

Audited Financial Statements

**SAN BENITO
HEALTH CARE DISTRICT**

dba: HAZEL HAWKINS MEMORIAL HOSPITAL

June 30, 2020

Audited Financial Statements

SAN BENITO HEALTH CARE DISTRICT

June 30, 2020

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Management's Discussion and Analysis

SAN BENITO HEALTH CARE DISTRICT

June 30, 2020

The management of the San Benito Health Care District (the Hospital) has prepared this annual discussion and analysis in order to provide an overview of the Hospital's performance for the fiscal year ended June 30, 2020 in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financials Statements; Management's Discussion and Analysis for State and Local Governments*. The intent of this document is to provide additional information on the Hospital's historical financial performance as a whole in addition to providing a prospective look at revenue growth, operating expenses, and capital development plans. This discussion should be reviewed in conjunction with the audited financial statements for the fiscal year ended June 30, 2020 and accompanying notes to the financial statements to enhance one's understanding of the Hospital's financial performance.

Financial Highlights

- Total assets and deferred outflows of resources increased by \$2,122,654 over the prior fiscal year. Total operating cash and cash equivalents increased by \$9,863,061 over the prior year (see the *Statements of Cash Flows* for changes). Net patient accounts receivable decreased by \$1,638,342 which resulted in net days in patient accounts receivable of 31.38 at June 30, 2020 as compared to 35.43 in the prior year.
- Current assets increased by \$8,859,539 while current liabilities increased by \$4,515,506 over the prior fiscal year. The current ratio was 2.02 as compared to 2.04 for the prior year.
- The operating loss was \$(8,724,892) for fiscal year 2020 as compared to an operating loss of \$(3,478,321) for the prior year, representing a decrease of \$5,246,571 in operations due mainly to the impact of COVID-19 in the Spring of 2020.
- The decrease in net position was \$(4,680,723) for the current fiscal year as compared to a decrease in net position of \$(960,957) for the prior fiscal year exclusive of the GASB 68 changes.
- Operating revenues increased by \$1,637,694 from the prior year due to increased supplementals, mainly as a result of COVID-19. Operating expenses increased by \$6,884,265 from the prior year, again due to the pandemic.
- The Hospital received in excess of \$14 million in various forms of supplemental reimbursement for the year from government programs.
- The Hospital realized a \$781,653 additional net pension expense for the year due the continued affects of GASB 68 involving the defined benefit pension plan.

Management's Discussion and Analysis (continued)

SAN BENITO HEALTH CARE DISTRICT

Volumes

- Acute patient days were 4,267 for fiscal year 2020 as compared to 5,982 for the prior year. The average length of stay decreased from 2.95 days in fiscal year 2019 to 2.84 days in fiscal year 2020.
- The Northside skilled nursing facility had an average daily census (ADC) of 42.56 for the fiscal year 2020, equaling a total of 15,576 patient days as compared to 17,322 days (ADC of 47.46) for the prior year.
- The Mabie skilled nursing facility had an ADC of 43.86 for the fiscal year 2020, equaling a total of 16,052 patient days. The prior year ADC was 48.0 for a total of 17,530 patient days.
- Surgery cases for the fiscal year 2020 were slightly lower than the prior year. There were 2,517 cases as compared to 2,663 cases for the prior fiscal year.
- There was a slight decrease in outpatient visits; 146,392 in the fiscal year 2020 as compared to 148,051 for the prior fiscal year.
- There was a slight decrease in emergency room visits; 20,507 in the fiscal year 2020 as compared to 20,933 for the prior year.
- Specialty clinic visits decreased by 1,108 from the prior year; 30,009 in year 2020 as compared to 31,117 for the prior year.
- There was an increase in rural health care clinic visits; 45,897 visits in the year 2020 as compared to 43,746 visits for the prior year as the Hospital completed a full year in their 5th rural health care clinic.
- Home health care visits increased to 7,147 in the year 2020 as compared to 6,197 in the prior year.

Cash and Investments

For the fiscal year ended June 30, 2020, the Hospital's operating and board designated cash and investments totaled \$21,900,654 as compared to \$14,572,643 in fiscal year 2019. At June 30, 2020, days cash on hand were 65.06 as compared to a bond covenant of 30 days cash on hand. At June 30, 2019, days cash on hand were 45.84. The Hospital maintains sufficient cash and cash equivalent balances to pay all short-term liabilities.

Current Liabilities

As previously noted, current liabilities of the Hospital increased by \$4,515,506. Changes in the current liability categories were: (1) current maturities decreased by \$230,847; (2) accounts payable and accrued expenses increased by \$3,637,455; and (3) accrued payroll and related liabilities increased by \$1,108,898 due to the timing of the payroll payment dates from one year end to the other and the federal payroll tax deferral program.

Management's Discussion and Analysis (continued)

SAN BENITO HEALTH CARE DISTRICT

Capital Assets

There were \$1,561,821 of new additions to capital assets during the year. In addition, there was a transfer of \$367,605 of costs from construction-in-progress to building, equipment and other improvements as certain capital projects were completed and came "on-line" or put into service. Depreciation and amortization expense for the year was \$4,236,917 as compared to \$4,597,837 for the prior year. The Hospital has \$253,647 of remaining costs in construction in progress at year end with an estimated cost of approximately \$2.1 million left to complete all projects.

Gross Patient Charges

The Hospital charges all its patients equally based on its established pricing structure for the services rendered. Acute inpatient and skilled nursing gross patient charges for the year decreased by \$36,750,470 due to changes in volumes from the prior year. The change in volumes was attributed to COVID-19.

The Hospital experienced decreases in the outpatient areas as gross charges decreased by \$14,674,537. These outpatient decreases were again due mainly to volume decreases in outpatient visits and related outpatient ancillary service areas, a direct result of the pandemic.

Deductions From Revenue

Deductions from revenue are comprised of contractual allowances and provisions for bad debts. Contractual allowances are computed deductions based on the difference between gross charges and the contractually agreed upon rates of reimbursement with third party government-based programs such as Medicare and Medi-Cal and other third party payors such as Blue Cross.

Contractual allowances, traditional charity care, the provision for bad debts, and other discounts for fiscal year 2020 and fiscal year 2019 were \$190,909,314 and \$237,549,564, respectively. The decrease in these deductions from revenue continues to be affected by State supplemental payments as well as COVID-19 relief payments during the fiscal year. Deductions from revenue (contractual allowances, provision for bad debts, charity, etc.) as a percentage of gross patient charges were 64.36% for fiscal year 2020 as compared to 68.25% for prior fiscal year. The overall decrease in the percentage is related to the supplemental program revenues and the pandemic relief payments as previously mentioned.

Net Patient Service Revenues

Net patient service revenues are the resulting difference between gross patient charges and the deductions from revenue. Net patient service revenues decreased by \$4,784,757 in fiscal year 2020 over the prior year due to the issues already mentioned.

Management's Discussion and Analysis (continued)

SAN BENITO HEALTH CARE DISTRICT

Critical Access Designation

During the previous three fiscal years, the acute hospital's average daily census was between 16 to 16.5. Therefore, the Hospital decided to apply for certification as a Critical Access Hospital (CAH). Effective March 26, 2020, CMS designated the Hospital as a CAH. This change in designation will increase Medicare funding and the reimbursement to the Hospital by more than \$6 million annually.

