System will be held **TUESDAY, DECEMBER 14, 2021, AT 5:00 P.M.**, in the **DOWNING RESOURCE CENTER, ROOMS A, B & C AT SALINAS VALLEY MEMORIAL HOSPITAL, 450 E. ROMIE LANE, SALINAS, CALIFORNIA, OR BY PHONE OR VIDEO (Visit svmh.com/virtualboardmeeting for Access Information).**

Please note: Pursuant to SVMHS Board Resolution No. 2021-06, Assembly Bill 361, and guidance from the Monterey County Health Department in response to concerns regarding COVID-19, Board Members of Salinas Valley Memorial Healthcare System, a local health care district, are permitted to participate in this duly noticed public meeting via teleconference and certain requirements of The Brown Act are suspended.



Pete Delgado
President/Chief Executive Officer

Committee Members: Juan Cabrera – Chair; Joel Hernandez Laguna – Vice Chair; Pete Delgado – President/Chief Executive Officer; Augustine Lopez – Chief Financial Officer; Mike Nolan – Community Member; and Sanjeev Tandon – Community Member

**CORPORATE COMPLIANCE AND AUDIT COMMITTEE MEETING
DECEMBER 2021 - COMMITTEE OF THE WHOLE
SALINAS VALLEY MEMORIAL HEALTHCARE SYSTEM**

**TUESDAY, DECEMBER 14, 2021
5:00 P.M. – DOWNING RESOURCE CENTER, ROOMS A, B & C
SALINAS VALLEY MEMORIAL HOSPITAL
450 E. ROMIE LANE, SALINAS, CALIFORNIA
OR BY PHONE OR VIDEO
(Visit svmh.com/virtualboardmeeting for Access Information)**

Please note: Pursuant to SVMHS Board Resolution No. 2021-06, Assembly Bill 361, and guidance from the Monterey County Health Department in response to concerns regarding COVID-19, Board Members of Salinas Valley Memorial Healthcare System, a local health care district, are permitted to participate in this duly noticed public meeting via teleconference and certain requirements of The Brown Act are suspended.

AGENDA

1. Approval of Minutes from the Corporate Compliance and Audit Committee Meeting of September 28, 2021 (DELGADO)
 - Motion/Second
 - Action by Committee
2. Consider Recommendation for Board Approval of the Years Ended June 30, 2021 and 2020 Audited Financial Statements for Salinas Valley Memorial Healthcare System (LOPEZ / CLEVELAND / CHRIS PRITCHARD & JOELLE PULVER OF MOSS ADAMS)
 - Staff Report
 - Committee Questions to Staff
 - Motion/Second
 - Public Comment
 - Committee Discussion/Deliberation
 - Action by Committee/Roll Call Vote
3. Consider Recommendation for Board Approval of the Years Ended December 31, 2020 and 2019 Audited Financial Statements for the Salinas Valley Memorial Healthcare District Employees' Pension Plan (LOPEZ / CLEVELAND / KORY HOGGAN OF MOSS ADAMS)
 - Staff Report
 - Committee Questions to Staff
 - Motion/Second
 - Public Comment
 - Committee Discussion/Deliberation
 - Action by Committee/Roll Call Vote

4. Public Input

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.

5. Closed Session

(See Attached Closed Session Sheet information)

6. Reconvene Open Session/Report on Closed Session

7. Adjournment – The Corporate Compliance and Audit Committee meets quarterly. The next meeting is scheduled for **Tuesday, March 22, 2022 at 5:00 p.m. .**

Notes: 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.

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 Executive Assistant during regular business hours at 831-755-0741. Notification received 48 hours before the meeting will enable the District to make reasonable accommodations.

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

**SALINAS VALLEY MEMORIAL HEALTHCARE SYSTEM
CORPORATE COMPLIANCE AND AUDIT COMMITTEE MEETING OF THE
BOARD OF DIRECTORS – COMMITTEE OF THE WHOLE**

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

[] **LICENSE/PERMIT DETERMINATION**
(Government Code §54956.7)

Applicant(s): (Specify number of applicants) _____

[] **CONFERENCE WITH REAL PROPERTY NEGOTIATORS**
(Government Code §54956.8)

Property: (Specify street address, or if no street address, the parcel number or other unique reference, of the real property under negotiation): _____

Agency negotiator: (Specify names of negotiators attending the closed session): _____

Negotiating parties: (Specify name of party (not agent): _____

Under negotiation: (Specify whether instruction to negotiator will concern price, terms of payment, or both): _____

[] **CONFERENCE WITH LEGAL COUNSEL-EXISTING LITIGATION**
(Government Code §54956.9(d)(1))

Name of case: (Specify by reference to claimant's name, names of parties, case or claim numbers): _____, or

Case name unspecified: (Specify whether disclosure would jeopardize service of process or existing settlement negotiations): _____

[] **CONFERENCE WITH LEGAL COUNSEL-ANTICIPATED LITIGATION**
(Government Code §54956.9)

Significant exposure to litigation pursuant to Section 54956.9(d)(2) or (3) (Number of potential cases): _____

Additional information required pursuant to Section 54956.9(e): _____

Initiation of litigation pursuant to Section 54956.9(d)(4) (Number of potential cases): _____

[] **LIABILITY CLAIMS**

(Government Code §54956.95)

Claimant: (Specify name unless unspecified pursuant to Section 54961): _____

Agency claimed against: (Specify name): _____

[] **THREAT TO PUBLIC SERVICES OR FACILITIES**
(Government Code §54957)

Consultation with: (Specify name of law enforcement agency and title of officer): _____

[] **PUBLIC EMPLOYEE APPOINTMENT**
(Government Code §54957)

Title: (Specify description of position to be filled): _____

[] **PUBLIC EMPLOYMENT**
(Government Code §54957)

Title: (Specify description of position to be filled): _____

[] **PUBLIC EMPLOYEE PERFORMANCE EVALUATION**
(Government Code §54957)

Title: (Specify position title of employee being reviewed): _____

[] **PUBLIC EMPLOYEE DISCIPLINE/DISMISSAL/RELEASE**
(Government Code §54957)

(No additional information is required in connection with a closed session to consider discipline, dismissal, or release of a public employee. Discipline includes potential reduction of compensation.)

[] **CONFERENCE WITH LABOR NEGOTIATOR**
(Government Code §54957.6)

Agency designated representative: (Specify name of designated representatives attending the closed session): _____

Employee organization: (Specify name of organization representing employee or employees in question): _____, or

Unrepresented employee: (Specify position title of unrepresented employee who is the subject of the negotiations): _____

[] **CASE REVIEW/PLANNING**
(Government Code §54957.8)

(No additional information is required to consider case review or planning.)

[] **REPORT INVOLVING TRADE SECRET**
(Government Code §37606 & Health and Safety Code § 32106)

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

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

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

Subject matter: (Specify reports concerning medical staff privileges, medical audit report, hospital internal audit report, or quality/safety/assurance report):

1. Data Breach Litigation Update
2. Annual District Financial Audit Report

[] **CHARGE OR COMPLAINT INVOLVING INFORMATION PROTECTED BY FEDERAL LAW** (Government Code §54956.86)

(No additional information is required to discuss a charge or complaint pursuant to Section 54956.86.)

ADJOURN TO OPEN SESSION

**MINUTES OF THE SEPTEMBER 2021 CORPORATE COMPLIANCE
AND AUDIT COMMITTEE MEETING
COMMITTEE OF THE WHOLE
SALINAS VALLEY MEMORIAL HEALTHCARE SYSTEM**

**TUESDAY, SEPTEMBER 28, 2021
5:00 P.M. – DOWNING RESOURCE CENTER, ROOMS A, B & C
SALINAS VALLEY MEMORIAL HOSPITAL
450 E. ROMIE LANE, SALINAS, CALIFORNIA
OR BY PHONE OR VIDEO
(Visit svmh.com/virtualboardmeeting for Access Information)**

Please note: Pursuant to Executive Order N-25-20 issued by the Governor of the State of California in response to concerns regarding COVID-19, Board Members of Salinas Valley Memorial Healthcare System, a local health care district, are permitted to participate in this duly noticed public meeting via teleconference and certain requirements of The Brown Act are suspended.

Committee Members Present: Juan Cabrera, Chair, Mike Nolan and Sanjeev Tandon by teleconference; Joel Hernandez Laguna, Vice Chair Pete Delgado, Augustine Lopez, and Mike Nolan in person.

Other Board Members Present, Constituting Committee of the Whole: Victor Rey, Jr., by teleconference constituting Committee of the Whole.

Also Present: Renée Jaenicke, Scott Cleveland, Alan Edwards, and Rosalia Madrigal in person; Audrey Parks by teleconference.

A quorum was present and the meeting was called to order at 5:01 p.m. by Juan Cabrera, Committee Chair.

APPROVAL OF MINUTES FROM THE CORPORATE COMPLIANCE AND AUDIT COMMITTEE MEETING OF JUNE 29, 2021

Pete Delgado, President/Chief Executive Officer, recommended the Corporate Compliance and Audit Committee approve the minutes of the Corporate Compliance and Audit Committee Meeting of June 29, 2021. This information was included in the Committee packet.

MOTION: The Corporate Compliance and Audit Committee approves the minutes of the Corporate Compliance and Audit Committee Meeting of June 29, 2021, as presented.
Moved/Seconded/Motion Carried. Ayes: Cabrera, Hernandez Laguna, Delgado, Lopez, Nolan, Tandon; Noes: None; Abstentions: None; Absent: None; Motion Carried.

COMPLIANCE OFFICER REPORT

Renée Jaenicke, Director of Internal Audit and Compliance, provided a comprehensive Compliance Officer Report. This information was included in the Committee packet. The following topics were reviewed and discussed:

- Compliance and Ethics Education Tipping Points
- Update on Compliance Efforts
 - Employee and Physician Vendor Matching
- Upcoming Audit/Review Areas – Clinical Lab Charging and 340B

There was brief discussion among the Committee and Hospital Leadership regarding employee and physician vendor matching and continuing the audit of clinical lab charging and the 340b program. Employee and physician vendor matching are performed annually and are closely reviewed.

Ms. Jaenicke also shared that action plans are being reviewed and addressed. There are no concerns at this time.

PUBLIC INPUT

None.

CLOSED SESSION

Juan Cabrera, Committee Chair, reported that the items to be discussed in Closed Session are: (1) Conference with Legal Counsel – Existing Litigation; and (2) Hearings/Reports – Fixed Assets Review Results, Provider Relief Funds Update, and FEMA Update. The meeting was adjourned into Closed Session under the Closed Session protocol at 5:15 p.m.

RECONVENE OPEN SESSION/REPORT ON CLOSED SESSION

The Committee reconvened Open Session at 6:02 p.m. Mr. Cabrera announced that in Closed Session, the Committee discussed the following items: (1) Conference with Legal Counsel – Existing Litigation; and (2) Hearings/Reports – Fixed Assets Review Results, Provider Relief Funds Update, and FEMA Update. No action was taken in the Closed Session.

ADJOURNMENT

There being no other business, the meeting was adjourned at 6:02 p.m. The Corporate Compliance and Audit Committee meets quarterly. The next meeting is scheduled for Tuesday, December 14, 2021, at 5:00 p.m.

Juan Cabrera, Chair
Corporate Compliance and Audit Committee

/rm



Audit Results

Salinas Valley Memorial Healthcare System

Prepared by the Moss Adams Health Care Group

June 30, 2021

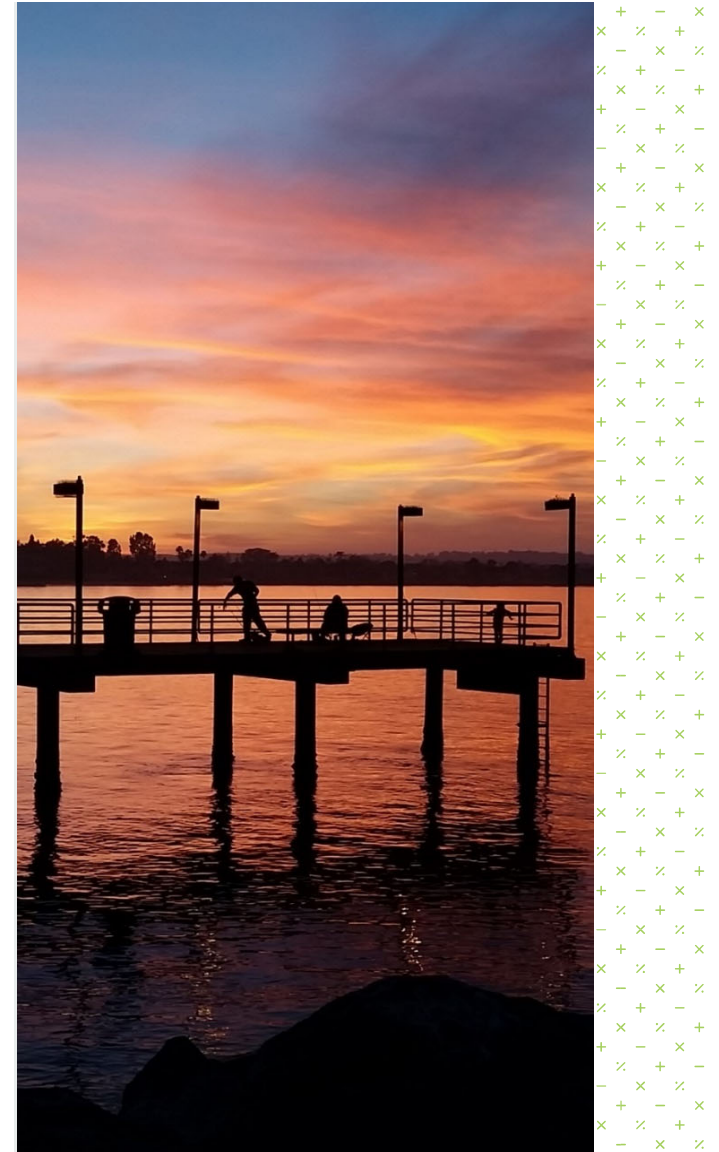


Agenda

1. Auditor Opinion and Report
2. Statements of Net Position
3. Operations
4. Financial Ratios and Metrics
5. Communication with Those Charged with Governance
6. Accounting Updates



Auditor Opinion and Report



Scope of Services

We have performed the following services for Salinas Valley Memorial Healthcare System

- Annual consolidated financial statement audit as of and for the year ended June 30, 2021

We have also performed nonattest services:

- Assist you in drafting the consolidated financial statements and related footnotes as of and for the year ended June 30, 2021, and the auditee portion of the Data Collection Form



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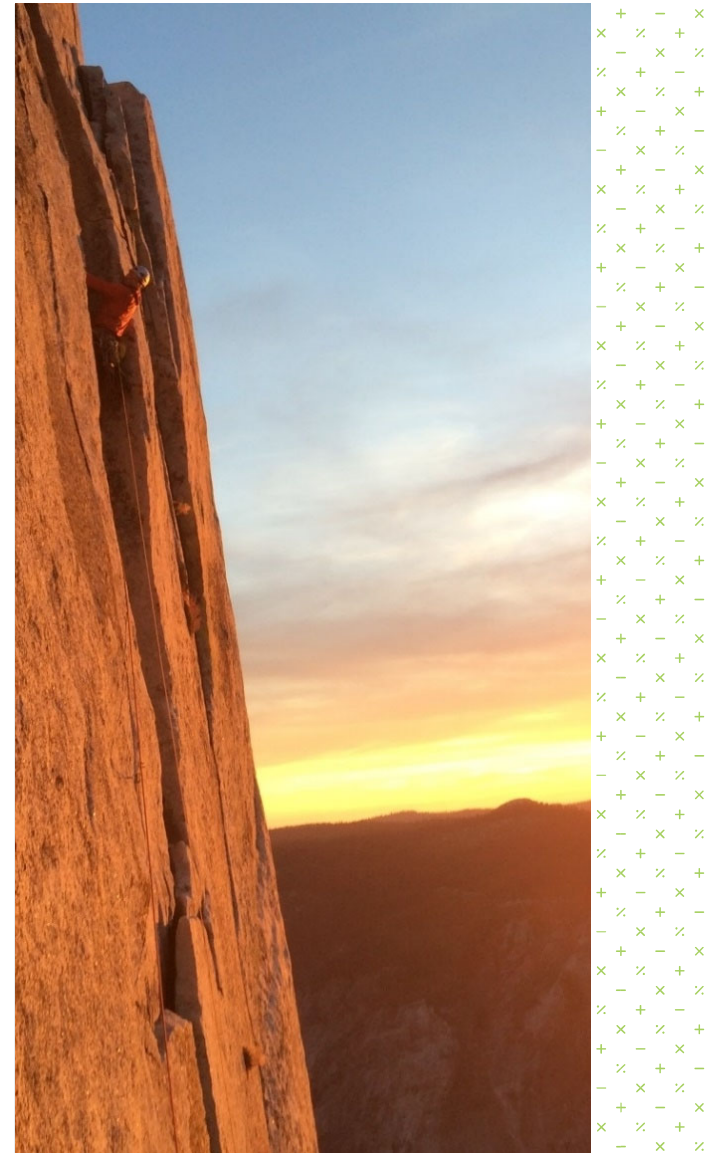
Auditor Report on the Consolidated Financial Statements