Operating Expenses

Total operating expenses were \$125,547,641 for fiscal year 2020 compared to \$118,663,376 for the prior fiscal year, an increase of \$6,884,265. The 5.8% increase is due primarily to:

- A \$4,431,762 increase in salaries, wages and benefits. Full time equivalents (FTE's) increased from 524.59 in fiscal year 2019 to 529.50 in fiscal year 2020 and salaries and benefits per FTE went from \$137,156 per FTE in 2019 to \$144,253 per FTE in 2020. Registry expense increased from \$1,921,030 in 2019 to \$2,647,966 in 2020.
- Other operational expense changes experienced modest increases and decreases and were somewhat comparable with prior year expenses. Increases were generally due to a combination of volume changes and the pandemic.

Economic Factors and Next Fiscal Year's Budget

The Hospital's board approved the fiscal year ending June 30, 2021 budget at a board meeting in late Spring 2020. For fiscal year 2021, the Hospital is budgeted to increase net position by \$874,827. The increase is due to several assumptions:

- Inpatient volumes were budgeted to remain consistent with the prior year. Outpatient volumes were estimated to increase by 2%. Patient rate charges increased 2 ½% at the acute facility.
- Contractual allowances are budgeted to decrease due to the recent CAH designation.
- Operating expenses are expected to increase at a higher percentage than revenues. The cost for nursing and other medically trained staff increases at a higher rate than the increase in net revenue. The cost of supplies such as pharmaceuticals is increasing at a higher rate than net charges.

In order to increase the number of inpatients at the acute facility, the Hospital is continuing its search for physicians and specialists. New primary care physicians are being recruited in order to increase outpatient referrals.

JWT & Associates, LLP

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Report of Independent Auditors

The Board of Directors
San Benito Health Care District
Hollister, California

We have audited the accompanying financial statements of the San Benito Health Care District (the Hospital) which comprise the statements of net position as of June 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net position, and cash flows 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 control 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 judgement, 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 Hospital'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 Hospital'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, except for the matters discussed above, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital at June 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Supplementary Information

Management's discussion and analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statement on the bond covenant requirements is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

JW7 & Associates, LLP

Fresno, California
September 26, 2020

Statements of Net Position

SAN BENITO HEALTH CARE DISTRICT

	June 30	
Assets	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 21,627,188	\$ 11,764,127
Restricted trust funds available for current debt service	2,681,463	2,555,663
Patient accounts receivable, net of allowances	9,086,956	10,725,298
Other receivables	1,762,372	1,515,329
Estimated third party payor settlements	3,166,143	3,120,459
Inventories	2,793,341	2,636,833
Prepaid expenses and deposits	<u>593,363</u>	<u>533,578</u>
Total current assets	41,710,826	32,851,287
Assets limited as to use	1,469,432	4,031,633
Capital assets, net of accumulated depreciation	58,888,801	61,563,897
Other assets	<u>642,878</u>	<u>642,878</u>
Total assets	102,711,937	99,089,695
Deferred outflows of resources	<u>3,180,347</u>	<u>4,679,935</u>
	<u>\$105,892,284</u>	<u>\$103,769,630</u>
Liabilities		
Current liabilities:		
Current maturities of debt borrowings	\$ 2,430,000	\$ 2,660,847
Accounts payable and accrued expenses	10,622,167	6,984,712
Accrued payroll and related liabilities	<u>7,560,263</u>	<u>6,451,365</u>
Total current liabilities	20,612,430	16,096,924
Estimated long-term third party payor settlements	10,485,474	3,973,966
Long-term pension liabilities	12,855,495	13,464,962
Debt borrowings, net of current maturities	<u>41,705,741</u>	<u>44,538,258</u>
Total liabilities	85,659,140	78,074,110
Net position		
Invested in capital assets, net of related debt	16,308,801	16,100,044
Restricted, by contributors and indenture agreements	3,877,430	3,778,778
Unrestricted	<u>46,913</u>	<u>5,816,698</u>
Total net position	<u>20,233,144</u>	<u>25,695,520</u>
	<u>\$105,892,284</u>	<u>\$103,769,630</u>

See accompanying notes and auditor's report

Statements of Revenues, Expenses and Changes in Net Position

SAN BENITO HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2020</u>	<u>2019</u>
Operating revenues		
Net patient service revenue	\$105,710,231	\$110,494,988
Other operating revenue	<u>11,112,518</u>	<u>4,690,067</u>
Total operating revenues	116,822,749	115,185,055
Operating expenses		
Salaries and wages	48,997,153	47,132,141
Employee benefits	27,385,123	24,818,373
Registry	2,647,966	1,921,030
Professional fees	15,596,203	14,200,621
Supplies	10,942,052	10,522,582
Purchased services and repairs	10,868,872	11,181,312
Utilities and phone	1,662,824	1,660,394
Building and equipment rent	1,877,179	1,805,200
Insurance	566,823	473,222
Depreciation and amortization	4,152,450	4,520,347
Other operating expenses	<u>850,996</u>	<u>428,154</u>
Total operating expenses	<u>125,547,641</u>	<u>118,663,376</u>
Operating income (loss)	(8,724,892)	(3,478,321)
Nonoperating revenues (expenses)		
District tax revenues	3,942,242	3,764,388
Investment income, net of unrealized gains and losses	176,578	220,685
Interest expense	(1,817,826)	(1,879,023)
Grants, contributions and other gains and losses	592,865	525,052
Other non-operating revenues	<u>1,178,437</u>	<u>18,345</u>
Total nonoperating revenues (expenses)	<u>4,072,296</u>	<u>2,649,447</u>
Excess of revenues over expenses	(4,652,596)	(828,874)
Other increases (decreases) in net position	<u>(28,127)</u>	<u>(132,083)</u>
Net increase (decrease) in net position	(4,680,723)	(960,957)
Net increase (decrease) in net position due to GASB 68 implementation	(781,653)	(1,459,109)
Net position at beginning of the year	<u>25,695,520</u>	<u>28,115,586</u>
Net position at end of the year	<u>\$ 20,233,144</u>	<u>\$ 25,695,520</u>

See accompanying notes and auditor's report

Statements of Cash Flows

SAN BENITO HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from patients and third-parties on behalf of patients	\$113,814,397	\$116,359,958
Cash received from operations, other than patient services	10,865,475	4,444,174
Cash payments to suppliers and contractors	(42,201,220)	(39,956,239)
Cash payments to employees and benefit programs	<u>(75,273,378)</u>	<u>(71,502,325)</u>
Net cash provided by operating activities	7,205,274	9,345,568
Cash flows from noncapital financing activities:		
District tax revenues	2,063,284	1,930,142
Grants, contributions and changes in restricted assets	<u>592,865</u>	<u>525,052</u>
Net cash provided by noncapital financing activities	2,656,149	2,455,194
Cash flows from capital financing activities:		
District tax revenues related to capital acquisitions	1,878,958	1,834,246
Net purchase of capital assets and changes in other assets	211,379	(2,477,613)
Principal payments on debt borrowings	(2,883,852)	(2,512,851)
Interest payments, net of capitalized interest	<u>(1,817,826)</u>	<u>(1,879,023)</u>
Net cash (used in) capital financing activities	(2,611,341)	(5,035,241)
Cash flows from investing activities:		
Net (purchase) or sale of assets limited as to use	2,436,401	(19,216)
Investment income, net of unrealized gains and losses	<u>176,578</u>	<u>220,685</u>
Net cash provided by investing activities	<u>2,612,979</u>	<u>201,469</u>
Net increase in cash and cash equivalents	9,863,061	6,966,990
Cash and cash equivalents at beginning of year	<u>11,764,127</u>	<u>4,797,137</u>
Cash and cash equivalents at end of year	<u>\$ 21,627,188</u>	<u>\$ 11,764,127</u>

See accompanying notes and auditor's report

Statements of Cash Flows (continued)

SAN BENITO HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2020</u>	<u>2019</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ (8,724,892)	\$ (3,478,321)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	4,152,450	4,520,347
Provision for bad debts and other	3,596,324	3,575,736
Changes in operating assets, liabilities and other:		
Patient accounts receivables	(1,957,982)	(4,633,432)
Other receivables	(247,043)	(245,893)
Inventories	(156,508)	(90,985)
Prepaid expenses and deposits	(59,785)	309,566
Accounts payable and accrued expenses	3,747,598	345,398
Accrued payroll and related liabilities	1,108,898	448,189
Estimated third party payor settlements	6,465,824	6,922,666
Net long-term pension liability	(609,467)	1,497,009
Health insurance claims payable (IBNR)	(110,143)	175,288
Net cash provided by operating activities	<u>\$ 7,205,274</u>	<u>\$ 9,345,568</u>

See accompanying notes and auditor's report

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES

Reporting Entity: San Benito Health Care District, (dba: Hazel Hawkins Memorial Hospital), heretofore referred to as (the Hospital) is a public entity organized under Local Hospital District Law as set forth in the Health and Safety Code of the State of California. The Hospital is a political subdivision of the State of California and is generally not subject to federal or state income taxes. The Hospital is governed by a five-member Board of Directors, elected from specified areas within the district to specified terms of office. The Hospital is located in Hollister, California. It is licensed for 25 acute care beds, a home health agency, several rural health clinics, and 119 convalescent beds divided between two locations at and near the Hospital's campus. The Hospital provides health care services primarily to individuals who reside in the local geographic area.

Basis of Preparation: The accounting policies and financial statements of the Hospital generally conform with the recommendations of the audit and accounting guide, *Health Care Organizations*, published by the American Institute of Certified Public Accountants. The financial statements are presented in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operational revenues and expenses.

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on GASB Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements as the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Management's Discussion and Analysis: Effective July 1, 2002, the Hospital adopted the provisions of GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (Statement 34), as amended by GASB 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and Statement 38, *Certain Financial Statement Note Disclosures*. Statement 34 established financial reporting standards for all state and local governments and related entities. Statement 34 primarily relates to presentation and disclosure requirements. One of the main components of these new provisions allows the inclusion of a management's discussion and analysis to accompany the financial statement presentation.

The management's discussion and analysis is a narrative introduction and analytical overview of the Hospital's financial activities for the year being presented. This analysis is similar to the analysis provided in the annual reports of organizations in the private sector. As stated in the opinion letter, the management's discussion and analysis is not a required part of the financial statements but is supplementary information and therefore not subject to audit procedures or the expression of an opinion on it by auditors.

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES (continued)

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents and Investments: The Hospital considers cash and cash equivalents to include certain investments in highly liquid debt instruments, when present, with an original maturity of a short-term nature or subject to withdrawal upon request. Exceptions are for those investments which are intended to be continuously invested. Investments in debt securities are reported at market value. Interest, dividends and both unrealized and realized gains and losses on investments are included as investment income in nonoperating revenues when earned.

Patient Accounts Receivable: Patient accounts receivable consist of amounts owed by various governmental agencies, insurance companies and private patients. The Hospital manages its receivables by regularly reviewing the accounts, inquiring with respective payors as to collectibility and providing for allowances on their accounting records for estimated contractual adjustments and uncollectible accounts. Significant concentrations of patient accounts receivable are discussed further in the footnotes.

Inventories: Inventories are consistently reported from year to year at cost determined by average costs and replacement values which are not in excess of market. The Hospital does not maintain levels of inventory values such as those under a first-in, first out or last-in, first out method.

Assets Limited as to Use: Assets limited as to use include contributor restricted funds, amounts designated by the Board of Directors for replacement or purchases of capital assets, and other specific purposes, and amounts held by trustees under specified agreements. Assets limited as to use consist primarily of deposits on hand with local banking and investment institutions, and bond trustees.

Capital Assets: Capital assets consist of property and equipment and are reported on the basis of cost, or in the case of donated items, on the basis of fair market value at the date of donation. Routine maintenance and repairs are charged to expense as incurred. Expenditures which increase values, change capacities, or extend useful lives are capitalized. Depreciation of property and equipment and amortization of property under capital leases are computed by the straight-line method for both financial reporting and cost reimbursement purposes over the estimated useful lives of the assets, which range from 10 to 30 years for buildings and improvements, and 3 to 10 years for equipment. The Hospital periodically reviews its capital assets for value impairment. As of June 30, 2020 and 2019, the Hospital has determined that no capital assets are impaired.

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES (continued)

Deferred Outflows of Resources: Deferred outflows of resources are comprised of deferred financing cost of the issuance of various bonds. Amortization of these issuance costs is computed by the effective interest method and the straight line method over the life of the repayment agreements. For current and advance refundings which result in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt, together with any unamortized deferred financing costs, is deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, in accordance with GASB 23. Amortization expense was \$108,440 and \$112,513 for the years ended June 30, 2020 and 2019, respectively.

Deferred outflows of resources is also comprised of defined benefit pension resources of \$5,098,845 of deferred outflows netted against \$2,822,780 of deferred inflows for a net \$2,276,065 for the year ended June 30, 2020 and \$4,380,958 of deferred outflows netted against \$713,773 of deferred inflows for a net \$3,667,185 for the year ended June 30, 2019.

Compensated Absences: The Hospital's employees earn vacation benefits at varying rates depending on years of service. Employees also earn sick leave benefits. Both benefits can accumulate up to specified maximum levels. Employees are not paid for accumulated sick leave benefits if they leave either upon termination or before retirement. However, accumulated vacation benefits are paid to an employee upon either termination or retirement. Accrued vacation liabilities as of June 30, 2020 and 2019 are \$3,676,650 and \$3,394,393, respectively.

Risk Management: The Hospital 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; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters. In the case of employee health coverage, the Hospital is self-insured for those claims and is discussed further in the footnotes.

Net Position: Net position (formerly net assets) are presented in three categories. The first category is net position "invested in capital assets, net of related debt". This category of net position consists of capital assets (both restricted and unrestricted), net of accumulated depreciation and reduced by the outstanding principal balances of any debt borrowings that were attributable to the acquisition, construction, or improvement of those capital assets.

The second category is "restricted" net position. This category consists of externally designated constraints placed on those net position by creditors (such as through debt covenants), grantors, contributors, law or regulations of other governments or government agencies, or law or constitutional provisions or enabling legislation.