Unmodified Opinion

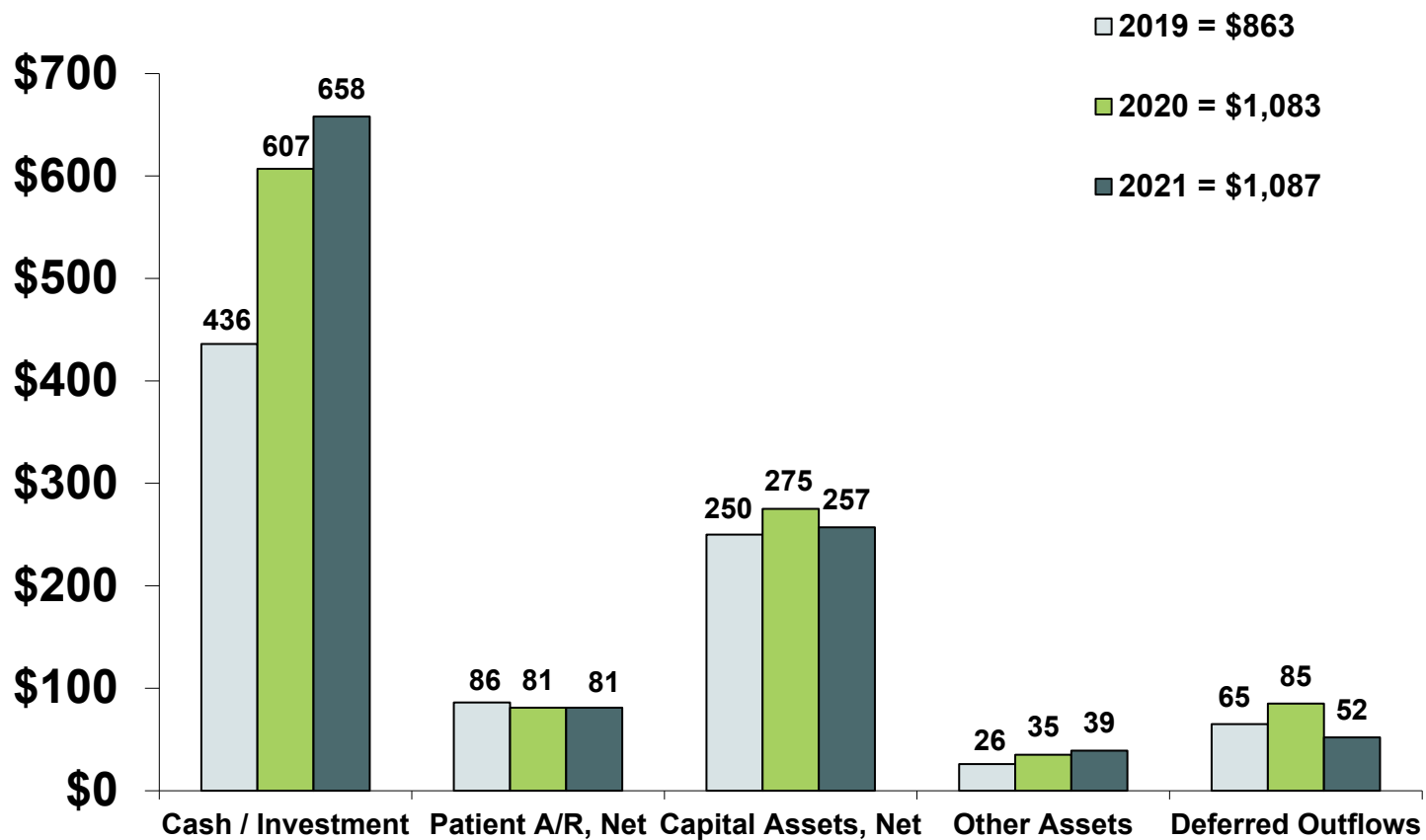
- Consolidated financial statements are presented fairly and in accordance with U.S. GAAP



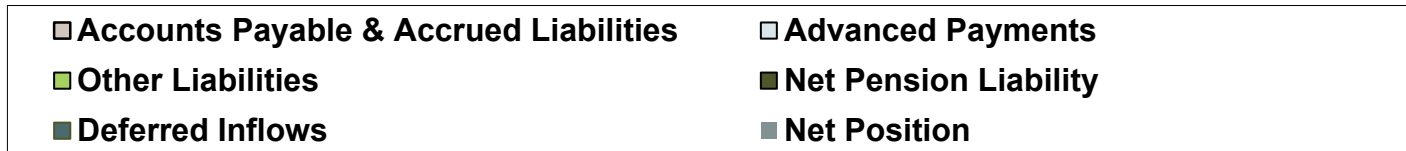
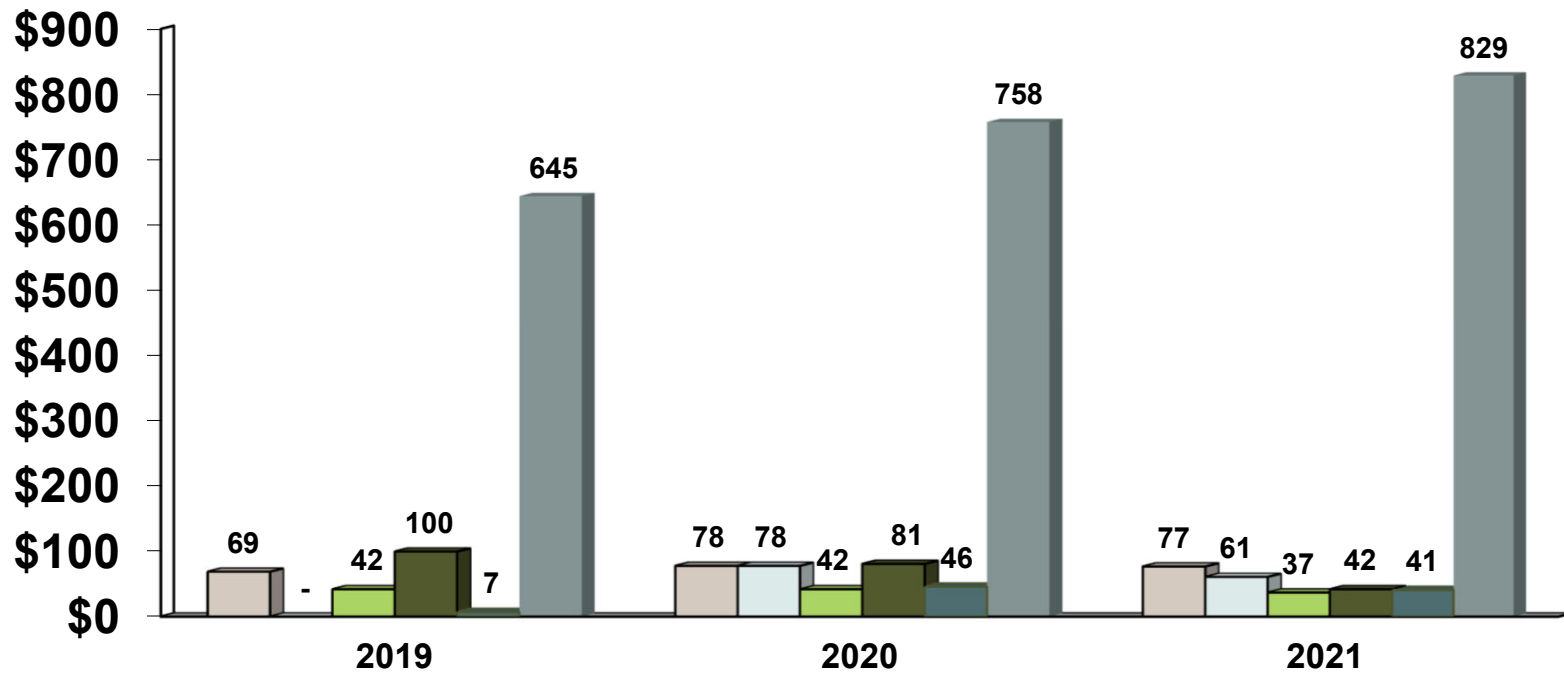
Statements of Net Position



Assets and Deferred Outflows (in millions)



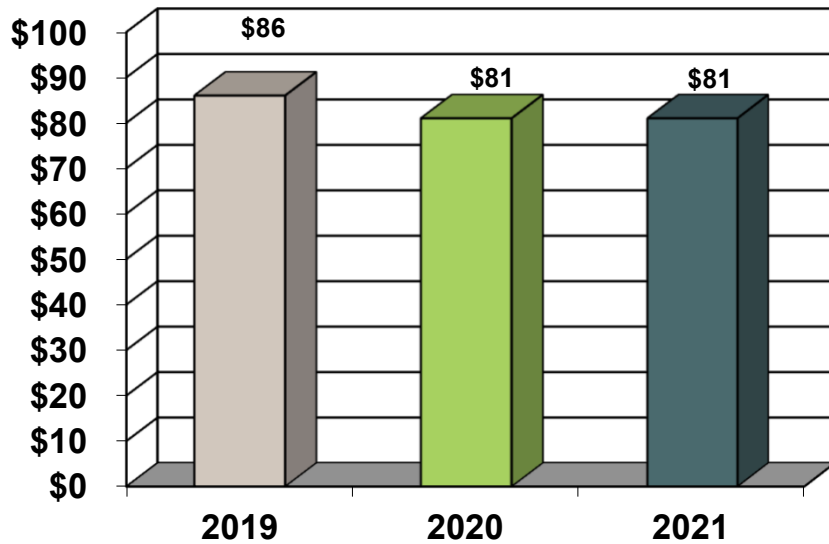
Liabilities, Deferred Inflows, and Net Position (in millions)



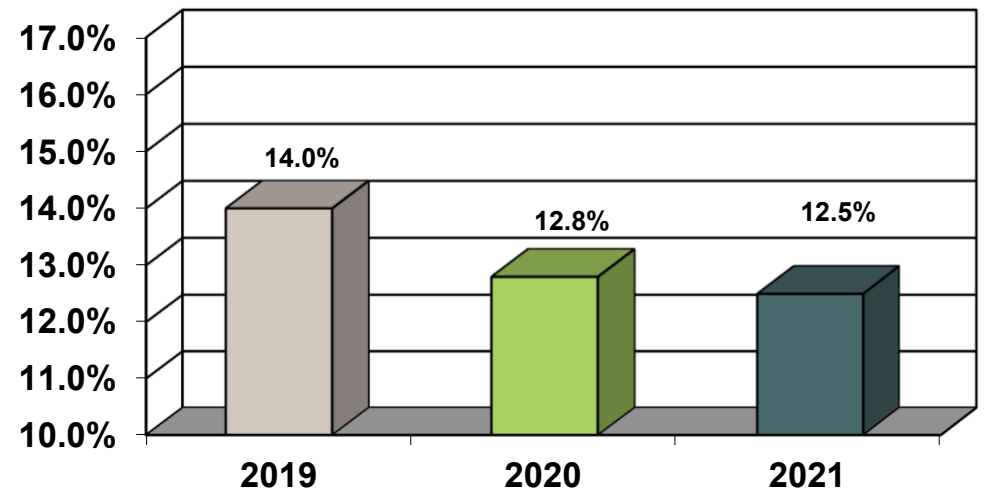
7

Net Patient Service Accounts Receivable

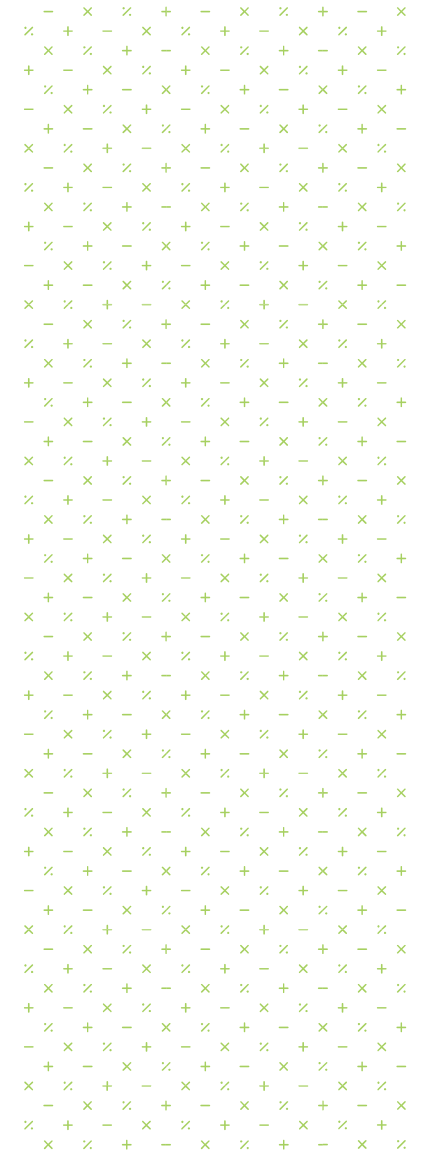
Dollars (in millions)



% Net Revenues



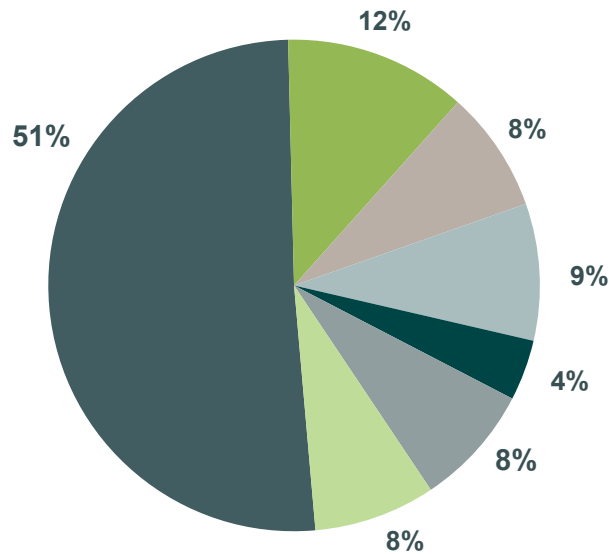
Operations



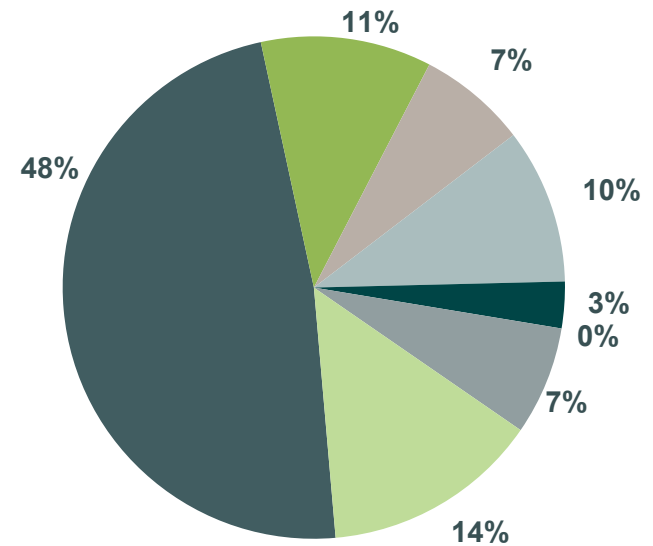
Income Statements Year to Year Comparison

Total Operating Revenues (in thousands)

June 30, 2021
\$671,976

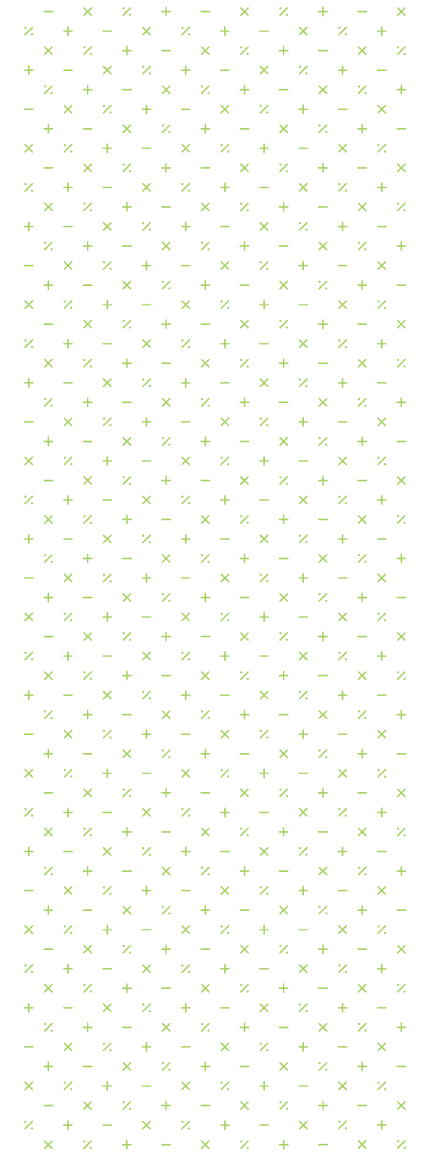


June 30, 2020
\$661,764

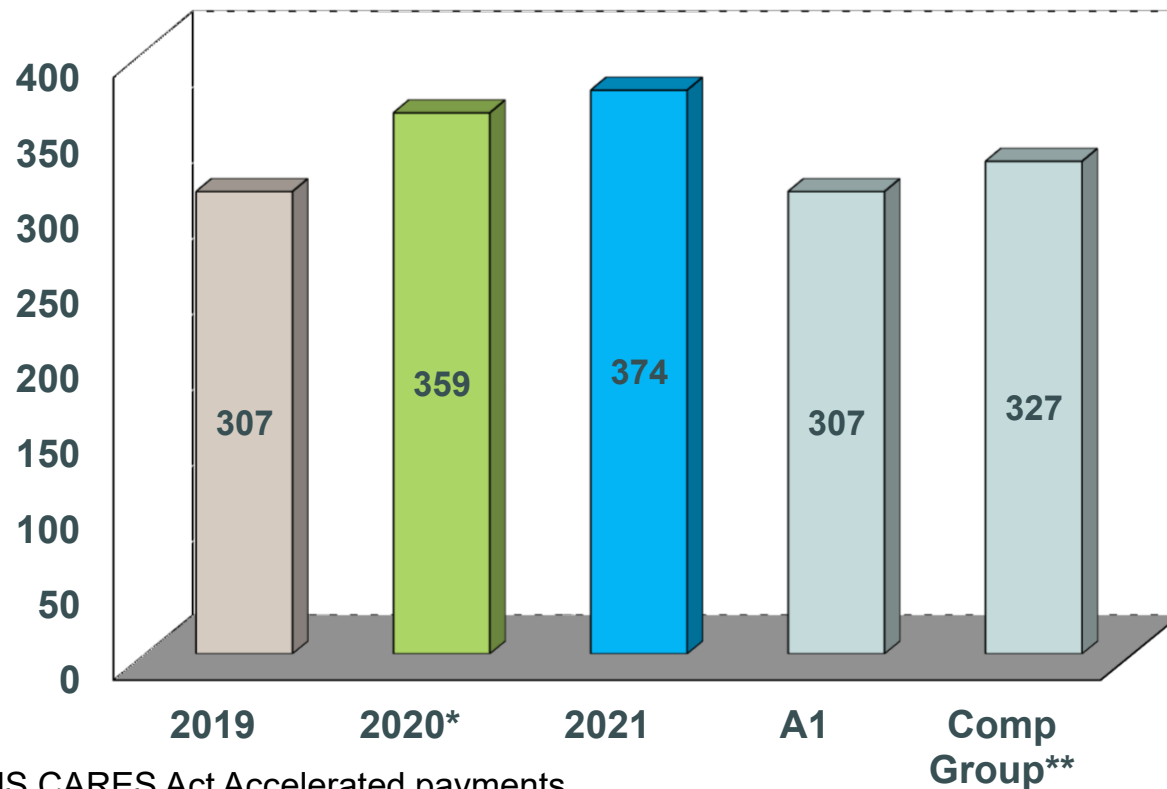


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Financial Ratios and Metrics