The third category is "unrestricted" net position. This category consists of net position that do not meet the definition or criteria of the previous two categories.

SAN BENITO HEALTH CARE DISTRICT

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES (continued)

Net Patient Service Revenues: Net patient service revenues are reported in the period at the estimated net realized amounts from patients, third-party payors and others including estimated retroactive adjustments under reimbursement agreements with third-party programs. Normal estimation differences between final reimbursement and amounts accrued in previous years are reported as adjustments of current year's net patient service revenues.

Charity Care: The Hospital accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Hospital. Essentially, these policies define charity services as those services for which no payment is anticipated. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenues. Services provided are recorded as gross patient service revenues and then written off entirely as an adjustment to net patient service revenues.

District Tax Revenues: The Hospital receives approximately 3% of its financial support from property taxes. These funds are used to support operations and meet required debt service agreements. They are classified as non-operating revenue as the revenue is not directly linked to patient care. Property taxes are levied by the County on the Hospital's behalf during the year, and are intended to help finance the Hospital's activities during the same year. Amounts are levied on the basis of the most current property values on record with the County. The County has established certain dates to levy, lien, mail bills, and receive payments from property owners during the year. Property taxes are considered delinquent on the day following each payment due date

Grants and Contributions: From time to time, the Hospital receives grants from various governmental agencies and private organizations. The Hospital also receives contributions from related foundation and auxiliary organizations, as well as from individuals and other private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or capital acquisitions. These amounts, when recognized upon meeting all requirements, are reported as components of the statement of revenues, expenses and changes in net position.

Operating Revenues and Expenses: The Hospital's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Hospital's principal activity. Operating expenses are all expenses incurred to provide health care services, other than financing costs. Nonoperating revenues and expenses are those transactions not considered directly linked to providing health care services.

Pensions: For purposes of measuring the net position liability and pension expense, information about the fiduciary net position and additions to and deductions from fiduciary net position are determined on the same basis as reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due any payable in accordance with benefit terms. Plan investments are reported at fair value.

SAN BENITO HEALTH CARE DISTRICT

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS

As of June 30, 2020 and 2019, the Hospital had operating deposits invested in various financial institutions in the form of cash and cash equivalents amounted to \$22,029,108 and \$12,281,443. All of these funds were held in deposits, which are collateralized in accordance with the California Government Code (CGC), except for \$250,000 per account that is federally insured.

Under the provisions of the CGC, California banks and savings and loan associations are required to secure the Hospital's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the Hospital's deposits. California law also allows financial institutions to secure Hospital deposits by pledging first trust deed mortgage notes having a value of 150% of the Hospital's total deposits. The pledged securities are held by the pledging financial institution's trust department in the name of the Hospital. Investments consist of U.S. Government securities and state and local agency funds invested in U. S. Government securities and are stated at quoted market values. Changes in market value between years are reflected as a component of investment income in the accompanying statement of revenues, expenses and changes in net position.

NOTE C - NET PATIENT SERVICE REVENUES

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: Payments for inpatient acute care services rendered to Medicare program beneficiaries are based on prospectively determined rates, which vary accordingly to the patient diagnostic classification system. Outpatient services are generally paid under an outpatient classification system subject to certain limitations. The Hospital is subject to cost reimbursement methodologies for the rural health clinics. Other reimbursement matters are also subject to final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. At June 30, 2020, cost reports through June 30, 2017 have been final settled.

Medi-Cal: Payments for inpatient services rendered to Medi-Cal patients are made based on reasonable costs through December 31, 2013. Effective January 1, 2014, the State of California's Medi-Cal program changed inpatient reimbursement to Diagnosis-Related Groups (DRG), similar to the Medicare inpatient payment methodology. Outpatient payments continue to be paid on pre-determined charge screens. Additionally, on November 1, 2013, San Benito County transitioned to Medi-Cal Managed Care through Anthem Blue Cross. The Medi-Cal recipients in the County are now able to choose between managed care or fee for service. At June 30, 2020, cost reports through June 30, 2018, have been final settled.

Other: Payments for services rendered to other than Medicare and Medi-Cal patients are based on established rates or on agreements with certain commercial insurance companies, health maintenance organizations and preferred provider organizations which provide for various discounts from established rates.

Notes to Financial Statements (continued)

SAN BENITO HEALTH CARE DISTRICT

NOTE C - NET PATIENT SERVICE REVENUES (continued)

Net patient service revenues summarized by payor are as follows:

	<u>2020</u>	<u>2019</u>
Daily hospital acute care routine services	\$ 24,758,936	\$ 36,452,788
Skilled nursing routine services	19,084,635	19,025,880
Inpatient ancillary services	42,757,351	67,872,724
Outpatient services	<u>210,018,623</u>	<u>224,693,160</u>
Gross patient service revenues	296,619,545	348,044,552
Less contractual allowances and provision for bad debts	<u>(190,909,314)</u>	<u>(237,549,564)</u>
Net patient service revenues	<u>\$105,710,231</u>	<u>\$110,494,988</u>

Medicare and Medi-Cal revenue accounts for approximately 40% of the Hospital's net patient revenues for each year. 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.

NOTE D - CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients and third-party payors. Patient accounts receivable from government agencies represent the only concentrated group of credit risk for the Hospital and management does not believe that there are any credit risks associated with these governmental agencies. Contracted and other patient accounts receivable consist of various payors including individuals involved in diverse activities, subject to differing economic conditions and do not represent any concentrated credit risks to the Hospital. Concentration of patient accounts receivable at June 30, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Medicare	\$ 10,074,652	\$ 12,248,131
Medi-Cal	10,942,615	13,101,627
Other third party payors	6,922,088	10,422,496
Self pay and other	<u>5,033,456</u>	<u>5,468,048</u>
Gross patient accounts receivable	32,972,811	41,240,302
Less allowances for contractual adjustments and bad debts	<u>(23,885,855)</u>	<u>(30,515,004)</u>
Net patient accounts receivable	<u>\$ 9,086,956</u>	<u>\$ 10,725,298</u>

Notes to Financial Statements (continued)

SAN BENITO HEALTH CARE DISTRICT

NOTE E - OTHER RECEIVABLES

Other receivables as of June 30, 2020 and 2019 were comprised of the following:

	<u>2020</u>	<u>2019</u>
Receivable due from the State for supplemental programs	1,200,751	\$ 1,236,805
San Benito County property taxes	120,212	200,621
Insurance receivable from property loss	374,991	
Other various receivables	<u>66,418</u>	<u>77,903</u>
	<u>\$ 1,762,372</u>	<u>\$ 1,515,329</u>

From time-to-time, hospitals may have certain physician income guarantee agreements to provide the physicians with a specified level of income for a period of time. Typically, the physician is then expected to practice in the area for a specified period of time, during which the amounts paid to the physicians are generally forgiven in a ratable fashion over time such as the time of service. When such transactions take place, accounting guidelines require the hospital to establish both an asset and a liability for the estimated fair value of its physician income guarantees at the inception of contracts entered into. As of June 30, 2020 and 2019, the Hospital has no material agreements of this nature.