Cash on Hand (Days)



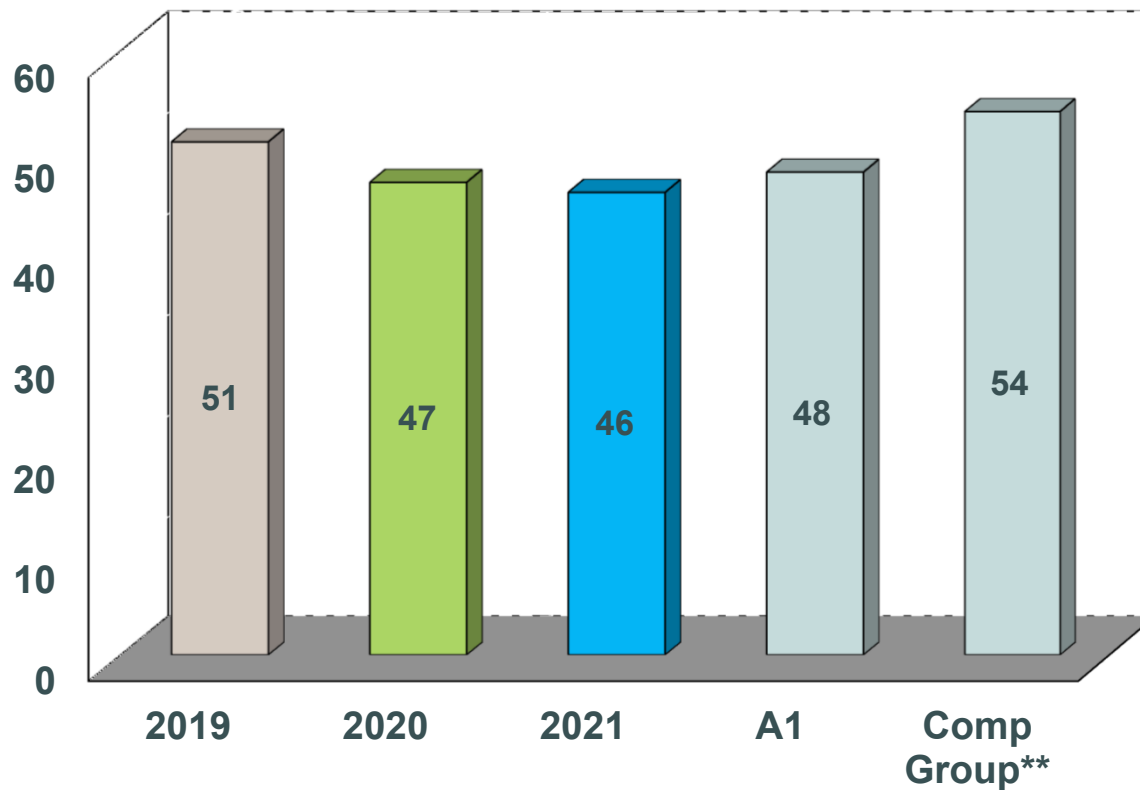
*Excludes CMS CARES Act Accelerated payments

** Comp Group includes a mix of 3-5 NorCal NonProfit and District Hospitals with total beds between 150 and 800

***Moody's Ratings: *2020 Median Ratios for Nonprofit Hospitals and Healthcare Systems*



Days in Accounts Receivable

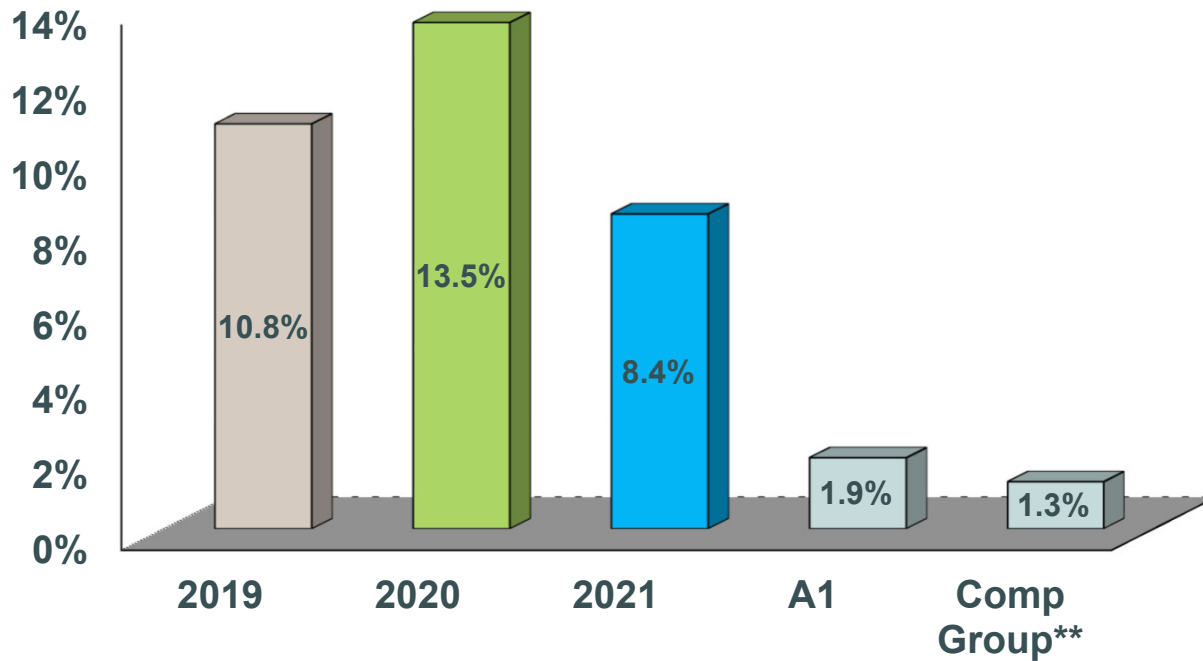


* Moody's Ratings: 2020 Median Ratios for Nonprofit Hospitals and Healthcare Systems

** Comp Group includes a mix of 3-5 NorCal NonProfit and District Hospitals with total beds between 150 and 800



Operating Margin (Operating Income / Total Revenue)

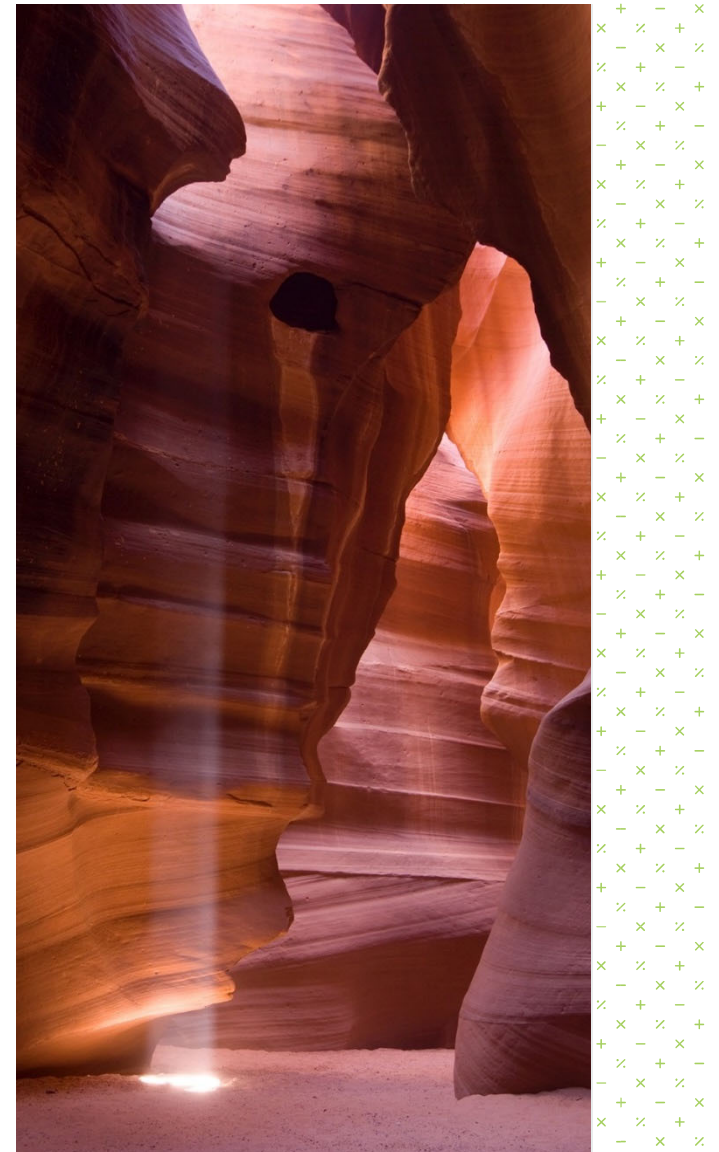


* Moody's Ratings: 2020 Median Ratios for Nonprofit Hospitals and Healthcare Systems





** Comp Group includes a mix of 3-5 NorCal NonProfit and District Hospitals with total beds between 150 and 800



Communication with Those Charged with Governance



Our Responsibility

			
<p>To express our opinion on whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, and in accordance with U.S. GAAP. However, our audit does not relieve you or management of your responsibilities.</p>	<p>To perform an audit in accordance with generally accepted auditing standards issued by the AICPA, Government Auditing Standards issued by the Comptroller General of the United States, and the California Code of Regulations, Title 2, Section 1131.2, State Controller’s Minimum Audit Requirements for California Special Districts, and design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement.</p>	<p>To consider internal control over financial reporting as a basis for designing audit procedures but not for the purpose of expressing an opinion on its effectiveness or to provide assurance concerning such internal control.</p>	<p>To communicate findings that, in our 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.</p>



Significant Accounting Policies & Unusual Transactions

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

Our Comments

Management has the responsibility for selection and use of appropriate accounting policies. The significant accounting policies used by the System are described in the footnotes to the consolidated financial statements. Throughout the course of an audit, we review changes, if any, to significant accounting policies or their application, and the initial selection and implementation of new policies. During the year, the System adopted GASB Statement No. 84 and No. 97. There were no other changes to significant accounting policies for the year ended June 30, 2021.

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



Management Judgments & Accounting Estimates

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

Our Comments

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

- Significant management estimates impacted the consolidated financial statements including the following:
 - net patient service revenue
 - provision for uncollectible accounts
 - fair market values of investments
 - minimum pension liability
 - liability for workers' compensation claims
 - liability for post-retirement medical benefits
 - useful life of capital assets

We deem them to be reasonable.



Management Judgments & Accounting Estimates

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

Our Comments

The disclosures in the consolidated financial statements are clear and consistent. Certain financial statement disclosures are particularly sensitive because of their significance to financial statements users; however, we do not believe any of the footnotes are particularly sensitive. We call your attention to the following notes:

- Note 2 & 3 – Significant concentration of net patient accounts receivable and revenue
- Note 5 – Fair value of investments
- Note 6 – Capital assets
- Note 7 – Investments in affiliates
- Note 9 – Self-insurance liability
- Note 11 – Employee benefit plan



Significant Audit Adjustments & Unadjusted Differences Considered by Management to Be Immaterial

The Audit Committee should be informed of all significant audit adjustments arising from the audit. Consideration should be given to whether an adjustment is indicative of a significant deficiency or a material weakness in the System's internal control over financial reporting, or in its process for reporting interim financial information, that could cause future consolidated financial statements to be materially misstated.

The Audit Committee should also be informed of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the consolidated financial statements as a whole.

Our Comments

- None noted



Deficiencies in Internal Control

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

Our Comments

Material Weakness

- None noted

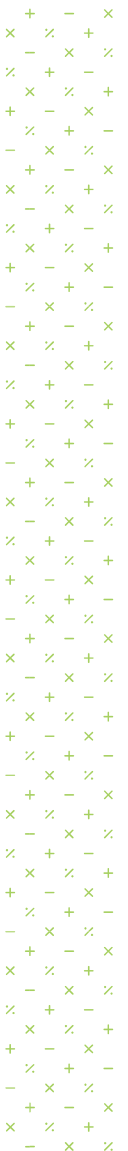
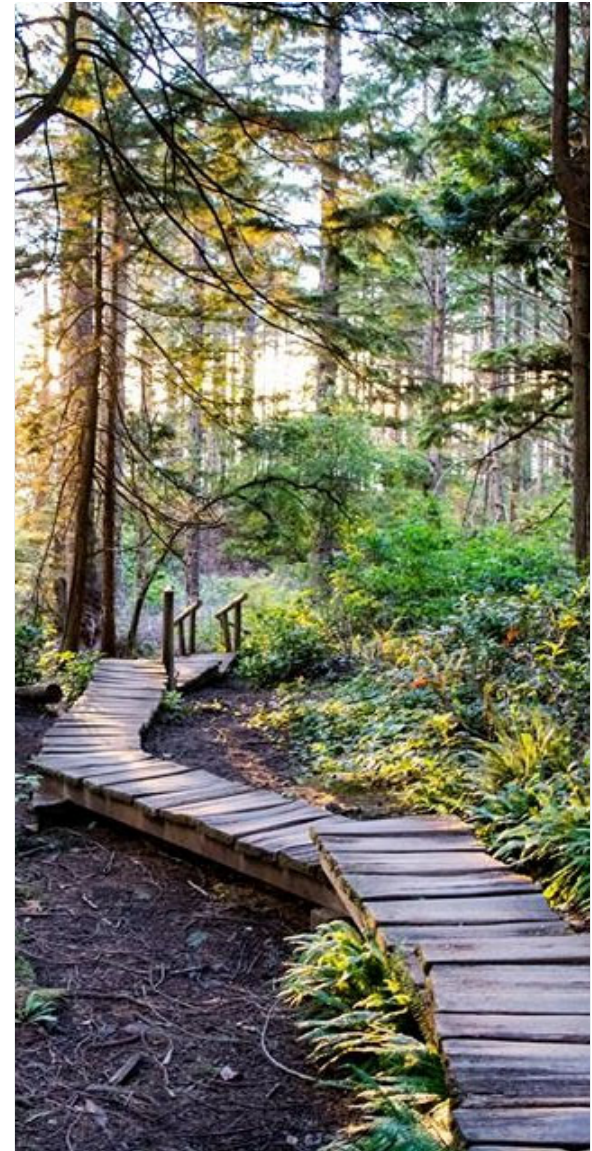
Significant Deficiencies

- Nothing to report





Accounting Updates



GASB Accounting Updates

- GASB Statement No. 87, *Leases*. Effective for the System beginning July 1, 2021.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Effective for the System beginning July 1, 2021.
- GASB Statement No. 91, *Conduit Debt Obligation*. Effective for the System beginning July 1, 2022.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*. Effective for the System beginning July 1, 2020.
- *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements* (SAS No. 134). Effective for the System for the period ending June 30, 2022.



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Changes to the Auditor's Report

The AICPA recently issued a series of standards that will significantly change the form and content of the auditor's report.

These standards are effective for audits of financial statements for periods ending on or after December 15, 2021.

Changes include, among others:

- ✓ "Opinion" section will appear first, followed by a "Basis for Opinion" section
- ✓ Responsibilities of Management for the Financial Statements
 - Adds management's responsibility to evaluate going concern considerations



Changes to the Auditor's Report

✓ Auditor's Responsibility for the Audit of the Financial Statements

- Defines reasonable assurance
- States that the risk of not detecting a material misstatement resulting from fraud is greater than for one resulting from error
- Defines material misstatement
- Identifies auditor's responsibility to evaluate going concern considerations
- Describes that the auditor is required to communicate with those charged with governance



New Report Layout

- Report on the Audit of the Financial Statements
- Opinion
- Basis for Opinion
- Emphasis of Matter, when appropriate
- Other Matter, when appropriate
- Responsibilities of Management for the Financial Statements
- Auditor's Responsibilities for the Audit of the Financial Statements

Current Report Layout

- Report on the Financial Statements
- Introductory paragraph
- Management's Responsibility for the Financial Statements
- Auditor's Responsibility
- Opinion
- Emphasis of Matter, when appropriate
- Other Matter, when appropriate



Other Changes Impacting Auditor Reporting

✓ Employee Benefit Plans Subject to ERISA

- Introduces a name change and new performance and reporting requirements for ERISA 103(a)(3)(C) audits (previously known as “limited scope” audits)
- Expands the description of management’s responsibilities
- Requires that the auditor be provided a draft of the Form 5500 for review



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In today's fast-paced world, we know how precious your time is. We also know that knowledge is key. These resources offer what you need to know, when you need to know it, and are presented in the format that fits your life.



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**THANK
YOU**





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

Salinas Valley Memorial Healthcare System

June 30, 2021 and 2020



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Management's Discussion and Analysis

Salinas Valley Memorial Healthcare System Management's Discussion and Analysis For the Years Ended June 30, 2021, 2020, and 2019

This section of Salinas Valley Memorial Healthcare System's (the "System") annual financial report provides an overview of the System's financial activities as of and for the year ended June 30, 2021, with comparative financial information as of and for the years ended June 30, 2020 and 2019. The discussion and analysis has been prepared by management and should be read in conjunction with the System's audited consolidated financial statements, which follow this section.

Overview

The Salinas Valley Memorial Hospital, now known as the Salinas Valley Memorial Healthcare System ("SVMHS"), was formed in 1947 pursuant to California Health and Safety Code Section 32000 and follows Healthcare District Law. The authority and responsibility to govern the System is vested in a five member elected Board of Directors from zones within the Hospital District. Opened in 1953, the System 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."

The healthcare system is anchored by Salinas Valley Memorial Hospital (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 suite; Orthopedic, Perinatal, and Oncology services. Collaboration is an important operating principle for SVMHS in such key areas as the system'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, partnership with UCSF; Aspire Health Plan, Monterey County's only Medicare Advantage program, and Blue Zones Project Monterey County, dedicated to building a community where people live longer and healthier lives. The system includes Salinas Valley Medical Clinic, a multi-location clinic expanding access to primary and specialty care. SVMHS includes 13 urgent care locations and a System-wide Information Network

Overview of the Financial Statements

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

**Salinas Valley Memorial Healthcare System
Management's Discussion and Analysis
For the Years Ended June 30, 2021, 2020, and 2019**

Financial Highlights

For the Year Ended June 30, 2021

For the year ended June 30, 2021, income from operations decreased to income of \$56.7 million from \$89.4 million for the year ended June 30, 2020. Net patient service revenues in 2021 was \$645.7 million, an increase of \$10.1 million from net patient service revenues of \$635.6 million in 2020. Gross patient service revenues increased by 3.5%. The gross and net patient service revenues increase was due to an increase in acute inpatient acuity from COVID 19 patients and an increase in outpatient services across multiple service lines.

The System continues to generate a significant portion of its income from nonoperating activities, principally from investments (both marketable securities and real estate) and income from affiliates. Nonoperating income, net, for 2021 was \$13.8 million as compared to \$24.2 million for 2020. Increase in net position as a percentage of total operating revenue was 10.5% for 2021 and 17.2% for 2020, representing a decrease of 6.7%.

For the year ended June 30, 2020, income from operations increased to income of \$89.4 million from \$69.2 million for the year ended June 30, 2019. Net patient service revenues in 2020 was \$635.6 million, an increase of \$17.5 million from net patient service revenues of \$618.2 million in 2019. Gross patient service revenues increased by 9.2%. The gross and net patient service revenues increase was due primarily to an increase in outpatient services across multiple service lines.

Comparable Statistical Table (excluding newborns)	Years Ended June 30,		
	2021	2020	2019
Admissions	10,101	11,233	11,170
Average daily census	117	123	127
Average length of stay	4	4	4
Patient days			
Medicare	20,289	21,238	22,599
Managed care	8,733	9,594	9,439
Medi-Cal and CCAH	12,391	12,782	12,451
Other	1,345	1,369	1,741
	<u>42,758</u>	<u>44,983</u>	<u>46,230</u>
Outpatient visits			
Hospital outpatients	70,835	56,150	66,741
Emergency room	47,630	55,472	54,984
	<u>118,465</u>	<u>111,622</u>	<u>121,725</u>

As shown above, the patient days decreased 4.9% during the 2021 fiscal year from the levels of the prior year. Outpatient visits increased 6.1% in 2021 as compared to 2020 with increases in hospital outpatients visits and emergency room visits.

Salinas Valley Memorial Healthcare System Management's Discussion and Analysis For the Years Ended June 30, 2021, 2020, and 2019

Components of the Basic Consolidated Financial Statements

The balance sheet displays the assets and liabilities and resulting net position of the System as of the end of the fiscal year. Separate amounts of net position are reported for each of the classes of net position: (a) permanently restricted principal (expendable earnings only), (b) temporarily restricted net position (expendable by Board action for donor designation), (c) unrestricted net position, and (d) invested in capital assets, net of related debt. The classification is 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 or 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 the broad limits resulting from the California Government Code, the environment in which the System operates, and the limits resulting from contractual agreements with suppliers, creditors and others entered into in the ordinary course of business. Information about the nature and amounts of different types of restrictions are provided either by reporting the amounts in the consolidated financial statements or by including relevant details in the notes to the consolidated financial statements.

Salinas Valley Memorial Healthcare System
Management's Discussion and Analysis
For the Years Ended June 30, 2021, 2020, and 2019

The following abbreviated consolidated statement of net position compares the balances at June 30, 2021, to those at June 30, 2020 and 2020:

Statement of Net Position

	As of June 30,		
	2021	2020	2019
Current assets			
Cash and cash equivalents	\$ 360,939	\$ 318,336	\$ 167,443
Patient accounts receivable, net	80,932	81,089	86,415
Other	150,189	145,314	125,758
Total current assets	<u>592,060</u>	<u>544,739</u>	<u>379,616</u>
Board designated funds	143,257	130,409	113,737
Capital assets, net	256,934	275,473	250,139
Other assets, net	42,685	47,533	55,046
Total assets	<u>1,034,936</u>	<u>998,154</u>	<u>798,538</u>
Deferred outflows	<u>51,757</u>	<u>85,253</u>	<u>64,604</u>
Total assets and deferred outflows	<u>\$ 1,086,693</u>	<u>\$ 1,083,407</u>	<u>\$ 863,142</u>
Current liabilities	\$ 153,800	\$ 178,448	\$ 88,861
Long-term liabilities	62,615	100,887	122,651
Deferred inflows	41,347	45,720	6,926
Net position			
Invested in capital assets, net	254,906	273,356	249,053
Reserved for minority interest	(3,914)	(3,057)	(2,723)
Restricted - expendable	5,917	4,253	4,597
Restricted - nonexpendable	1,130	1,129	1,129
Unrestricted	570,892	482,671	392,648
Total net position	<u>828,931</u>	<u>758,352</u>	<u>644,704</u>
Total liabilities, deferred inflows and net position	<u>\$ 1,086,693</u>	<u>\$ 1,083,407</u>	<u>\$ 863,142</u>

Following is a table of net patient revenues by funding source for 2021 as compared to 2020 and 2020:

Net Patient Revenues

	Years Ended June 30,		
	2021	2020	2019
Payor			
Hospital operations			
Medicare	\$ 120,447	\$ 129,597	\$ 123,644
Managed care	306,889	307,100	300,031
Medi-Cal and CCAH	89,914	81,973	86,324
Other	43,165	37,014	27,626
Consolidated subsidiaries	85,313	79,955	80,534
Total net patient revenues	<u>\$ 645,728</u>	<u>\$ 635,639</u>	<u>\$ 618,159</u>

**Salinas Valley Memorial Healthcare System
Management's Discussion and Analysis
For the Years Ended June 30, 2021, 2020, and 2019**

Following is a table of operating results for the fiscal year ended June 30, 2021, as compared to June 30, 2020 and 2019:

Operating Results

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Net patient service revenues	\$ 645,728	\$ 635,639	\$ 618,159
Other revenues	26,248	26,125	22,956
Total operating revenues	671,976	661,764	641,115
Total operating expenses	<u>615,232</u>	<u>572,329</u>	<u>571,942</u>
Operating income	56,744	89,435	69,173
Total nonoperating income, net	<u>13,835</u>	<u>24,213</u>	<u>7,587</u>
Increase in net position	<u>\$ 70,579</u>	<u>\$ 113,648</u>	<u>\$ 76,760</u>

Consolidated Balance Sheets

Total current assets increased by \$47.3 million in 2021 as compared to 2020 due primarily to an increase in the cash balance.

Board designated funds increased by \$12.8 million due to transfers from the operating account. Capital assets (net) decreased in 2021 as compared to 2020 due to the sale of the Salinas Valley Assisted Living Center. Other assets decreased by \$4.8 million due to transfer of investments to short-term.

Current liabilities decreased by \$24.7 million in 2021. Long-term liabilities decreased by \$38.2 million in 2021.

Revenue by Payor

Gross patient service revenues increased by 3.5% in 2021 over 2020, while net patient service revenues increased by approximately 1.6%. The gross patient revenues increase was due to higher acuity COVID-19 inpatient cases and an increase in inpatient census and outpatient services.

Operating Results

Total operating revenues increased in 2021 as compared to 2020 as described in the above detail by funding source.

Operating expenses increased in 2021 by approximately \$42.9 million or 7.5% over the prior year primarily from increased activity at Salinas Valley Memorial Hospital. Total nonoperating income decreased in 2021 as compared to 2020 by 42.9% or \$10.4 million.

Consolidated Balance Sheets

Total current assets increased by \$165.1 million in 2020 as compared to 2019 due primarily to an increase in the cash balance.

Salinas Valley Memorial Healthcare System Management's Discussion and Analysis For the Years Ended June 30, 2021, 2020, and 2019

Board designated funds increased by \$16.7 million due to transfers from the operating account. Capital assets (net) increased in 2020 as compared to 2019 due to an increase in the amount of acquisitions of property and SVMH capital project spending. Other assets decreased by \$7.5 million due to decrease in long-term investments.

Current liabilities increased by \$89.6 million in 2020. Long-term liabilities decreased by \$21.7 million in 2020.

Revenue by Payor

Gross patient service revenues increased by 5.8% in 2020 over 2019, while net patient service revenues increased by approximately 2.8%. The gross patient revenues increase was due to a small increase in inpatient admission and outpatient services.

Operating Results

Total operating revenues increased in 2020 as compared to 2019 as described in the above detail by funding source.

Operating expenses increased in 2020 by approximately \$0.39 million or 0.1% over the prior year primarily from increased activity at Salinas Valley Memorial Hospital offset by decreased activity in the subsidiaries due to COVID-19. Total nonoperating income increased in 2020 as compared to 2019 by 219.1% or \$16.6 million.

Liquidity and Other Key Ratios

Following is a table showing liquidity and other key ratios for the fiscal year ended June 30, 2021, as compared to June 30, 2020 and 2019:

	Years Ended June 30,		
	2021	2020	2019
Liquidity ratios			
Current ratio	3.8	3.1	4.3
Days of revenue in patient accounts receivable	45.7	47.8	51.0
Margins			
Operating income to total operating revenues	8.4%	13.5%	10.8%
Increase in net position (net income) to total operating revenues	10.5%	17.2%	12.0%
Return on total net position	9.3%	17.6%	13.5%

The System's current ratio (ratio of current assets to current liabilities) increased from 3.1 in 2020 to 3.8 in 2021 due to improved patient collections coupled with a pay-down of CMS Accelerated Payments received in 2020 for support of the organization during the pandemic.

Salinas Valley Memorial Healthcare System Management's Discussion and Analysis For the Years Ended June 30, 2021, 2020, and 2019

Other Operational Information

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

Physician Recruitment

Anticipated physician retirement and the growth of the local community have caused the System to continue its emphasis on physician recruitment in the 2021 fiscal year, which will be a continuing issue for the System in the next several years. In order to keep the facility in the forefront of medical excellence, the System has adopted a recruitment program to attract physicians in various specialties to the area.

As financial pressures continue to impact the System 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 Memorial Healthcare System 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.

Salinas Valley Memorial Healthcare System Management's Discussion and Analysis For the Years Ended June 30, 2021, 2020, and 2019

In accordance with generally accepted accounting principles, to account for the uncertainty around Medicare and Medicaid revenues, the System 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. The System received \$14.9 million, \$9.1 million, and \$12.2 million net funding under this program in the years ended June 30, 2021, 2020, and 2019, respectively.

Charity Care and Community Funding

The System delivered charity care, community benefits and unreimbursed patient care totaling \$126 million, \$117 million, and \$110 million in the years ended June 30, 2021, 2020, and 2019, respectively. The System has made additional investments in the community with the goal to develop collaborative community partnerships that create a lasting, healthy impact by changing the environment in which people live, work, learn and play.

Cautionary Note Regarding Forward-Looking Statements

Certain information provided by the System, 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 the System expects or anticipates will or may occur in the future, contain forward-looking information.

FIDUCIARY MD&A

Overview

The Salinas Valley Memorial Healthcare District Employees Pension Plan (the Plan) was established in November 1966 by the Salinas Valley Memorial Healthcare District (now known as the Salinas Valley 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.

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.

Salinas Valley Memorial Healthcare System Management's Discussion and Analysis For the Years Ended June 30, 2021, 2020, and 2019

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 – Fiduciary Financial Statements

During the year ended June 30, 2021, the net position held in trust for pension benefits increased by approximately 17%. Employer contributions were \$23.8 million in 2021 compared to \$26.8 million in 2020. Benefit payments were \$14.3 million in 2021 compared to \$12.5 million in 2020. Net investment income was \$43.5 million in 2021 compared to \$52.3 million in 2020.

Financial Analysis of the Pension Plan – Fiduciary Financial Statements

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 June 31, 2021, the System's Board of Directors approved and funded an additional \$5 million to the Plan.

Overview of the Fiduciary Financial Statements

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 is the abbreviated statement of fiduciary net position (in thousands):

	June 30,		
	2021	2020	2019
Cash and investments	\$ 386,006	\$ 331,116	\$ 263,008

**Salinas Valley Memorial Healthcare System
Management's Discussion and Analysis
For the Years Ended June 30, 2021, 2020, and 2019**

During the years ended June 30, 2021 and 2020, the Plan's fiduciary net position increased by 17% and increased by 26%, respectively. 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).

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 June 30,		
	2021	2020	2019
Investment income (loss), net	\$ 43,531	\$ 52,346	\$ (13,802)
Employer contributions	23,766	26,809	21,927
Member contributions	1,976	1,594	1,209
Benefit payments to members and beneficiaries	(14,267)	(12,525)	(11,579)
Administrative expenses	(116)	(116)	(112)
Change in fiduciary net position	<u>\$ 54,890</u>	<u>\$ 68,108</u>	<u>\$ (2,357)</u>

The decrease in investment income during the year ended June 30, 2021, compared to 2020 is due to the market dropping, especially during the first and second quarters of 2020. Benefit payments to members and beneficiaries continue to increase each year due to the increased number of retirees and beneficiaries receiving benefits.

Report of Independent Auditors

The Board of Directors
Salinas Valley Memorial Healthcare System

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the business-type activities and the aggregate remaining fund information Salinas Valley Memorial Healthcare System (the "System"), as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of Salinas Valley Memorial Healthcare System, as of June 30, 2021 and 2020, 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.

Other Matters***Required Supplementary Information***

The accompanying Management's Discussion and Analysis on pages 1 through 10, and the accompanying supplemental pension and post-employment benefit information on page 56, are not required parts of the consolidated financial statements but are supplementary information required by the Governmental Accounting Standards Board, who considers them to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational economic or historical context. This supplementary information is the responsibility of the System's management. We have applied certain limited procedures in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of net position and consolidating statement of revenues, expenses, and changes in net position, on pages 51 through 53, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of the System's 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 information is 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 54, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. This supplementary information is the responsibility of the System's management. Such information 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.