NOTE F - ASSETS LIMITED AS TO USE

Assets limited as to use as of June 30, 2020 and 2019 were comprised of the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents restricted by contributors	\$ 107,722	\$ 135,850
Cash designated by the board for specific purposes	273,466	2,808,516
Cash and cash equivalents and debt securities held under bond indenture agreements for debt service requirements	<u>3,769,707</u>	<u>3,642,930</u>
	4,150,895	6,587,296
Less amounts available for current obligations	<u>(2,681,463)</u>	<u>(2,555,663)</u>
	<u>\$ 1,469,432</u>	<u>\$ 4,031,633</u>

Interest income, dividends, and other like-kind earnings are recorded as investment income. Unrealized gains and (losses) are also recorded as investment income.

Notes to Financial Statements (continued)

SAN BENITO HEALTH CARE DISTRICT

NOTE G - CAPITAL ASSETS

Capital assets as of June 30, 2020 and 2019 were comprised of the following:

	<u>Balance at June 30, 2019</u>	<u>Transfers & Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2020</u>
Land and land improvements	\$ 3,222,174	\$ 9,600		\$ 3,231,774
Buildings and improvements	95,597,496	642,925		96,240,421
Equipment	38,555,846	790,597	\$ (164,480)	39,181,963
Construction-in-progress	<u>134,948</u>	<u>118,699</u>		<u>253,647</u>
Totals at historical cost	137,510,464	1,561,821	(164,480)	138,907,805
Less accumulated depreciation for:				
Land and land improvements	(1,241,704)	(78,541)		(1,320,245)
Buildings and improvements	(40,580,242)	(2,790,216)		(43,370,458)
Equipment	<u>(34,124,621)</u>	<u>(1,368,160)</u>	<u>164,480</u>	<u>(35,328,301)</u>
Total accumulated depreciation	<u>(75,946,567)</u>	<u>(4,236,917)</u>	<u>164,480</u>	<u>(80,019,004)</u>
Capital assets, net	<u>\$ 61,563,897</u>	<u>\$ (2,675,096)</u>	<u>\$</u>	<u>\$ 58,888,801</u>

	<u>Balance at June 30, 2018</u>	<u>Transfers & Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2019</u>
Land and land improvements	\$ 3,208,842	\$ 13,332		\$ 3,222,174
Buildings and improvements	94,465,179	1,132,317		95,597,496
Equipment	37,906,594	829,862	\$ (180,610)	38,555,846
Construction-in-progress	<u>1,217,405</u>	<u>(1,082,457)</u>		<u>134,948</u>
Totals at historical cost	136,798,020	893,054	(180,610)	137,510,464
Less accumulated depreciation for:				
Land and land improvements	(1,164,261)	(77,443)		(1,241,704)
Buildings and improvements	(37,825,171)	(2,755,071)		(40,580,242)
Equipment	<u>(32,529,426)</u>	<u>(1,765,323)</u>	<u>170,128</u>	<u>(34,124,621)</u>
Total accumulated depreciation	<u>(71,518,858)</u>	<u>(4,597,837)</u>	<u>170,128</u>	<u>(75,946,567)</u>
Capital assets, net	<u>\$ 65,279,162</u>	<u>\$ (3,704,783)</u>	<u>\$ (10,482)</u>	<u>\$ 61,563,897</u>

Notes to Financial Statements (continued)

SAN BENITO HEALTH CARE DISTRICT

NOTE H - DEBT BORROWINGS

As of June 30, 2020 and 2019, debt borrowings were as follows:

	<u>2020</u>	<u>2019</u>
San Benito Healthcare District 2014 General Obligation Refunding Bonds (election 2005); interest at 3.58% due semiannually; principal due in annual amounts ranging from \$760,000 on June 30, 2019 to \$2,755,000 on June 30, 2035; collateralized by property taxes:	\$ 26,100,000	\$ 26,945,000
San Benito Healthcare District Insured Revenue Bonds, Series 2013; interest charged at 2.0% to 5.0% due semiannually; principal due in annual amounts ranging from \$1,385,000 on March 1, 2019 to \$2,180,000 on March 1, 2029; collateralized by Hospital revenues and other property:	16,480,000	17,920,000
Capitalized lease obligation agreement with Bank of America; interest is charged at 2.15% with combined principal and interest of \$32,087 due monthly; paid in full during the fiscal year ended June 30, 2020:	-0-	598,855
Premiums, net of accumulated accretion:	<u>1,555,741</u>	<u>1,735,250</u>
	44,135,741	47,199,105
Less current maturities of debt borrowings	<u>(2,430,000)</u>	<u>(2,660,847)</u>
	<u>\$ 41,705,741</u>	<u>\$ 44,538,258</u>

Future principal maturities for debt borrowings for the next succeeding years are: \$2,430,000 due in 2021; \$2,595,000 due in 2022; \$2,765,000 in 2023; \$2,955,000 in 2024; and \$3,150,000 in 2025.

Bank Line of Credit: The Hospital has a line of credit available for \$1 million. As of June 30, 2020 and 2019, the Hospital had no borrowings on this line of credit.

Bonds Payable: On July 7, 2005, the Hospital issued the San Benito Health Care District 2005 General Obligation Bonds (the 2005 Bonds) in order to finance construction projects at the Hospital. The offering was for \$31,000,000 with interest at rates varying from 4.50% to 5.00%. Effective May 3, 2005, the Hospital exercised its authority to levy a special district property tax assessment to be used to meet debt service obligations for the 2005 Bonds. Taxes are collected by San Benito County and are used to meet the debt service obligations as they become due and payable to the bondholders. The total debt service obligation paid by San Benito County on behalf of the Hospital for the

SAN BENITO HEALTH CARE DISTRICT

NOTE H - DEBT BORROWINGS - (continued)

2005 Bonds amounted to \$656,531 for the year ended June 30, 2015. These amounts, as well as County fees to administer the debt, have been recognized as income by the Hospital for the respective fiscal year ends. Additional accumulated tax collections by San Benito County under this arrangement as of June 30, 2015 are considered minor. During the year ended June 30, 2015, the 2005 bonds were refunded with the sale of the 2014 bonds.

In February, 2013, the Hospital issued Series 2013 San Benito Health Care District Insured Revenue Bonds (the 2013 Bonds) in the amount of \$24,915,000 for the purpose of defeasing the 1998 Bonds and the 2003 Bonds. The 2013 Bonds were issued at a \$2,872,138 premium. The 2013 Bonds are the obligation of the Hospital and mature on or before March 1, 2021 and will not be subject to optional redemption prior to maturity. At the option of the Hospital, the 2013 Bonds maturing on or after March 1, 2022 (except for the 2013 Bonds maturing on March 1, 2028 and March 1, 2029) can be subject to redemption prior to their respective call dates, in whole or in part at prices ranging from \$102 to \$100. The Hospital is required under the 2013 bond indenture agreement to deposit certain amounts on a monthly basis with the Trustee which approximate the succeeding year's debt service. The indenture agreement provides for certain Hospital covenants that include, among other things, restrictions on consolidation, merger, sale or transfer of Hospital assets, a requirement to maintain proper licensing and qualification for federal, state and local government reimbursement programs, and to fix, charge and collect rates, fees and charges which are reasonably projected to, in each fiscal year, provide a debt service coverage ratio (DSCR) of not less than 1.25. For June 30, 2020 and 2019, the DSCR was (0.27) and 1.41, respectively. Other requirements are to maintain a current ratio of at least 1.5 to 1 and at least 30 days cash on hand. For June 30, 2020 and 2019, the current ratio was 2.02 and 2.04 and the days cash on hand are 65.06 and 45.84, respectively. The Hospital is seeking a waiver for the debt service coverage ratio for June 30, 2020 due to the COVID-19 impact.