Mass Adams LLP

San Francisco, California
December 3, 2021

Consolidated Financial Statements

Salinas Valley Memorial Healthcare System
Consolidated Statements of Net Position
June 30, 2021 and 2020
(In Thousands)

	2021	2020
ASSETS AND DEFERRED OUTFLOWS		
Current assets		
Cash and cash equivalents	\$ 360,939	\$ 318,336
Patient accounts receivable, net of estimated uncollectibles of \$21,319 and \$15,081 at June 30, 2021 and 2020, respectively	80,932	81,089
Short-term investments	128,247	128,247
Supplies inventory	8,771	8,568
Other current assets	13,171	8,499
Total current assets	592,060	544,739
Board designated funds	143,257	130,409
Capital assets		
Nondepreciable	34,660	58,011
Depreciable, net	222,274	217,462
Total capital assets, net	256,934	275,473
Other assets		
Long-term investments	25,841	30,300
Investments in affiliates	15,232	14,681
Other long-term assets	1,612	2,552
Total other assets	42,685	47,533
Total assets	1,034,936	998,154
Deferred outflows - actuarial	50,119	83,367
Deferred outflows - goodwill	1,638	1,886
Total deferred outflows	51,757	85,253
Total assets and deferred outflows	<u>\$ 1,086,693</u>	<u>\$ 1,083,407</u>
LIABILITIES, DEFERRED INFLOWS AND NET POSITION		
Current liabilities		
Current portion of notes payable	\$ 765	\$ 757
Accounts payable	12,602	13,792
Accrued expenses	64,167	63,148
Advance payments - Medicare	60,932	65,983
Advance payments - others	-	11,800
Estimated third-party payor settlements	2,815	9,610
Current portion of self-insurance liabilities	12,519	13,358
Total current liabilities	153,800	178,448
Net pension liability	42,238	80,621
Net post-retirement medical benefits liability	4,557	4,125
Notes payable, net of current portion	1,263	1,360
Self-insurance liabilities, net of current portion	14,557	14,781
Total liabilities	216,415	279,335
Deferred inflows - actuarial	41,347	45,720
Total liabilities and deferred inflows	257,762	325,055
Net position		
Invested in capital assets, net of related debt	254,906	273,356
Reserved for minority interest	(3,914)	(3,057)
Restricted		
Expendable	5,917	4,253
Nonexpendable	1,130	1,129
Unrestricted	570,892	482,671
Total net position	828,931	758,352
Total liabilities, deferred inflows, and net position	<u>\$ 1,086,693</u>	<u>\$ 1,083,407</u>

Salinas Valley Memorial Healthcare System
Consolidated Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2021 and 2020
(In Thousands)

	2021	2020
Operating revenues		
Net patient services revenues	\$ 645,728	\$ 635,639
Other revenues	26,248	26,125
Total operating revenues	<u>671,976</u>	<u>661,764</u>
Operating expenses		
Salaries and wages	214,064	196,447
Compensated absences	34,595	32,434
Employee benefits	87,717	87,603
Supplies	81,467	75,945
Purchased services	51,077	46,159
Medical fees	58,702	63,268
Impairment loss	5,968	-
Other fees	30,363	24,963
Depreciation and amortization	26,929	22,385
Other expenses	24,350	23,125
Total operating expenses	<u>615,232</u>	<u>572,329</u>
Operating income	<u>56,744</u>	<u>89,435</u>
Nonoperating revenues and expenses		
CARES Act grant	607	11,094
Donations	2,758	6,205
Property tax revenue	5,012	4,582
Investment income, net	1,224	8,319
Provision for credit losses	(4,637)	(8,173)
Gain on sale of equipment	2,685	142
Income from investments in affiliates	1,541	321
Other	5,694	2,189
Nonoperating income, net	<u>14,884</u>	<u>24,679</u>
Minority interest in loss of consolidated affiliates	<u>(1,049)</u>	<u>(466)</u>
Increase in net position	<u>70,579</u>	<u>113,648</u>
NET POSITION, beginning of year	<u>758,352</u>	<u>644,704</u>
NET POSITION, end of year	<u>\$ 828,931</u>	<u>\$ 758,352</u>

See accompanying notes.

Salinas Valley Memorial Healthcare System
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2021 and 2020
(In Thousands)

	2021	2020
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 601,084	\$ 715,888
Cash paid to employees for services	(336,376)	(316,484)
Cash paid to suppliers for goods and services	(245,959)	(233,460)
Other receipts from operations	26,248	26,125
Net cash provided by operating activities	<u>44,997</u>	<u>192,069</u>
Cash flows from noncapital financing activities		
Proceeds from property taxes levied by the County	5,012	4,582
Grants and donations received	2,758	6,205
Net cash provided by noncapital financing activities	<u>7,770</u>	<u>10,787</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	(16,810)	(45,225)
Proceeds from sale of capital assets	7,981	-
Proceeds from borrowings	-	1,079
Principal payments on notes payable	(89)	(48)
Net cash used in capital and related financing activities	<u>(8,918)</u>	<u>(44,194)</u>
Cash flows from investing activities		
Purchases of investments	(58,646)	(226,405)
Proceeds from sales of investments	61,881	214,705
Change in board designated funds	(12,848)	(16,672)
Other nonoperating income received	6,838	22,621
Distributions from (to) minority interest in affiliates	1,529	(2,018)
Net cash used in investing activities	<u>(1,246)</u>	<u>(7,769)</u>
Net change in cash and cash equivalents	42,603	150,893
Cash and equivalents, beginning of year	<u>318,336</u>	<u>167,443</u>
Cash and equivalents, end of year	<u>\$ 360,939</u>	<u>\$ 318,336</u>

Salinas Valley Memorial Healthcare System
Consolidated Statements of Cash Flows (continued)
For the Years Ended June 30, 2021 and 2020
(In Thousands)

	2021	2020
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 56,744	\$ 89,435
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	26,929	22,385
Provision for doubtful accounts	15,635	15,170
Gain on disposal of capital assets, net	(4,044)	-
Impairment loss	5,968	-
Change in assets and liabilities:		
Patient accounts receivable, net	(15,478)	(9,844)
Supplies and other assets	(4,875)	(7,520)
Net pension liability	(38,383)	(19,882)
Deferred outflows	33,496	(20,649)
Deferred inflows	(4,373)	38,794
Accounts payable and accrued expenses	(2,345)	5,896
Advanced payments	(16,851)	77,783
Self-insurance liabilities	(631)	(2,238)
Estimated third-party payor settlements	(6,795)	2,739
	<u>\$ 44,997</u>	<u>\$ 192,069</u>
Noncash transactions		
Accounts payable and accrued expenses for capital asset purchases	<u>\$ 1,485</u>	<u>\$ 2,494</u>

See accompanying notes.

Salinas Valley Memorial Healthcare System
Employees' Pension Plan – Statements of Fiduciary Net Position
June 30, 2021 and 2020
(In Thousands)

	<u>2021</u>	<u>2020</u>
ASSETS		
Investments, at fair value		
Mutual funds	<u>\$ 386,006</u>	<u>\$ 331,116</u>
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	<u><u>\$ 386,006</u></u>	<u><u>\$ 331,116</u></u>

Salinas Valley Memorial Healthcare System
Statements of Changes in Fiduciary Net Position
For the Years Ended June 30, 2021 and 2020
(In Thousands)

	2021	2020
ADDITIONS		
Investment income		
Net appreciation in fair value of investments	\$ 35,667	\$ 41,804
Dividends	7,864	10,542
Net investment income	43,531	52,346
Contributions		
Employer	23,766	26,809
Members	1,976	1,594
Total contributions	25,742	28,403
Net additions	69,273	80,749
DEDUCTIONS		
Benefit payments	14,267	12,525
Administrative expenses	116	116
Total deductions	14,383	12,641
CHANGE IN NET POSITION	54,890	68,108
NET POSITION HELD IN TRUST FOR PENSION BENEFITS		
Beginning of the year	331,116	263,008
End of the year	\$ 386,006	\$ 331,116

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

(In Thousands)

NOTE 1 – ORGANIZATION

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

The consolidated System accounts include 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 Assisted Living, LLC, the owner of an assisted living facility; 100% of Salinas Valley Medical Clinic (“SVMC”), 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 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).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

(In Thousands)

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 Government Accounting Standards Board (“GASB”) using the “economic resources measurement focus” and the accrual basis of accounting and 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.

The System 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.

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. The System’s policy is to recognize transfers in and transfers out of Levels 1, 2, and 3 as of the end of the reporting period. Please see Note 5 for fair value hierarchy disclosures of available-for-sale investments.

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

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 investment securities are exposed to various risks, such as interest rate, market, and credit risks.

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

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

Board designated funds – Board designated funds include: (i) 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 (ii) assets held by trustees under agreements with third parties.

Capital assets – Capital asset acquisitions are recorded at cost. Capital assets donated for System 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. The System capitalizes all purchases of computers and copiers over \$1, general acquisitions over \$2 and group purchases over \$10. Depreciation 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 assets, the undepreciated cost less proceeds from sale, if any, are reflected in nonoperating gains and losses in the year of disposition.

The System 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. Based on this evaluation, the System reported an impairment loss of \$5,968 which was included in operating expenses in the accompanying consolidated statements of revenues, expenses, and changes in net position in the year ended June 30, 2021, as a result of revisions to the scope of a building project that has yet to commence. There were no impairment losses in the year ended June 30, 2020.

Advanced payments – Advanced payments represent funds received from certain payors for services to be provided. Management intends for the funds to be recouped or repaid within the next fiscal year.

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

Deferred outflows and inflows – The System 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 period. These consolidated financial statement elements are distinct from assets and liabilities. The below table reflects the components of deferred outflows and inflows as of June 30:

	2021	2020
Deferred outflows - actuarial		
Pension	\$ 49,548	\$ 83,304
Post-retirement medical plans	571	63
	\$ 50,119	\$ 83,367
Deferred inflows - actuarial		
Pension	\$ 40,580	\$ 45,161
Post-retirement medical plans	767	559
	\$ 41,347	\$ 45,720
Deferred outflows - goodwill	\$ 1,638	\$ 1,886

Risk management – The System 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. The System utilizes both commercial insurance and self-insurance for claims arising from such matters. The System is self-insured for workers' compensation claims, professional liability, and health benefits. Settled claims have not exceeded the System's policy limits in any of the past three fiscal years.

Self-insurance plans – The System is self-insured for workers' compensation benefits for employees. An actuarial estimate is accrued based on an expected, undiscounted estimate as of June 30, 2021 and 2020.

The System is a member of and participates in a professional liability self-insurance program through BETA Healthcare Group ("BETA"), a joint powers authority whose members are 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.

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 information.

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

- Invested in capital assets, net of related debt – Capital assets, net of accumulated depreciation, reduced by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

(In Thousands)

- Reserved for minority interest – Net position of legally separate organization attributable to other participants.
- Restricted – The System 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 the System is subject to externally imposed restrictions that can be fulfilled by actions of the System pursuant to those restrictions or that expire by the passage of time.
 - Nonexpendable – Net position subject to externally imposed restrictions that must be retained in perpetuity by the System.
- 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 will change by a material amount in the near term.

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

(In Thousands)

Medicare accelerated payments and CARES Act grant – On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by the novel coronavirus, a pandemic. Management is closely monitoring the evolution of this pandemic, including how it may affect operations and the general population. Centers for Medicare & Medicaid Services (“CMS”) distributed \$50 billion of the \$100 billion in the form of grants to hospitals. The Hospital received approximately \$11.1 million for the year ended June 30, 2020, included in grants, included as Coronavirus Aid, Relief, and Economic Securities Act (“CARES”) (nonoperating revenue) in the consolidated statement of revenues, expenses and changes in net position, and will have to submit reports documenting lost revenue and expenses incurred to support the grant funds, among other terms and conditions. There were no additional funds received for the year ended June 30, 2021. Separately, CMS initiated an Accelerated Payment Program to hospitals. The Accelerated Payments represent advance payments for services to be provided and were based on a hospital’s historical Medicare volume. In April 2020, the Hospital received approximately \$66 million in Accelerated Payments, included in advanced payments – Medicare in the consolidated statements of financial position. CMS began recoupment of these accelerated payments in April 2021 and will continue to recoup the accelerated payments from billings for services rendered until they are fully repaid. Any accelerated payments unpaid will be repaid before interest is due. As of June 30, 2021 and 2020, the System had \$61 million and \$66 million, respectively, in accelerated payments, included in Advanced payments – Medicare in the consolidated statements of financial position. During the year ended June 30, 2021, approximately \$5 million was recouped.

Charity care – The System provides care without charge or at less than its established rates to patients who meet certain criteria under its charity care policy. Because the System does not pursue collection of amounts determined to qualify as charity care, such amounts are not included in net patient service revenues. Charges forgone, based on established rates for the years ended June 30, 2021 and 2020, were \$11,711 and \$10,484, respectively.

Property taxes – The System, as part of a California special district, receives property taxes that are assessed by Monterey County, and records such taxes in nonoperating income.

Aspire Health Plan – The System provided funding to Aspire Health Plan, a California nonprofit mutual benefit corporation which operates a Medicare Advantage plan, in return for a 49% membership voting interest. Initial funding of \$1,454 is reported as other long-term assets as of June 30, 2017. Additional funding of \$5,029 and \$8,173 is reported as nonoperating expense for the years ended June 30, 2021 and 2020, respectively due to the uncertain nature of repayment of ongoing funding.

Concentration of credit risk – The System is highly dependent upon government programs and nongovernmental third-party payors for its revenues. Net patient service revenue from Medicare amounted to 19% and 20% and negotiated third party payors amounted to 48% and 48%, of total net patient service revenues for the years ended June 30, 2021 and 2020, respectively. Significant concentrations of net patient accounts receivable include Medicaid at 9% and 13% and negotiated third party payors at 66% and 65% at June 30, 2021 and 2020, respectively.

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

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

(In Thousands)

New accounting pronouncements – The GASB issued GASB Statement No. 90, *Majority Equity Interests*, (“GASB No. 90”), which intends to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. GASB No. 90 establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (“GASB No. 95”), which extended the effective date for GASB No. 90 to reporting periods beginning July 1, 2020. The System is currently assessing the impact of this standard on the System’s consolidated financial statements.

The GASB also issued GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, (“GASB No. 88”). Among other things, GASB No. 88 clarifies which liabilities governments should include in their note disclosures related to debt. GASB No. 88 requires that all debt disclosures present direct borrowings and direct placements of debt separately from other types of debt. GASB No. 88 further defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This statement further requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The System adopted GASB No. 88 in the year ended June 30, 2020. The adoption did not result in a material impact to the System’s consolidated financial statements.

The GASB issued Statement No. 84, *Fiduciary Activities* (“GASB No. 84”), which provides improved guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The GASB also issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation* (“GASB No. 97”). GASB 97 amends the criteria for reporting governmental fiduciary component units – separate legal entities included in a government’s financial statements. GASB 97 clarifies rules related to reporting of fiduciary activities under Statements No. 14 and No. 84 for defined contribution plans and to enhance the relevance, consistency, and comparability of the accounting and financial reporting of IRC Code section 457 plans that meet the definition of a pension plan. The System adopted GASB No. 84 and GASB No. 97 in the current fiscal year and has reflected the activities of the Employees’ Pension Plan fund in the accompanying statements of fiduciary net position and statements of changes in fiduciary net position.

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

The GASB issued GASB Statement No. 87, *Leases*, (“GASB No. 87”), which intends to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB No. 87 increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. GASB No. 95 extended the effective date for GASB No. 87 to reporting periods beginning July 1, 2021. The System is currently assessing the impact of this standard on the System’s consolidated financial statements.

The GASB also issued GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, (“GASB No. 89”). GASB No. 89 establishes accounting requirements for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. GASB No. 95 extended the effective date for GASB No. 89 to reporting periods beginning July 1, 2021. The System is currently assessing the impact of this standard on the System’s consolidated financial statements.

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

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

NOTE 3 – NET PATIENT SERVICE REVENUES

Patient service revenues consist of the following:

	<u>2021</u>	<u>2020</u>
Gross patient service revenues		
Routine inpatient services	\$ 521,290	\$ 495,761
Ancillary services	1,696,385	1,608,666
Outpatient services	<u>291,951</u>	<u>320,559</u>
	2,509,626	2,424,986
Deductions from gross patient services revenues		
Contractual allowance for statutory and negotiated rates	(1,807,450)	(1,737,934)
Provision for doubtful accounts	(43,640)	(40,928)
Charity care	<u>(12,808)</u>	<u>(10,485)</u>
Total	<u>\$ 645,728</u>	<u>\$ 635,639</u>

The Hospital has agreements with third-party payors that provide for payments to the Hospital 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. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. The Hospital'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 the Hospital. The Hospital's Medicare cost reports have been audited by the Medicare administrative contractor through June 30, 2017.

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 a prospectively determined negotiated per diem rates. Outpatient services are reimbursed based on a schedule of maximum allowances. For certain inpatient services, the Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by Medi-Cal. The Hospital's Medi-Cal cost reports have been audited by Medi-Cal through June 30, 2017.

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

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

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

At the current time there is uncertainty about reimbursements from government programs. Centers for Medicare & Medicaid Services has proposed reductions in rates, which would result in a decrease in Medicare reimbursements. The state budget contains healthcare budget cuts which 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, the System is exempt from the quality assurance fee, but is eligible for supplemental payments under the second part of the Bill and received \$5,752 and \$4,871, respectively, in the years ended June 30, 2021 and 2020, as included in net patient service revenue in the accompanying consolidated statements of revenues, expenses, and changes in net position.

NOTE 4 – CASH AND CASH EQUIVALENTS AND BOARD DESIGNATED FUNDS

As of June 30, 2021 and 2020, cash and cash equivalents and board designated funds, at fair value, consisted of the following:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 360,939	\$ 318,336
Short-term investments	128,247	128,247
Board designated funds	143,257	130,409
Long-term investments	<u>25,841</u>	<u>30,300</u>
Total	<u>\$ 658,284</u>	<u>\$ 607,292</u>

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

As of June 30, 2021 and 2020, board designated funds, at fair value, have been set aside as follows:

	<u>2021</u>	<u>2020</u>
By Board for capital improvements	\$ 143,167	\$ 130,319
By agreement with secured vendor	<u>90</u>	<u>90</u>
Total	<u>\$ 143,257</u>	<u>\$ 130,409</u>

As of June 30, 2021, the System had the following investments and maturities:

	<u>Fair Value</u>	<u>Matures In</u>			<u>More Than 60 Months</u>
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	
Cash and cash equivalents	\$ 345,590	\$ 345,590	\$ -	\$ -	\$ -
Municipal notes	181,546	48,305	24,454	108,787	-
Corporate notes	81,026	21,268	11,248	48,510	-
Bank certificates of deposit	90	90	-	-	-
Money market accounts	30,180	30,180	-	-	-
Mutual funds	<u>19,852</u>	<u>19,852</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 658,284</u>	<u>\$ 465,285</u>	<u>\$ 35,702</u>	<u>\$ 157,297</u>	<u>\$ -</u>

As of June 30, 2020, the System had the following investments and maturities:

	<u>Fair Value</u>	<u>Matures In</u>		
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
Cash and cash equivalents	\$ 318,336	\$ 318,336	\$ -	\$ -
U.S. Treasury notes	36,476	32,374	4,102	-
Municipal notes	132,289	45,360	37,270	49,659
Corporate notes	73,718	23,616	22,237	27,865
Commercial paper	16,901	16,901	-	-
Federal agency notes	9,665	9,665	-	-
Bank certificates of deposit	331	331	-	-
Money market accounts	3,412	3,412	-	-
Mutual funds	<u>16,164</u>	<u>16,164</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 607,292</u>	<u>\$ 466,159</u>	<u>\$ 63,609</u>	<u>\$ 77,524</u>

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

The table below identifies the investment types that are authorized for the Hospital by the California Government Code (or the Hospital'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.