In December, 2014, the Hospital issued the San Benito Health Care District 2014 General Obligation Refunding Bonds (the 2014 Bonds) in order to refund the 2005 Bonds. The offering was for \$30,030,000 with interest rate set at 3.58%. In order to service this debt, the Hospital exercised its authority to levy a special district property tax assessment to be used to meet debt service obligations for the 2014 Bonds. Taxes are collected by San Benito County and are used to meet the debt service obligations as they become due and payable to the bondholders. The total debt service obligation taxes collected by San Benito County on behalf of the Hospital for the 2005 Bonds were less than \$10,000 and is considered minimal. The total debt service obligation paid by San Benito County on behalf of the Hospital for the 2014 Bonds amounted to \$1,809,631 and \$1,751,839 for the years ended June 30, 2020 and 2019, respectively. These amounts, as well as County fees to administer the debt, have been recognized as income by the Hospital for the respective fiscal year ends. Additional accumulated tax collections by San Benito County under this arrangement as of June 30, 2020 and 2019 are considered minor.

SAN BENITO HEALTH CARE DISTRICT

NOTE I - RETIREMENT PLANS

Through December 31, 2003, the Hospital provided retirement benefits for substantially all of its full-time employees under a defined contribution matching plan (Plan I). Plan I became effective January 1, 1995 with a plan year end of December 31. Employees who have attained the age of 18 and completed one year of full-time service or part-time service were eligible for Plan I. Employees who worked on a per-diem, leased or contract basis were not eligible. The Hospital's contributions matched the contributions of the employees up to a 3.5% limit, subject to certain limitations under Plan I. In addition to the 3.5% contribution by the Hospital, employees could have contributed up to \$12,000. Employees become fully vested in the employer contributions after completion of 5 years of service. Total Plan I assets were \$28,392,334 and \$27,657,501 as of June 30, 2020 and 2019, respectively. No employer contributions have been made to Plan I after December 31, 2003.

Effective January 1, 2005, the Hospital began a single-employer defined benefit plan (Plan II). Plan II became effective January 1, 2005 with a plan year end of December 31. Benefitted full and part-time employees are eligible following three years of consecutive employment. The retirement formula is based on a percentage of the employee's compensation in each calendar year. Credit for past service is given to benefitted full and part-time employees during the period of 1999 through and effective January 1, 2015 at the same retirement formula of the employee's compensation in each consecutive calendar year in which the employee completed 1,000 hours of service.

The Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, became effective for fiscal years beginning after June 15, 2014. The statement established accounting and financial reporting standards for the recognition and disclosure requirements for employers with a liability to a defined benefit pension plan, as in the case of the Hospital's Plan II. GASB 68 requires that the Hospital's liability to Plan II be measured as the portion of the present value of projected benefit payments to be provided through Plan II to current active and inactive employees that is attributed to the employee's past periods of service, less the amount of Plan II's net position. The statement also requires employers to present information about the changes in the net pension liability and the related ratios, including Plan II's net position as a percentage of total pension liability, and the net pension liability as a percentage of covered-employee payroll. Under GASB 68, the Hospital is required to recognize a liability of the net position of Plan II, and to recognize pension expense and report deferred outflows and inflows, when present. The Hospital is also required to present a 10-year schedule containing the net pension liability and certain related ratios, and information about statutorily or contractually required contributions and related ratios. However, until a full 10-year trend is compiled, the Hospital will present information for only those years for which information is available.

The net effect in implementing GASB 68 for the Hospital was the recognition of additional pension expense for the year ended June 30, 2015 in the amount of \$748,158 and the reclassification of net position of \$8,325,745 as a long-term non-current unfunded actuarial net pension liability.

Notes to Financial Statements (continued)

SAN BENITO HEALTH CARE DISTRICT

NOTE I - RETIREMENT PLANS - (continued)

For the years ended June 30, 2020 and 2019, the Hospital recognized pension expense under Plan II of \$3,440,608 and \$4,067,615, respectively. At June 30, 2020 and 2019, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2020</u>	<u>2019</u>
Deferred outflows of resources:		
Differences between expected and actual experience	\$ 426,629	\$ 523,870
Changes in assumptions	3,319,797	2,041,011
Contributions to pension plan after measurement date	1,352,419	
Net difference between projected and actual earnings on investments	<u>5,098,845</u>	<u>1,816,077</u>
		4,380,958
Deferred inflows of resources:		
Changes in assumptions	<u>(2,822,780)</u>	<u>(713,773)</u>
Net deferred outflows and inflows related to pension	<u>\$ 2,276,065</u>	<u>\$ 3,667,185</u>

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

Year ended June 30:		
2021		\$ 215,270
2022		132,280
2023		379,779
2024		(161,213)
2025		280,051
Thereafter		<u>77,478</u>
		<u>\$ 923,645</u>

The following is the aggregate pension expense for the year:

	<u>2020</u>	<u>2019</u>
Service costs, plus related administrative expense	\$ 2,115,813	\$ 2,433,565
Interest on the total pension liability	2,664,097	2,274,619
Recognized difference between expected and actual experience	(87,588)	66,264
Recognized changes of assumptions	565,340	279,630
Projected earnings on pension plan investments and contributions	(1,783,197)	(1,671,000)
Recognized differences between projected and actual earnings	<u>(33,857)</u>	<u>684,537</u>
Aggregate pension expense	<u>\$ 3,440,608</u>	<u>\$ 4,067,615</u>

Notes to Financial Statements (continued)

SAN BENITO HEALTH CARE DISTRICT

NOTE I - RETIREMENT PLANS - (continued)

Plan administrative expenses are not displayed in the above pension expense table. Since the expected investment rate of return of 6.75% is net of administrative expenses, administrative expenses are excluded from the above table but, implicitly included as part of investment earnings.