<u>Authorized Investment Type</u>	<u>Maturity</u>
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 the System 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.

Investment Type	<u>Fair Value</u>		<u>Ratings</u>
	<u>2021</u>	<u>2020</u>	
Cash and cash equivalents	\$ 345,590	\$ 318,336	N/A
U.S. Treasury notes	-	36,476	Unrated
Municipal notes	181,546	132,289	Various
Corporate notes	81,026	73,718	Various
Commercial paper	-	16,901	A1+
Federal agency notes	-	9,665	AAA
Bank certificates of deposit	90	331	AAA
Money market accounts	30,180	3,412	N/A
Mutual funds	19,852	16,164	Not rated
Total	<u>\$ 658,284</u>	<u>\$ 607,292</u>	

Concentration of credit risk – The investment policy of the System 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 counter party (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.

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The California Government Code and the Hospital'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 the System.

As of June 30, 2021 and 2020, approximately \$8,058 and \$10,856, respectively, of the System's consolidated subsidiaries' deposits with financial institutions in excess of federal depositor insurance limits were held in accounts not subject to collateralization. The System's securities are registered under the specific entity's name by the custodial bank as an agent for the System. 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

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 standard describes three levels of inputs that may be used to measure fair value:

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, 2021 and 2020, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Mutual funds: Shares of mutual funds are valued at the net asset value of shares held by the System and are valued at the closing price reported on the active market on which the individual securities are traded.

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

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The following tables present the fair value measurements of assets recognized in the accompanying consolidated statements of net position measured at fair value on a recurring basis and the level within the GASB 72 fair value hierarchy in which the fair value measurements fall at June 30:

Description	Level 1	Level 2	Level 3	2021
Investments by fair value level				
Municipal notes	\$ 181,546	\$ -	\$ -	\$ 181,546
Corporate notes	81,026	-	-	81,026
Mutual funds	19,852	-	-	19,852
Total investments by fair value level	<u>\$ 282,424</u>	<u>\$ -</u>	<u>\$ -</u>	<u>282,424</u>
Cash equivalents				
Local agency investment fund ("LAIF")				64,271
Cash holdings				<u>281,319</u>
Total cash equivalents				<u>345,590</u>
Bank certificates of deposit				90
Money market accounts				<u>30,180</u>
Total investments				<u>\$ 658,284</u>
Description	Level 1	Level 2	Level 3	2020
Investments by fair value level				
U.S. Treasury notes	\$ 36,476	\$ -	\$ -	\$ 36,476
Municipal notes	132,289	-	-	132,289
Corporate notes	73,718	-	-	73,718
Federal agency notes	9,665	-	-	9,665
Mutual funds	16,164	-	-	16,164
Total investments by fair value level	<u>\$ 268,312</u>	<u>\$ -</u>	<u>\$ -</u>	<u>268,312</u>
Cash equivalents				
Local agency investment fund ("LAIF")				63,731
Cash holdings				<u>254,605</u>
Total cash equivalents				<u>318,336</u>
Commercial paper				16,901
Bank certificates of deposit				331
Money market accounts				<u>3,412</u>
Total investments				<u>\$ 607,292</u>

Salinas Valley Memorial Healthcare System
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Fiduciary – Employees’ Pension Plan – The following table presents the fair value measurements of financial instruments recognized in the accompanying fiduciary statements of net position measured at fair value on a recurring basis and the level within the GASB No. 72 fair value hierarchy in which the fair value measurements fall at June 30 (in thousands):

	June 31, 2021	Fair Value Measurements		
		Level 1	Level 2	Level 3
Mutual funds				
Equity securities	\$ 261,751	\$ 261,751	\$ -	\$ -
Fixed income	124,255	124,255	-	-
Total	<u>\$ 386,006</u>	<u>\$ 386,006</u>	<u>\$ -</u>	<u>\$ -</u>

	June 31, 2020	Fair Value Measurements		
		Level 1	Level 2	Level 3
Mutual funds				
Equity securities	\$ 200,718	\$ 200,718	\$ -	\$ -
Fixed income	130,398	130,398	-	-
Total	<u>\$ 331,116</u>	<u>\$ 331,116</u>	<u>\$ -</u>	<u>\$ -</u>

Salinas Valley Memorial Healthcare System
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NOTE 6 – CAPITAL ASSETS

The System's capital asset activity for the years ended June 30 is as follows:

	June 30, 2020	Increases	Decreases	Transfer	June 30, 2021
Capital assets not depreciated					
Land	\$ 27,215	\$ -	\$ (1,156)	\$ -	\$ 26,059
Construction in progress	30,796	7,773	(5,968)	(24,000)	8,601
Total capital assets not depreciated	58,011	7,773	(7,124)	(24,000)	34,660
Capital assets being depreciated/amortized					
Buildings and improvements	372,631	-	(6,889)	17,109	382,851
Moveable equipment	211,066	10,471	(1,923)	6,891	226,505
Intangibles	4,564	-	-	-	4,564
Land improvements	2,029	51	-	-	2,080
Total capital assets being depreciated	590,290	10,522	(8,812)	24,000	616,000
Less: accumulated depreciation and amortization for					
Buildings and improvements	209,824	12,219	(4,314)	-	217,729
Moveable equipment	157,053	14,419	(1,717)	-	169,755
Intangibles	4,536	241	-	-	4,777
Land improvements	1,415	50	-	-	1,465
Total accumulated depreciation and amortization	372,828	26,929	(6,031)	-	393,726
Total capital assets being depreciated, net	217,462	(16,407)	(2,781)	24,000	222,274
Capital assets, net	\$ 275,473	\$ (8,634)	\$ (9,905)	\$ -	\$ 256,934

Salinas Valley Memorial Healthcare System
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	June 30, 2019	Increases	Decreases	Transfer	June 30, 2020
Capital assets not depreciated					
Land	\$ 27,215	\$ -	\$ -	\$ -	\$ 27,215
Construction in progress	17,285	39,364	-	(25,853)	30,796
Total capital assets not depreciated	44,500	39,364	-	(25,853)	58,011
Capital assets being depreciated/amortized					
Buildings and improvements	365,979	61	-	6,591	372,631
Moveable equipment	183,738	8,250	(184)	19,262	211,066
Intangibles	4,564	-	-	-	4,564
Land improvements	1,985	44	-	-	2,029
Total capital assets being depreciated	556,266	8,355	(184)	25,853	590,290
Less: accumulated depreciation and amortization for					
Buildings and improvements	197,712	12,112	-	-	209,824
Moveable equipment	147,255	9,982	(184)	-	157,053
Intangibles	4,295	241	-	-	4,536
Land improvements	1,365	50	-	-	1,415
Total accumulated depreciation and amortization	350,627	22,385	(184)	-	372,828
Total capital assets being depreciated, net	205,639	(14,030)	-	25,853	217,462
Capital assets, net	\$ 250,139	\$ 25,334	\$ -	\$ -	\$ 275,473

The System 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

The System has the following investments in joint ventures which are accounted for in accordance with GASB No. 14:

- Community Health Innovations, LLC ("CHI"), an integrated population health initiative.
- Apex Medical Associates, LLC ("APEX"), a group of medical clinics providing health care services.
- Vantage Surgery Center, LP ("VSC"), an outpatient surgery center for ophthalmic surgery.
- 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 ("USCC"), a partnership with GeneisCare (formerly known as US Cancer Care).

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Affiliate	Percentage Interest		Investment Balance June 30,	
	2021	2020	2021	2020
CHI	49%	49%	\$ 1,862	\$ 1,891
APEX	20%	20%	1,952	1,931
SVI	100%	50%	-	398
VSC	10%	10%	546	498
MPSC	0%	12%	6,338	5,913
USCC	0%	40%	2,825	2,861
MBEC	14%	14%	1,709	1,189
			<u>\$ 15,232</u>	<u>\$ 14,681</u>

The remaining 50% of Salinas Valley Imaging (SVI) was purchased by SVMC as of 07/01/2020. The original 50% owned by SVMH was transferred to SVMC as well.

Financial information for these joint ventures can be obtained from the System at 450 E. Romie, Salinas, California 93901.

NOTE 8 – RELATED-PARTY TRANSACTIONS

Central Coast VNA & Hospice, Inc., leases building space from the Hospital and paid rent in the amount of \$265 for the years ended June 30, 2021 and 2020.

The Salinas Valley Memorial Hospital Service League (“Service League”) is an organization formed for the benefit of the Hospital. Expenses paid by the Hospital on behalf of the Service League during the years ended June 30, 2021 and 2020, totaled \$1,359 and \$1,003 respectively.

NOTE 9 – SELF-INSURANCE LIABILITY

The Hospital is self-insured for workers’ compensation claims. Estimated losses of \$16,086 and \$17,346 have been accrued under actuarially determined calculations at June 30, 2021 and 2020, of which approximately \$1,530 and \$2,529 are considered current liabilities, respectively.

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The following is a summary of changes in workers' compensation liabilities for the years ended June 30 (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion</u>
2021	\$ 17,346	\$ 3,977	\$ 5,236	\$ 16,087	\$ 2,627
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion</u>
2020	\$ 20,361	\$ 3,445	\$ 6,460	\$ 17,346	\$ 3,818

The Hospital 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, 2021 and 2020, were approximately \$8,047 and \$8,047, respectively.

The Hospital maintains a \$40,000 claims-made medical malpractice policy with BETA Healthcare Group ("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 the Hospital. The Hospital paid premiums of approximately \$2,133 and \$1,624 to BETA for the years ended June 30, 2021 and 2020, respectively. The Hospital's policy with BETA is renewed every 12 months; the most recent renewal date was July 1, 2014. 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. The Hospital may purchase extended reporting endorsements upon cancellation. The length of the reporting endorsement is not limited. As the Hospital 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 the Hospital's financial statements. Such liability has been actuarially determined, is considered a current liability, and at June 30, 2021 and 2020, was approximately \$2,844 and \$2,746, respectively.

Salinas Valley Memorial Healthcare System
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NOTE 10 – NOTES PAYABLE

Changes in notes payable for the year ended June 30, 2021, is as follows:

	June 30, 2020	Increases	Decreases	June 30, 2021		
				Total	Current Portion	Long-Term Portion
Note payable, due in monthly installments of approximately \$10 thousand including interest at 3.99%, with balance due in 2030, collateralized by specified property.	\$ 1,038	\$ -	\$ (89)	\$ 949	\$ 97	\$ 852
CCMSO loan under the Paycheck Protection Program under the CARES Act. The loan bears interest at 1% with no payments for the first 6 months. Monthly payments of principal and interest of approximately \$61 thousand, deferred 10 months after a 24-week covered period, continuing through maturity in April 2022, if required. The loan is subject to partial or full forgiveness if the CCMSO uses all proceeds for eligible purposes; maintains certain employment levels; and maintains certain compensation levels in accordance with and subject to the CARES Act and the rules, regulations and guidance. CCMSO received full forgiveness in July 2021.	1,079	-	-	1,079	668	411
	2,117	<u>\$ -</u>	<u>\$ (89)</u>	2,028	<u>\$ 765</u>	<u>\$ 1,263</u>
Less: current portion	<u>757</u>			<u>765</u>		
Long-term portion	<u>\$ 1,360</u>			<u>\$ 1,263</u>		

Changes in notes payable for the year ended June 30, 2020, is as follows:

	June 30, 2019	Increases	Decreases	June 30, 2020		
				Total	Current Portion	Long-Term Portion
Note payable, due in monthly installments of approximately \$10 thousand including interest at 3.99%, with balance due in 2030, collateralized by specified property.	\$ 1,086	\$ -	\$ (48)	\$ 1,038	\$ 89	\$ 949
CCMSO loan under the Paycheck Protection Program under the CARES Act. The loan bears interest at 1% with no payments for the first 6 months. Monthly payments of principal and interest of approximately \$61 thousand begin in November 2020 and continue through maturity in April 2022, if required. The loan is subject to partial or full forgiveness if the CCMSO uses all proceeds for eligible purposes; maintains certain employment levels; and maintains certain compensation levels in accordance with and subject to the CARES Act and the rules, regulations and guidance.	-	1,079	-	1,079	668	411
	1,086	<u>\$ 1,079</u>	<u>\$ (48)</u>	2,117	<u>\$ 757</u>	<u>\$ 1,360</u>
Less: current portion	<u>837</u>			<u>757</u>		
Long-term portion	<u>\$ 249</u>			<u>\$ 1,360</u>		

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

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Future debt service payments for each of the five fiscal years subsequent to June 30, 2021, and thereafter are as follows:

<u>Years Ending June 30,</u>	<u>Total Principal</u>	<u>Total Interest</u>	<u>Total Debt Service</u>
2022	\$ 765	\$ 32	\$ 797
2023	573	28	601
2024	105	24	129
2025	109	20	129
2026	109	20	129
Thereafter	367	80	447
	<u>\$ 2,028</u>	<u>\$ 204</u>	<u>\$ 2,232</u>

NOTE 11 – EMPLOYEE BENEFITS 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 the Hospital (Plans).

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

Contributions – The Plan directs 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 PEPR, certain members are required to make contributions based on a percentage of their eligible compensation to the Plan.

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

In accordance with the provisions of PEPR, 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.

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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.

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 Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

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

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

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 presented in the accompanying statements of changes in fiduciary net position.

The Hospital's net pension asset was measured as of June 30, 2021 and 2020, as determined by an actuarial valuation as of December 31, 2020 and 2019, rolled forward to June 30, 2021 and 2020, respectively.

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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 \$18,766 and \$11,809 for the years ended June 30, 2021 and 2020, respectively, of which 100%, respectively, were contributed to the Plan as directed and approved by the Board. Contributions in excess of the actuarially determined contribution amounts totaling \$5,000 and \$15,000 were also contributed at the direction of the Board of Directors for the years ended June 30, 2021 and 2020, respectively.

Pension expense – Pension expense for the Hospital’s Plan is based upon GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27*. The Hospital’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:

	<u>January 1, 2021</u>	<u>January 1, 2020</u>
Active	1,330	1,238
Inactive	255	283
Retired and beneficiaries	691	647
Vested terminated	<u>382</u>	<u>390</u>
Total participants	<u><u>2,658</u></u>	<u><u>2,558</u></u>

Components of pension cost and deferred outflows and inflows of resources as calculated under the requirements of GASB 68 are as follows:

	<u>2021</u>	<u>2020</u>
Deferred outflows - actuarial as of June 30:		
Difference between expected and actual experience	\$ 1,006	\$ 1,702
Changes in assumptions	36,956	48,952
Net difference between projected and actual earnings on pension plan investments	-	21,970
Contribution to the pension plan after measurement date	<u>11,586</u>	<u>10,680</u>
Total	<u><u>\$ 49,548</u></u>	<u><u>\$ 83,304</u></u>

Deferred inflows - actuarial as of June 30:

Difference between expected and actual experience	\$ 12,252	\$ 11,810
Changes in assumptions	1,686	369
Net difference between projected and actual earnings on pension plan investments	<u>26,642</u>	<u>32,982</u>
Total	<u><u>\$ 40,580</u></u>	<u><u>\$ 45,161</u></u>

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

<u>Year Ending June 30,</u>	
2022	\$ 277
2023	2,982
2024	(5,157)
2025	(174)
2026	(437)
Thereafter	<u>(109)</u>
	<u><u>\$ (2,618)</u></u>

The following table summarizes changes in pension liability for fiscal years ended June 30, 2021 and 2020, with a measurement date of January 1, 2021 and 2020, respectively:

	2021	2020
Total pension liability		
Service cost	\$ 9,739	\$ 8,354
Interest on total pension liability	26,944	25,007
Changes of benefit terms	(202)	-
Difference between expected and actual experience	(4,013)	(8,842)
Changes of assumptions	(1,836)	36,231
Benefit payments	<u>(14,125)</u>	<u>(12,525)</u>
Net change in total pension liability	16,507	48,225
Total pension liability beginning of fiscal year	<u>411,736</u>	<u>363,511</u>
Total pension liability end of fiscal year	<u><u>\$ 428,243</u></u>	<u><u>\$ 411,736</u></u>
	2021	2020
Total pension liability	\$ 428,243	\$ 411,736
Plan fiduciary net position	<u>(386,005)</u>	<u>(331,115)</u>
Net pension liability	<u><u>\$ 42,238</u></u>	<u><u>\$ 80,621</u></u>
Plan fiduciary net position as a percentage of the total pension liability	90.14%	80.42%
Covered-employee payroll	\$ 127,771	\$ 119,261
Plan net pension liability as of a percentage of covered-employee payroll	33.06%	67.60%

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The following table summarizes the actuarial assumptions used to determine net pension liability and plan fiduciary net position as of June 30, 2021 and 2020:

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-2020

Sensitivity of the Net Pension Liability

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
June 30, 2021	\$ 101,479	\$ 42,238	\$ (7,056)
June 30, 2020	\$ 138,330	\$ 80,621	\$ 32,695

Defined Benefit Post-Retirement Medical Plans – The Hospital 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 the Hospital and the bargaining units and are renegotiated when bargaining agreements expire. The Retiree Health Plans do not issue publicly available financial reports.

The Hospital funds the benefits on a pay-as-you go basis. For the fiscal years ended June 30, 2021 and 2020, the Hospital contributed \$148 and \$105, respectively, to fund benefits paid in these years.