The net pension liability is as follows:

	<u>2020</u>	<u>2019</u>
Total Pension Liability		
Service costs	\$ 2,099,705	\$ 2,419,806
Interest on the total pension liability	2,664,097	2,274,619
Differences between expected and actual experience	(1,044,501)	(237,050)
Changes of assumptions	1,939,682	(74,412)
Benefit payments, including refunds of employee contributions	<u>(814,046)</u>	<u>(611,210)</u>
Net change in total pension liability	4,844,937	3,771,753
Total pension liability at the beginning of the year	<u>37,775,418</u>	<u>34,003,665</u>
Total pension liability at the end of the year	<u>\$ 42,620,355</u>	<u>\$ 37,775,418</u>
Plan Fiduciary Net Position		
Contributions - employer (Hospital)	\$ 1,306,536	\$ 3,933,677
Contributions - employees	132,175	117,944
Net investment income	4,845,847	(1,151,908)
Administrative expense	(16,108)	(13,759)
Benefit payments, including refunds of employee contributions	<u>(814,046)</u>	<u>(611,210)</u>
Gross patient service revenues	5,454,404	2,274,744
Total plan fiduciary net position at the beginning of the year	<u>24,310,456</u>	<u>22,035,712</u>
Total plan fiduciary net position at the end of the year	<u>\$ 29,764,860</u>	<u>\$ 24,310,456</u>
Hospital's net pension liability (liability less net position)	<u>\$ 12,855,495</u>	<u>\$ 13,464,962</u>
Plan fiduciary net position as a % of the total liability	70%	65%
Covered employee payroll	\$ 30,784,852	\$ 30,690,643
Hospital's net pension liability as a % of covered employee payroll	42%	44%
Schedule of Hospital Contributions		
Actuarially determined contributions	\$ 3,577,595	\$ 3,486,828
Contributions in relation to the actuarially determined contributions	<u>(1,306,536)</u>	<u>(3,933,677)</u>
Contribution deficiency (excess)	<u>\$ 2,271,059</u>	<u>\$ (446,849)</u>

SAN BENITO HEALTH CARE DISTRICT

NOTE I - RETIREMENT PLANS - (continued)

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

Valuation date	Actuarially determined contributions are calculated as of December 31, six months prior to the end of the fiscal year in which contributions are reported
Methods and assumptions:	
Actuarial cost method	Entry age
Amortization method	Amortization of the unfunded actuarial liability as of January 1, 2015 for 20 years, amortization of gain or loss for 10 years, amortization of change in assumptions for 15 years
Amortization period	Fixed 20 years (2015 to 2035)
Asset valuation method	Five-year phase-in asset smoothing method
Inflation	2.25%
Salary increases	Salary scale (1) CNA at 4% a year; (2) NUHW at 5.5% a year; (3) all others at 5.25% a year; in 2019
Merit increases	5% per year for 1-5 years; 10%-20% every 5 years for CNA; 10%-25% every 5 years for NUHW
Investment rate of return	6.75%, net of pension plan investment expense, including inflation
Retirement age	65
Mortality	RP-2014 Generational Mortality Tables for Males & Females with projection scale MP2017

Other disclosures about Plan II are as follows or available upon request:

Description of the Plan: Effective January 1, 2005, the Hospital began a single-employer defined benefit plan. This plan became effective on that date with a plan year end of December 31.

Benefits provided: Benefitted full and part-time employees are eligible following three years of consecutive employment. The retirement formula is based on a percentage of the employee's compensation in each calendar year. Credit for past service is given to benefitted full and part-time employees during the period of 1999 through and effective January 1, 2016, at the same retirement formula of the employee's compensation in each consecutive calendar year in which the employee completed 1,000 hours of service.

Notes to Financial Statements (continued)

SAN BENITO HEALTH CARE DISTRICT

NOTE I - RETIREMENT PLANS - (continued)

Employees covered by benefit terms: As of January 1, 2020, there are currently 321 active participants in the plan, 97 retired participants, 120 terminated vested participants entitled to future benefits, 19 active participants (frozen status) for a total of 557 total participants.

Contributions: For the fiscal year ended June 30, 2020, the actuarially determined contributions for the Hospital for the 2020 plan year was \$3,577,595 with actual contributions of \$1,306,536 leaving a contribution deficiency of \$2,271,059 on a covered employee payroll of \$30,784,852. For the fiscal year ended June 30, 2019, the actuarially determined contributions for the Hospital for the 2019 plan year was \$3,486,828 with actual contributions of \$3,933,677 leaving an excess of \$446,849 on a covered employee payroll of \$30,690,643.

Discount rate: The discount rate used to measure the total pension liability was 6.75%. In the previous valuation, the discount rate used to measure the total pension liability was also 6.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return was determined net of pension plan investment expense but without reduction for pension plan administrative expense.

Sensitivity of the net pension liability to changes in the discount rate: It is estimated that a 1% decrease in the discount rate from 6.75% to 5.75% would increase the net liability by about \$5.8 million dollars and a 1% increase in the discount rate from 6.75% to 7.75% would decrease the net liability by about \$4.9 million dollars.

NOTE J - COMMITMENTS AND CONTINGENCIES

Construction-in-Progress: As of June 30, 2020, the Hospital had recorded \$253,647 as construction-in-progress representing cost capitalized for various remodeling, major repair, and expansion projects on the Hospital's premises. No interest was capitalized during the years ended June 30, 2020 and 2019 related to these projects. Estimated cost to complete these projects as of June 30, 2020 is approximately \$2,092,350.

Operating Leases: The Hospital leases various equipment and facilities under operating leases expiring at various dates. Total building and equipment rent expense for the years ended June 30, 2020 and 2019, were \$1,877,179 and \$1,805,200, respectively. Future minimum lease payments for the succeeding years under operating leases as of June 30, 2020, that have initial or remaining lease terms in excess of one year are not considered material.

Litigation: The Hospital may from time-to-time be involved in litigation and regulatory investigations which arise in the normal course of doing business. After consultation with legal counsel, management estimates that matters existing as of June 30, 2020 will be resolved without material adverse effect on the Hospital's future financial position, results from operations or cash flows.

SAN BENITO HEALTH CARE DISTRICT

NOTE J - COMMITMENTS AND CONTINGENCIES (continued)

Employee Health Insurance: The Hospital provides health benefits to employees through a self-funded plan financed by the Hospital operations. Estimated liabilities are recorded for claims which most likely have been incurred but are not yet reported for claims processing and payment (IBNR). As of June 30, 2020 and June 30, 2019, this amount was estimated at \$1,652,613 and \$1,762,756, respectively. Commercial insurance is provided for “stop-loss” coverage.

Workers Compensation Program: Prior to June 30, 2008, the Hospital was a participant in the Association of California Hospital District’s Beta Fund, which administers a self-insured worker’s compensation plan for participating hospital employees of its member hospitals. The Hospital terminated this coverage effective July 1, 2008 and became enrolled with coverage provided by a commercial insurance company for worker’s compensation coverage. Effective July 1, 2013, the Hospital was issued a Certificate of Consent to self-insure by the State of California’s Department of Industrial Relations. The Hospital purchases excess liability insurance to provide coverage for workers’ compensation claim exposures over its self-insurance retention limit of \$500,000. The plan is administered by Quality Comp, Inc., a division of Monument, LLC.

Health Insurance Portability and Accountability Act: The Health Insurance Portability and Accountability Act (HIPAA) was enacted August 21, 1996, to ensure health insurance portability, reduce health care fraud and abuse, guarantee security and privacy of health information, and enforce standards for health information. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations. Management believes the Hospital is in compliance with HIPAA as of June 30, 2020 and 2019.

Health Care Reform: The health care 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, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse as well as other applicable government laws and regulations. While no material 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.