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

	2021	2020
Active employees	1,212	1,212
Retirees receiving benefits	57	57
Total plan participants	<u>1,269</u>	<u>1,269</u>

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Components of post-retirement medical benefits expense and deferred inflows and outflows of resources as calculated under the requirements of GASB No. 75 are as follows as of June 30:

	2021	2020
Service cost	\$ 156	\$ 155
Interest	147	169
Differences between expected and actual experience	(21)	(11)
Changes of assumptions	(1)	(32)
Total post-retirement medical benefits expense	\$ 281	\$ 281

	2021	2020
Deferred outflows of resources as of June 30:		
Changes in benefit terms	\$ -	\$ -
Difference between expected and actual experience	56	63
Changes in assumptions	515	-
Total	\$ 571	\$ 63

Deferred inflows of resources as of June 30:		
Changes in benefit terms	\$ -	\$ -
Difference between expected and actual experience	447	207
Changes in assumptions	320	352
Total	\$ 767	\$ 559

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

2022	\$ (22)
2023	(22)
2024	(22)
2025	(22)
2026	(22)
Thereafter	(86)
	\$ (196)

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Notes to Consolidated Financial Statements
(In Thousands)

The following table summarizes changes in post-retirement medical benefits liability, reflected as other long-term liabilities on the statements of net position, for fiscal years ended June 30, 2021 and 2020, with a measurement date of June 30, 2020 and 2019, respectively:

	2021	2020
Service cost	\$ 156	\$ 155
Interest	147	169
Differences between expected and actual experience	(280)	(186)
Changes in assumptions	558	(161)
Benefit payments	-	(106)
Contributions - employer	(149)	-
Net changes	432	(129)
Net post-retirement medical benefits liability at beginning of year	4,125	4,254
Net post-retirement medical benefits liability at end of year	\$ 4,557	\$ 4,125

The following table summarizes the actuarial assumptions used to determine net pension asset and plan fiduciary net position as of June 30, 2021 and 2020:

Valuation Date	6/30/2019, results rollforwarded (an actuarial adjustment) to June 30, 2020
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Not applicable
Actuarial Assumptions	
Projected Salary Increases	3.25%
Mortality	PubG-2010 Generational Mortality Tables projected using scale MP-2019 improvement table
Discount Rate	2.21%
Healthcare cost trend rates:	6.75% for 2021, graded to 5.00% for year 2028 and beyond for ages pre-65; and 5% for year 2021 and beyond for ages post-65.

Sensitivity of post-retirement medical benefits liability due to change in discount rates:

	1% Decrease	Current Discount Rate	1% Increase
June 30, 2021	\$ 4,792	\$ 4,557	\$ 4,336
June 30, 2020	\$ 4,347	\$ 4,125	\$ 3,910

Sensitivity of post-retirement medical benefits liability due to change in healthcare cost trend:

	1% Decrease	Current Trend	1% Increase
June 30, 2021	\$ 4,497	\$ 4,557	\$ 4,604
June 30, 2020	\$ 4,070	\$ 4,125	\$ 4,168

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

NOTE 12 – COMPENSATED ABSENCES

System employees can earn paid leave at varying rates depending on the length of service and job classification. Earned leave consists of vacation and holiday pay, which vests to the employee immediately; and sick leave, which is available to the employee only when used for absences for valid medical reasons. Employees can accumulate up to two years' accruals of paid leave. Upon separation, unused vested leave balances are paid in full. As of June 30, 2021 and 2020, the liability for unpaid compensated absences (included in accrued expenses in the consolidated statements of net position) was \$20,232 and \$17,990, respectively. The following is a summary of changes in compensated absences transactions for the years ended June 30:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion</u>
2021	\$ 17,990	\$ 34,595	\$ 32,353	\$ 20,232	\$ 20,232
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion</u>
2020	\$ 16,518	\$ 32,434	\$ 30,962	\$ 17,990	\$ 17,990

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Operating leases – Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. As of June 30, 2021, future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year consist of the following:

<u>Years Ending June 30,</u>	
2022	\$ 2,505
2023	2,154
2024	1,847
2025	1,364
2026	518
Thereafter	<u>634</u>
	<u><u>\$ 9,022</u></u>

Included in the above is a real property lease with an original term of ten years which is renewable for two successive five-year terms and three leases with original terms of five years which are renewable for two successive six year terms.

Total rental expense for the years ended June 30, 2021 and 2020, was approximately \$2,854 and \$5,458, respectively.

Salinas Valley Memorial Healthcare System

Notes to Consolidated Financial Statements

(In Thousands)

Litigation – The System 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 the System’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. The System 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 the System’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 14 – SUBSEQUENT EVENTS

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

Supplementary Information

Salinas Valley Memorial Healthcare System
Consolidating Statement of Net Position
June 30, 2021
(In Thousands)

	Salinas Valley Memorial Hospital	Central Coast Medical Service Organization	Salinas Valley Memorial Assisted Living, LLC	Salinas Valley Memorial Hospital Foundation	SVMH-LPCH NICU JV	SVMC	Eliminations Increase (Decrease)	Salinas Valley Memorial Healthcare System
Current assets								
Cash and cash equivalents	\$ 352,881	\$ 4,544	\$ -	\$ 167	\$ -	\$ 3,347	\$ -	\$ 360,939
Patient accounts receivable, net of estimated uncollectibles of \$21,319 at June 30, 2021	74,136	1,589	-	-	-	5,207	-	80,932
Short-term investments	128,247	-	-	-	-	-	-	128,247
Supplies inventory	8,616	155	-	-	-	-	-	8,771
Other current assets	6,306	2,616	-	8	-	6,967	(2,726)	13,171
Total current assets	570,186	8,904	-	175	-	15,521	(2,726)	592,060
Board designated funds	143,257	-	-	-	-	-	-	143,257
Capital assets								
Nondepreciable	33,477	1,183	-	-	-	-	-	34,660
Depreciable, net	210,572	5,113	-	-	874	5,715	-	222,274
Total capital assets, net	244,049	6,296	-	-	874	5,715	-	256,934
Other assets								
Long-term investments	4,894	-	-	20,947	-	-	-	25,841
Investments in affiliates	40,677	-	-	-	-	-	(25,445)	15,232
Other long-term assets	-	1,141	-	981	-	-	(510)	1,612
Total other assets	45,571	1,141	-	21,928	-	-	(25,955)	42,685
Total assets	1,003,063	16,341	-	22,103	874	21,236	(28,681)	1,034,936
Deferred outflows - actuarial	50,119	-	-	-	-	-	-	50,119
Deferred outflows - goodwill	532	-	-	-	-	1,106	-	1,638
Total deferred outflows	50,651	-	-	-	-	1,106	-	51,757
Total assets and deferred outflows	\$ 1,053,714	\$ 16,341	\$ -	\$ 22,103	\$ 874	\$ 22,342	\$ (28,681)	\$ 1,086,693

Salinas Valley Memorial Healthcare System
Consolidating Statement of Net Position (Continued)
June 30, 2021
(In Thousands)

	Salinas Valley Memorial Hospital	Central Coast Medical Service Organization	Salinas Valley Memorial Assisted Living, LLC	Salinas Valley Memorial Hospital Foundation	SVMH-LPCH NICU JV	SVMC	Eliminations Increase (Decrease)	Salinas Valley Memorial Healthcare System
Current liabilities								
Current portion of notes payable	\$ -	\$ 908	\$ -	\$ -	\$ -	\$ -	\$ (143)	\$ 765
Accounts payable	11,479	85	-	541	-	497	-	12,602
Accrued expenses	53,014	3,632	-	-	-	7,521	-	64,167
Advance payments - Medicare	60,932	-	-	-	-	-	-	60,932
Estimated third-party payor settlements	2,815	-	-	-	-	-	-	2,815
Current portion of self-insurance liabilities	12,519	-	-	-	-	-	-	12,519
Total current liabilities	140,759	4,625	-	541	-	8,018	(143)	153,800
Net pension liability	42,238	-	-	-	-	-	-	42,238
Net post-retirement medical benefits liability	4,557	-	-	-	-	-	-	4,557
Notes payable, net of current portion	-	1,773	-	-	-	-	(510)	1,263
Self-insurance liabilities, net of current portion	14,557	-	-	-	-	-	-	14,557
Total liabilities	202,111	6,398	-	541	-	8,018	(653)	216,415
Deferred inflows - actuarial	41,347	-	-	-	-	-	-	41,347
Total liabilities and deferred inflows	243,458	6,398	-	541	-	8,018	(653)	257,762
Net position								
Invested in capital assets, net of related debt	244,049	3,615	-	-	874	5,715	653	254,906
Reserved for minority interest	-	-	-	-	-	-	(3,914)	(3,914)
Restricted								
Expendable	-	-	-	5,917	-	-	-	5,917
Nonexpendable	-	-	-	1,130	-	-	-	1,130
Unrestricted	566,207	6,328	-	14,515	-	8,609	(24,767)	570,892
Total net position	810,256	9,943	-	21,562	874	14,324	(28,028)	828,931
Total liabilities, deferred inflows, and net position	\$ 1,053,714	\$ 16,341	\$ -	\$ 22,103	\$ 874	\$ 22,342	\$ (28,681)	\$ 1,086,693

Salinas Valley Memorial Healthcare System
Consolidating Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2021
(In Thousands)

	Salinas Valley Memorial Hospital	Central Coast Medical Service Organization	Salinas Valley Memorial Assisted Living, LLC	Salinas Valley Memorial Hospital Foundation	SVMH-LPCH NICU JV	SVMC	Eliminations Increase (Decrease)	Salinas Valley Memorial Healthcare System
Operating revenues								
Net patient service revenues	\$ 560,415	\$ 19,219	\$ -	\$ -	\$ 11,604	\$ 57,451	\$ (2,961)	\$ 645,728
Other revenues	14,592	-	-	-	-	11,656	-	26,248
Total operating revenues	575,007	19,219	-	-	11,604	69,107	(2,961)	671,976
Operating expenses								
Salaries and wages	183,657	7,640	-	-	4,348	18,419	-	214,064
Compensated absences	31,212	676	-	-	904	1,803	-	34,595
Employee benefits	80,013	1,300	-	-	1,854	4,550	-	87,717
Supplies	73,021	1,348	-	-	(86)	7,184	-	81,467
Purchased services	38,866	542	-	1,270	16	11,653	(1,270)	51,077
Medical fees	14,069	2,990	-	-	2,386	45,488	(6,231)	58,702
Impairment loss	5,968	-	-	-	-	-	-	5,968
Other fees	17,374	1,029	-	-	-	11,960	-	30,363
Depreciation and amortization	20,827	671	-	-	347	5,084	-	26,929
Other expenses	14,927	2,967	-	2,222	78	5,055	(899)	24,350
Total operating expenses	479,934	19,163	-	3,492	9,847	111,196	(8,400)	615,232
Operating income (loss)	95,073	56	-	(3,492)	1,757	(42,089)	5,439	56,744
Nonoperating revenues and expenses								
CARES Act grant	-	607	-	-	-	-	-	607
Donations	2,168	-	-	2,758	-	-	(2,168)	2,758
Property tax revenue	5,012	-	-	-	-	-	-	5,012
Investment income, net	3,123	4	(66)	3,982	-	412	(6,231)	1,224
Provision for credit losses	(5,029)	392	-	-	-	-	-	(4,637)
Gain on sale of equipment	2,535	150	-	-	-	-	-	2,685
(Loss) income from investments in affiliates	(38,358)	-	-	-	-	-	39,899	1,541
Other	(74)	(69)	-	88	-	2,961	2,788	5,694
Nonoperating (expense) income, net	(30,623)	1,084	(66)	6,828	-	3,373	34,288	14,884
Capital transfers	-	(1,000)	(1,279)	-	(1,962)	42,562	(38,321)	-
Minority interest in loss of consolidated affiliates	-	-	-	-	-	-	(1,049)	(1,049)
Increase (decrease) in net position	64,450	140	(1,345)	3,336	(205)	3,846	357	70,579
Total net position, beginning of year	745,806	9,803	1,345	18,226	1,079	10,478	(28,385)	758,352
Total net position, end of year	\$ 810,256	\$ 9,943	\$ -	\$ 21,562	\$ 874	\$ 14,324	\$ (28,028)	\$ 828,931

Salinas Valley Memorial Healthcare System
Supplementary Schedule of Community Benefit (Unaudited)
Year Ended June 30, 2021
(In Thousands)

The System maintains records to identify and monitor the level of direct community benefit it provides. These records include the charges foregone for providing the patient care furnished under its charity care policy. For the years ended June 30, 2021 and 2020, the estimated costs of providing community benefit in excess of reimbursement from governmental programs were as follows:

	<u>2021</u>	<u>2020</u>
Unpaid costs of Medi-Cal programs	\$ 114,510	\$ 106,718
Indigent charity care and bad debt	<u>11,711</u>	<u>10,484</u>
	<u>\$ 126,221</u>	<u>\$ 117,202</u>

In furtherance of its purpose to benefit the community, the System 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 \$158,807 and \$147,314 for the years ended June 30, 2021 and 2020, respectively.

The System 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, 2021 and 2020, these volunteers contributed approximately 13,478 and 16,475 hours, respectively, in providing these services, the value of which is not recorded in the accompanying consolidated financial statements.

Required Supplementary Information

Salinas Valley Memorial Healthcare System
Supplementary Pension and Post Employment Benefit Information
June 30, 2021 and 2020
(In Thousands)

Defined Benefit Pension Plan

The following table summarizes the number of total plan participants:

	2021	2020
Number of active members	1,330	1,238
Number of frozen active participants	255	283
Number of retired members and beneficiaries	691	647
Number of vested terminated members	382	390
	<u>2,658</u>	<u>2,558</u>

The following table summarizes the funding status of the defined benefit pension plan:

Year Ended	Actuarially Determined Contribution	Actual Employer Contribution	Contribution (Excess) Deficiency	Covered Payroll	Contribution as a Percentage of Covered Payroll
December 31, 2007	\$ 6,778	\$ 7,108	\$ (330)	\$ 97,292	7.31%
December 31, 2008	\$ 8,756	\$ 10,766	\$ (2,010)	\$ 107,149	10.05%
December 31, 2009	\$ 13,096	\$ 13,096	\$ -	\$ 119,940	10.92%
December 31, 2010	\$ 12,570	\$ 12,570	\$ -	\$ 129,273	9.72%
December 31, 2011	\$ 11,226	\$ 11,226	\$ -	\$ 96,774	11.60%
December 31, 2012	\$ 11,648	\$ 11,648	\$ -	\$ 96,172	12.11%
December 31, 2013	\$ 11,308	\$ 11,311	\$ (3)	\$ 94,394	11.98%
December 31, 2014	\$ 10,799	\$ 10,799	\$ -	\$ 97,719	11.05%
December 31, 2015	\$ 12,146	\$ 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%

Defined Benefit Post-Retirement Medical Plans – As of June 30, 2021 and 2020, the post-retirement medical plans' fiduciary net position as a percentage of the total OPEB liability is 0%.

The 2020 and 2019 covered payroll for the active population eligible to participate in the post-retirement medical plans were \$127,771 and \$119,261. The net post-retirement benefits liability as a percentage of covered-employee payroll were 3.57% and 3.46%, respectively.





*Communication with
Those Charged with Governance*

Salinas Valley Memorial Healthcare System

June 30, 2021



Communication with Those Charged with Governance

To the Board of Directors
Salinas Valley Memorial Healthcare System

We have audited the consolidated financial statements of Salinas Valley Memorial Healthcare System (the “System”), its aggregate remaining fund information units, the Salinas Valley Memorial Healthcare District Employees Pension Plan, as of and for the year ended June 30, 2021, and have issued our report thereon dated December 3, 2021. 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 7, 2021, our responsibility, as described by professional standards, is to form and express an opinion about whether the consolidated financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and the California Code of Regulations, Title 2, Section 1131.2, State Controller’s *Minimum Audit Requirements* for California Special Districts. We will also report on whether the consolidating statement of net position, consolidating statement of revenues, expenses, and changes in net position, and supplemental pension and postretirement benefit information, are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole. Our audit of the consolidated financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit in accordance with *Government Auditing Standards*, and auditing standards generally accepted in the United States of America, and the California Code of Regulations, Title 2, Section 1131.2, State Controller’s *Minimum Audit Requirements* for California Special Districts, and to design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. 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 System’s internal control solely for the purposes of determining our audit procedures and not to provide assurance concerning such internal control.

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

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in the engagement letter dated January 7, 2021.

Significant Audit Findings and Issues

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the System are described in Note 2 to the consolidated financial statements. During the year ended June 30, 2021, management adopted GASB Statement No. 84, *Fiduciary Activities*, and GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. There have been no other new accounting policies adopted and there were no changes in the application of existing policies during fiscal year 2021. 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 as of June 30, 2020. 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, and the rate of compensation increases. These assumptions are provided by management. We have evaluated the key factors and assumptions used to develop the estimate. We found management's basis to be reasonable in relation to the consolidated financial statements taken as a whole.
- Management's estimated liability for post-retirement medical benefits is actuarially determined using assumptions on the long-term rate of return on plan assets, the discount rate used to determine the present value of benefit obligations, and the rate of compensation increases. These assumptions are provided by management. We have evaluated the key factors and assumptions used to develop the estimate. We found management's basis to be reasonable in relation to the consolidated financial statements taken as a whole.

Consolidated 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 financial statements were those surrounding significant concentrations of net patient accounts receivable and revenue, investments in affiliates, fair value of investments, self-insurance liabilities and net pension liability.

Significant Difficulties Encountered in Performing the Audit

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

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.

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. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 3, 2021.

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 generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the System's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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

Moss Adams LLP

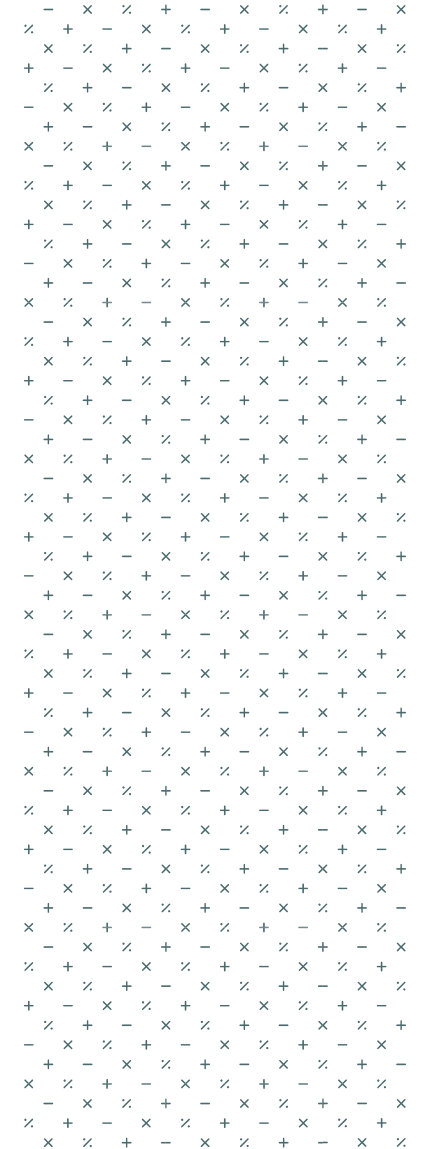
San Francisco, California
December 3, 2021



Salinas Valley Memorial Healthcare District Employees Pension Plan

Report to Corporate Compliance and Audit Committee

December 14, 2021



Issued Report

Audit report on the financial statements of Salinas Valley Memorial Healthcare District Employees Pension Plan for year ended December 31, 2020

- Audit report dated November 12, 2021
- Unmodified Opinion
 - Financial statements are presented fairly in accordance with accounting principles generally accepted in the United States of America



2



Pension Financial Highlights



	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total pension liability (a)	\$ 428,243,730	\$ 411,736,182	\$ 363,511,110
Plan fiduciary net position			
Employer contributions	\$ 23,765,862	\$ 26,808,785	\$ 21,927,309
Member contributions	1,975,665	1,593,730	1,209,498
Net investment income (loss)	43,530,843	52,346,352	(13,802,482)
Administrative expense	(115,720)	(115,586)	(112,397)
Benefit payments	(14,266,188)	(12,525,484)	(11,578,811)
Net change in plan fiduciary net position	<u>54,890,462</u>	<u>68,107,797</u>	<u>(2,356,883)</u>
Plan fiduciary net position			
Beginning of year	<u>331,115,464</u>	<u>263,007,667</u>	<u>265,364,550</u>
End of year (b)	\$ 386,005,926	\$ 331,115,464	\$ 263,007,667
System net pension liability (a) - (b)	\$ 42,237,804	\$ 80,620,718	\$ 100,503,443
Funded status (GASB basis)	90.1%	80.4%	72.4%



Significant Audit Areas

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



4



Required Communications

- Memo issued with required audit communications
- Representations requested and received from management
- No proposed adjusting entries or uncorrected misstatements noted
- No significant new accounting pronouncements applied during 2019
- 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
- ‘Tone at the Top’ and attitude from management was one of helpfulness, candor and openness in response to audit requests and discussion points



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REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS WITH
REQUIRED SUPPLEMENTARY INFORMATION

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

December 31, 2020 and 2019



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Report of Independent Auditors

To the Personnel and Pension Committee
Salinas Valley Memorial Healthcare District Employees Pension Plan

Report on the Financial Statements

We have audited the accompanying 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, 2020 and 2019, the related statement of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plan as of December 31, 2020 and 2019, and the changes in its fiduciary net position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter – 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 liability and related ratios, schedules of employer contributions, and schedules of investment returns 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Mess Adams LLP

Albuquerque, New Mexico
November 12, 2021

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

This section of Salinas Valley Memorial Healthcare District Employees Pension Plan's (the Plan's) annual financial report presents the management discussion and analysis of the Plan's financial performance as of and for the years ended December 31, 2020 and 2019. This section also includes selected comparative information as of and for the year ended December 31, 2018. 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, 2020, the net position held in trust for pension benefits increased by approximately 17%. Employer contributions were \$23.8 million in 2020 compared to \$26.8 million in 2019. Benefit payments were \$14.3 million during 2020 compared to \$12.5 million during 2019. Net investment income was \$43.5 million during 2020 compared to \$52.3 million during 2019.

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

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, 2020, the System's Board of Directors approved and funded an additional \$5,000,003 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 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 as of December 31, 2020, 2019, and 2018 are as follows:

	December 31,		
	2020	2019	2018
Total pension liability	\$ 428,243,730	\$ 411,736,182	\$ 363,511,110
Plan fiduciary net position	(386,005,926)	(331,115,464)	(263,007,667)
System's net pension liability	\$ 42,237,804	\$ 80,620,718	\$ 100,503,443
System's fiduciary net position as a percentage of total pension liability	90.14%	80.42%	72.35%

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.

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

Overview of the Financial Statements (continued)

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 is the abbreviated statement of fiduciary net position (in thousands):

	December 31,		
	2020	2019	2018
Cash and investments	\$ 386,006	\$ 331,115	\$ 263,008

During the years ended December 31, 2020 and 2019, the Plan's fiduciary net position increased by 17% and 26%, 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,		
	2020	2019	2018
Investment income (loss), net	\$ 43,531	\$ 52,346	\$ (13,802)
Employer contributions	23,766	26,809	21,927
Member contributions	1,976	1,594	1,209
Benefit payments to members and beneficiaries	(14,266)	(12,525)	(11,579)
Administrative expenses	(116)	(116)	(112)
Change in fiduciary net position	\$ 54,891	\$ 68,108	\$ (2,357)

The decrease in investment income during the year ended December 31, 2020 compared to 2019 is due to 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.

**Salinas Valley Memorial Healthcare District
Employees Pension Plan
Statements of Fiduciary Net Position**

	December 31,	
	<u>2020</u>	<u>2019</u>
ASSETS		
Investments, at fair value		
Mutual funds	<u>\$ 386,005,926</u>	<u>\$ 331,115,464</u>
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 386,005,926</u>	<u>\$ 331,115,464</u>

See accompanying notes to these financial statements.

Salinas Valley Memorial Healthcare District
Employees Pension Plan
Statements of Changes in Fiduciary Net Position

	Year Ended December 31,	
	2020	2019
ADDITIONS		
Investment income		
Net appreciation in fair value of investments	\$ 35,666,836	\$ 41,804,183
Dividends	7,864,007	10,542,169
Total investment income	43,530,843	52,346,352
Contributions		
Employer	23,765,862	26,808,785
Members	1,975,665	1,593,730
Total contributions	25,741,527	28,402,515
Total additions	69,272,370	80,748,867
DEDUCTIONS		
Benefit payments	14,266,188	12,525,484
Administrative expenses	115,720	115,586
Total deductions	14,381,908	12,641,070
CHANGE IN NET POSITION	54,890,462	68,107,797
NET POSITION HELD IN TRUST FOR PENSION BENEFITS		
Beginning of the year	331,115,464	263,007,667
End of the year	\$ 386,005,926	\$ 331,115,464

See accompanying notes to these financial statements.

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

Note 1 – Description of the Plan

General

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

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

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

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

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

Membership in the Plan consists of the following:

	December 31,	
	2020	2019
Active members		
Number of active members under and over the normal retirement age	\$ 1,330	\$ 1,238
Nonactive members and other beneficiaries receiving benefits		
Number of retirees or beneficiaries	691	647
Number terminated with vested benefits	382	390
Inactive members	255	283
Total	\$ 2,658	\$ 2,558

Contributions

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

Salinas Valley Memorial Healthcare District

Employees Pension Plan

Notes to Financial Statements

Note 1 – Description of the Plan (continued)

Benefits

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

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

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

Vesting

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

Plan Termination

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

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

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

Use of Estimates

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

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

Note 2 – Summary of Significant Accounting Policies (continued)

Investment Valuation

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

Income Recognition

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

Benefit Payments

Benefit payments to participants are recorded when paid.

Administrative Expenses

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

Note 3 – Investments

Investment Policy

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

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

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

Investments

As of December 31, 2020 and 2019, the Plan's investments are summarized as follows:

	2020		2019	
	Fair Value	%	Fair Value	%
Mutual funds				
Domestic equity	\$ 154,579,082	40%	\$ 133,728,570	45%
Fixed income	124,255,231	32%	130,398,370	33%
International equity	90,536,470	23%	50,747,008	17%
Real estate fund	16,635,143	5%	16,241,516	5%
Total	<u>\$ 386,005,926</u>	<u>101%</u>	<u>\$ 331,115,464</u>	<u>100%</u>

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

Note 3 – Investments (continued)

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, 2020 and 2019.

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:

	December 31, 2020	Fair Value Measurements		
		Level 1	Level 2	Level 3
Mutual funds				
Equity securities	\$ 261,750,695	\$ 261,750,695	\$ -	\$ -
Fixed income	124,255,231	124,255,231	-	-
Total	<u>\$ 386,005,926</u>	<u>\$ 386,005,926</u>	<u>\$ -</u>	<u>\$ -</u>

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

Note 3 – Investments (continued)

	December 31, 2019	Fair Value Measurements		
		Level 1	Level 2	Level 3
Mutual funds				
Equity securities	\$ 200,717,094	\$ 200,717,094	\$ -	\$ -
Fixed income	130,398,370	130,398,370	-	-
Total	<u>\$ 331,115,464</u>	<u>\$ 331,115,464</u>	<u>\$ -</u>	<u>\$ -</u>

Money-Weighted Rate of Return

During the years ended December 31, 2020 and 2019, the annual money-weighted rate of return on the Plan's investments, net of investment expenses, was 12.92% and 19.53%, respectively. The money-weighted rate of return expresses investment performance, net of investment fees, adjusted for the changing amounts actually invested.

Investment Risk Factors

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

The fixed income portfolio consisted of the following investment types:

Investment Type	December 31,	
	2020	2019
Short-term reserves	\$ 41,538	\$ 6,432,572
U.S. Government		
Treasury/agency	39,426,342	39,600,611
Mortgage backed	31,142,610	29,376,665
Other	12,327,532	11,514,388
Corporate		
Asset backed	2,955,958	19,841,961
Bonds	38,361,251	23,632,173
Total	<u>\$ 124,255,231</u>	<u>\$ 130,398,370</u>

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.

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

Note 3 – Investments (continued)

As of December 31, 2020, the Plan held 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. The fixed income portfolio of underlying securities in these mutual funds had the following maturities:

Investment Maturities	
1 to 5 years	\$ 65,926,532
5 to 10 years	29,483,569
10 to 20 years	26,890,796
Not classified	1,954,334
Total	\$ 124,255,231

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. As of December 31, 2020, the Plan held fixed income investments in various bond mutual funds with underlying investments in fixed and variable rate securities.

Investment Ratings	
Aaa	\$ 4,455,002
Aa	30,331,791
A	12,082,908
Baa	22,651,126
Ba	5,144,456
B	2,808,318
Below B	6,031,102
Not rated	40,750,528
Total	\$ 124,255,231

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, 2020, 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, 2020, the Plan held investments in mutual funds (registered investment companies).

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

Note 4 – Employer Contributions

Employer contributions are determined by the System’s Board of Directors each year based on the actuarially required contribution amount calculated by the Plan’s independent actuary. The actuarially determined contribution is determined as part of an actuarial valuation on January 1 of each year, using the traditional unit credit actuarial cost method. Actuarially determined contribution amounts were \$18,765,859 and \$11,808,783 for the years ended December 31, 2020 and 2019, respectively, of which 100%, respectively, were contributed to the Plan as directed and approved by the Board. Contributions in excess of the actuarially determined contribution amounts totaling \$5,000,003 and \$15,000,002 were also contributed at the direction of the Board of Directors for the years ended December 31, 2020 and 2019, respectively.

Note 5 – System Net Pension Liability

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

	December 31,	
	2020	2019
Total pension liability	\$ 428,243,730	\$ 411,736,182
Plan fiduciary net position	(386,005,926)	(331,115,464)
System net pension liability	\$ 42,237,804	\$ 80,620,718
Plan fiduciary net position as a percentage of total pension liability ("funded status")	90.14%	80.42%

Note 6 – Actuarial Methods and Significant Assumptions

The total pension liability was determined as part of an actuarial valuation as of December 31, 2020 and 2019, 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-2020 as of December 31, 2020 and MP-2019 as of December 31, 2019. 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%.

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

Note 6 – Actuarial Methods and Significant Assumptions (continued)

As of December 31, 2020, the long-term expected rates of return for each major investment class in the Plan’s portfolio are as follows:

<u>Investment Class</u>	<u>Long-Term Expected Rate of Return</u>
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, 2020, 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%)
	<u> </u>	<u> </u>	<u> </u>
System net pension liability	<u>\$ 101,479,386</u>	<u>\$ 42,237,804</u>	<u>\$ (7,056,462)</u>

Salinas Valley Memorial Healthcare District

Employees Pension Plan

Notes to Financial Statements

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.

The COVID-19 pandemic continues to trigger volatility in financial markets and the global economy. Because the values of the Plan's individual investments have and will fluctuate in response to changing market conditions, the continued effects of the COVID-19 pandemic on the Plan's investments and the actuarial assumptions used to measure the Plan's total pension liability, if any, cannot be determined as of the report date.

Required Supplementary Information

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

	Year Ended December 31,						
	2020	2019	2018	2017	2016	2015	2014
Total pension liability							
Service cost	\$ 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	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	(3,872,216)	(8,841,924)	(3,353,687)	(3,076,492)	4,487,813	(280,070)	(4,074,023)
Changes in actuarial assumptions	(1,835,817)	36,231,315	14,767,302	11,277,838	2,602,234	(1,465,873)	15,352,227
Benefit payments	(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	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	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)	<u>\$ 428,243,730</u>	<u>\$ 411,736,182</u>	<u>\$ 363,511,110</u>	<u>\$ 331,192,346</u>	<u>\$ 303,654,043</u>	<u>\$ 277,284,405</u>	<u>\$ 259,870,599</u>
Plan fiduciary net position							
Employer contributions	\$ 23,765,862	\$ 26,808,785	\$ 21,927,309	\$ 19,883,437	\$ 16,938,956	\$ 17,189,514	\$ 10,798,666
Member contributions	1,975,665	1,593,730	1,209,498	840,013	474,659	-	-
Net investment income (loss)	43,530,843	52,346,352	(13,802,482)	32,509,516	8,198,171	1,301,163	14,217,051
Administrative expenses	(115,720)	(115,586)	(112,397)	(109,194)	(64,788)	-	-
Benefit payments	(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	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	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)	<u>\$ 386,005,926</u>	<u>\$ 331,115,464</u>	<u>\$ 263,007,667</u>	<u>\$ 265,364,550</u>	<u>\$ 222,645,774</u>	<u>\$ 205,825,043</u>	<u>\$ 195,096,746</u>
Employer net pension liability (a) - (b)	<u>\$ 42,237,804</u>	<u>\$ 80,620,718</u>	<u>\$ 100,503,443</u>	<u>\$ 65,827,796</u>	<u>\$ 81,008,269</u>	<u>\$ 71,459,362</u>	<u>\$ 64,773,853</u>
Plan fiduciary net position as percentage of total pension liability	90.14%	80.42%	72.35%	80.12%	73.32%	74.23%	75.07%
Covered payroll	\$ 127,771,097	\$ 119,260,723	\$ 112,353,126	\$ 108,395,254	\$ 95,639,978	\$ 92,759,619	\$ 97,718,804
Net pension liability as percentage of covered payroll	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 the following:

- 1) For 2019, the discount rate changed from 7.0% to 6.5%
- 2) For 2018, the salary scale changed from 4.0% to 3.5% plus merit (CNA) and 3.75% plus merit (NUHW)
- 3) For 2018, the discount rate changed from 7.5% to 7.0%
- 4) 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.
- 5) For 2014, the actuarial cost method changed from Traditional Unit Credit to Entry Age

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

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

Year Ended December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Excess	Covered Payroll	Contribution as a % of Covered Payroll
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 - 2020: 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 - 2020: 6.50%, net of investment expense, including inflation
Retirement age	
Normal retirement	65
Early retirement	50 and 15 years of vesting service
Mortality	2015 - 2017: RP-2000 Mortality Table for Males & Females, projected to 2033 2018: RP-2014 Mortality Table for Males & Females, projected to 2033 2019: PubG-2010 Generational Mortality Tables for Males & Females, projected using MP-2019 2020: PubG-2010 Generational Mortality Tables for Males & Females, projected using MP-2020

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

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

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

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



COMMUNICATIONS WITH THE
PERSONNEL AND PENSION COMMITTEE

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

December 31, 2020



Communications with the Personnel and Pension Committee

To the Personnel and Pension Committee
Salinas Valley Memorial Healthcare District Employees Pension Plan

We have audited Salinas Valley Memorial Healthcare District Employees Pension Plan (the Plan) as of and for the year ended December 31, 2020 and have issued our report thereon dated November 12, 2021. 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 12, 2021, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity 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.

Our responsibility is to plan and perform the audit in accordance with auditing standards generally accepted in the United States of America and to design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. 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 January 12, 2021 and planning discussions during July 2021.

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 Plan are described in Note 2 to the financial statements.

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 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%. 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 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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 12, 2021.

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 generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Plan’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Mess Adams LLP

Albuquerque, New Mexico
November 12, 2021

PUBLIC INPUT

CLOSED SESSION

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

*RECONVENE OPEN SESSION/
REPORT ON CLOSED SESSION*

*ADJOURNMENT – THE CORPORATE
COMPLIANCE AND AUDIT
COMMITTEE MEETS QUARTERLY. THE
NEXT MEETING IS SCHEDULED FOR
TUESDAY, MARCH 22, 2022,
AT 5:00 P.M.*