Notes to Financial Statements (continued)

SAN BENITO HEALTH CARE DISTRICT

NOTE K -INVESTMENTS

The Hospital's investment balances and average maturities were as follows at June 30, 2020 and 2019:

<i>As of June 30, 2020</i>	<u>Fair Value</u>	<u>Investment Maturities in Years</u>		
		<u>Less than 1</u>	<u>1 to 5</u>	<u>Over 5</u>
U. S. government obligations	\$ 144,155	\$ 10,018	\$ 46,447	\$ 87,690
Local agency investment fund	164,691	164,691		
Corporate bonds and notes	111,220	10,106	71,083	30,031
Cash equivalents	1,289	1,289		
Money market and mutual funds	<u>15,664</u>	<u>15,664</u>		
Total investments	<u>\$ 437,019</u>	<u>\$ 201,768</u>	<u>\$ 117,530</u>	<u>\$ 117,721</u>

<i>As of June 30, 2019</i>	<u>Fair Value</u>	<u>Investment Maturities in Years</u>		
		<u>Less than 1</u>	<u>1 to 5</u>	<u>Over 5</u>
U. S. government obligations	\$ 654,588	\$ 58,968	\$ 231,907	\$ 363,713
Local agency investment fund	160,905	160,905		
Taxable municipal bonds	531,467	110,280	83,088	338,099
Corporate bonds and notes	1,577,250	798,996	557,847	220,407
Cash equivalents	2,309	2,309		
Money market and mutual funds	<u>41,201</u>	<u>41,201</u>		
Total investments	<u>\$ 2,967,720</u>	<u>\$ 1,172,659</u>	<u>\$ 872,842</u>	<u>\$ 922,219</u>

The Hospital's investments are reported at fair value as previously discussed. The Hospital's investment policy allows for various forms of investments generally set to mature within a few months to others over 15 years. The policy identifies certain provisions which address interest rate risk, credit risk and concentration of credit risk.

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 the Hospital manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a position of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for hospital operations. Information about the sensitivity of the fair values of the Hospital's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the preceding schedules that shows the distribution of the Hospital's investments by maturity.

Notes to Financial Statements (continued)

SAN BENITO HEALTH CARE DISTRICT

NOTE K -INVESTMENTS (continued)

Credit Risk: Credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization, such as Moody’s Investor Service, Inc. The Hospital’s investment policy for corporate bonds and notes is to invest in companies with total assets in excess of \$500 million and having a “A” or higher rating by agencies such as Moody’s or Standard and Poor’s.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer), the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Hospital’s investments are generally held by broker-dealers or bank’s trust departments used by the Hospital to purchase securities.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Hospital’s investment in a single issuer. The Hospital’s investment allows concentrations of over 5% in government-backed securities.

NOTE L - RESTRICTED BY CONTRIBUTORS

Restricted assets by contributors as of June 30, 2020 and 2019 are available for the following purposes:

	<u>2020</u>	<u>2019</u>
Restricted by the foundation for capital assets and other purposes	\$ 41,678	\$ 43,300
Restricted by the auxiliary for capital assets and other purposes	11,208	36,153
Restricted for scholarships and tuitions	<u>54,837</u>	<u>56,397</u>
Total restricted net position, by contributor	<u>\$ 107,723</u>	<u>\$ 135,850</u>

NOTE M - OTHER DECREASES IN NET POSITION

The Hospital has recorded increases and (decreases) in net position of \$28,127 and \$132,083 as other decreases in net position as of June 30, 2020 and 2019, respectively, within the statement of revenues, expenses and changes in net position. For the year ended June 30, 2020, these amounts were comprised of restricted contributions and net assets released from restriction for a net amount of \$28,127. For the year ended June 30, 2019, these amounts were also comprised of net assets released from restriction of \$ 132,083.

Notes to Financial Statements (continued)

SAN BENITO HEALTH CARE DISTRICT

NOTE N - RELATED PARTY TRANSACTIONS

The Hazel Hawkins Hospitals Foundation (the Foundation), has been established as a nonprofit public benefit corporation under the Internal Revenue Code Section 501(c)(3) to solicit contributions on behalf of the Hospital. Substantially all funds raised except for funds required for operation of the Foundation, are distributed to the Hospital or held for the benefit of the Hospital. The Foundation's funds, which represent the Foundation's unrestricted resources, are distributed to the Hospital in amounts and in period determined by the Foundation's Board of Trustees, who may also restrict the use of funds for Hospital property and equipment replacement or expansion or other specific purposes. Donations were \$384,646 and \$276,824 for the years ended June 30, 2020 and 2019, respectively.

The Hazel Hawkins Auxiliary (the Auxiliary) is a similar non-profit organization to help solicit contributions for the Hospital. Donations by the Auxiliary were \$50,459 and \$182,776 for the years ended June 30, 2020 and 2019. Both of these entities are considered component units of the Hospital due to their relationship.

NOTE O - SUBSEQUENT EVENTS

Management evaluated the effect of subsequent events on the financial statements through September 26, 2020, the date the financial statements are issued, and determined that there are no material subsequent events that have not been disclosed.

Supplementary Information

Bond Covenant Requirements

SAN BENITO HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2020</u>	<u>2019</u>
Debt Service Coverage Ratio		
Excess of revenues over expenses	\$ (4,652,596)	\$ (828,874)
Less district taxes for general obligation bond debt service	(1,878,958)	(1,834,246)
Add in interest expense related to general obligation bonds	<u>964,631</u>	<u>991,839</u>
Revised excess of revenues over expenses	(5,566,923)	(1,671,281)
Add in other interest expense	801,984	866,114
Add in depreciation and amortization	<u>4,152,450</u>	<u>4,520,347</u>
Total adjusted excess of revenues over expenses	<u>\$ (612,489)</u>	<u>\$ 3,715,180</u>
Debt service requirements for fiscal year ended June 30, 2021		
Capital lease debt service requirements		\$ 385,044
Series 2013 revenue bond requirements	<u>\$ 2,254,388</u>	<u>2,251,988</u>
Total debt service requirements - next fiscal year (2021)	<u>\$ 2,254,388</u>	<u>\$ 2,637,032</u>
Debt Service Coverage Ratio	<u>-0.27</u>	<u>1.41</u>
Required by covenants	<u>1.25</u>	<u>1.25</u>
Current Ratio		
Current assets	<u>\$ 41,710,826</u>	<u>\$ 32,851,287</u>
Current liabilities	<u>\$ 20,612,430</u>	<u>\$ 16,096,924</u>
Current ratio	<u>2.02</u>	<u>2.04</u>
Required by covenants	<u>1.50</u>	<u>1.50</u>
Days Cash on Hand		
Cash and cash equivalents	\$ 21,627,188	\$ 11,764,127
Board designated funds	<u>273,466</u>	<u>2,808,516</u>
Total available cash on hand	<u>\$ 21,900,654</u>	<u>\$ 14,572,643</u>
Operating expenses	\$125,547,641	\$118,663,376
Add in interest expense	1,817,826	1,879,023
Less depreciation and amortization	<u>(4,152,450)</u>	<u>(4,520,347)</u>
Net expenses to be covered by available cash on hand	<u>\$123,213,017</u>	<u>\$116,022,052</u>
Days in the year	<u>366</u>	<u>365</u>
Average daily cash requirements	<u>\$ 336,648</u>	<u>\$ 317,869</u>
Days cash on hand	<u>65.06</u>	<u>45.84</u>
Required by covenants	<u>30.00</u>	<u>30.00</u>

