

Audited Financial Statements

**SAN BENITO
HEALTH CARE DISTRICT**

dba: HAZEL HAWKINS MEMORIAL HOSPITAL

June 30, 2023 and 2022

Audited Financial Statements

SAN BENITO HEALTH CARE DISTRICT

June 30, 2023

Management’s Discussion and Analysis	1
Report of Independent Auditors	6
Audited Financial Statements	
Statements of Net Position	10
Statements of Revenues, Expenses, and Changes in Net Position	11
Statements of Cash Flows	12
Notes to Financial Statements	14
Supplemental Schedule	
Bond Covenant Requirements	37
Independent Auditors Report on Internal Control	38

Management's Discussion and Analysis

SAN BENITO HEALTH CARE DISTRICT

June 30, 2023

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, 2023 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, 2023 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 \$16,177,657 over the prior fiscal year due mainly to the pension adjustment. Total operating cash and cash equivalents decreased by \$1,028,903 over the prior year (see the *Statements of Cash Flows* for changes). Net patient accounts receivable decreased by \$561,367 which resulted in net days in patient accounts receivable of 32.88 at June 30, 2023 as compared to 37.73 in the prior year.
- Current assets increased by \$7,437,601 while current liabilities increased by \$2,924,623 over the prior fiscal year. The current ratio was 1.60 as compared to 1.49 for the prior year.
- The operating income was \$3,722,645 for fiscal year 2023 as compared to an operating loss of \$(583,627) for the prior year, representing an increase of \$4,306,272 in operations due mainly to the increase in outpatient volumes for the year.
- The increase in net position was \$344,137 for the current fiscal year as compared to an increase in net position of \$2,670,099 for the prior fiscal year. Without the pension adjustment the increase in net position for the year would have been \$7,635,673.
- Operating revenues increased by \$12,623,453 from the prior year due mainly to the return of patient volumes to the Hospital. Operating expenses increased by \$8,317,181 from the prior year, again due to increased volumes.
- The GASB 68 impact resulted in added assets of \$14,487,652 recorded as deferred outflows. At the same time, GASB 68 increased the pension liability by \$21,779,188 recorded as long-term pension liabilities. Per the actuary, the large increases were due to changes in the discount rate and the effects of the Plan being frozen effective July 3, 2023.
- The Hospital realized a \$7,291,536 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 6,322 for fiscal year 2023 as compared to 7,544 for the prior year. The average length of stay decreased from 3.25 days in fiscal year 2022 to 2.97 days in fiscal year 2023.
- The Northside skilled nursing facility had an average daily census (ADC) of 45.00 for the fiscal year 2023, equaling a total of 16,424 patient days as compared to 14,002 days (ADC of 38.36) for the prior year.
- The Mabie skilled nursing facility had an ADC of 45.11 for the fiscal year 2023, equaling a total of 16,466 patient days. The prior year ADC was 43.95 for a total of 16,042 patient days.
- Surgery cases for the fiscal year 2023 were slightly lower than the prior year. There were 2,134 cases as compared to 1,919 cases for the prior fiscal year. The increase in surgery cases was caused by related volume increases.
- There was a decrease in outpatient visits; 160,515 in the fiscal year 2023 as compared to 172,154 for the prior fiscal year.
- There was an increase in emergency room visits; 25,132 in the fiscal year 2023 as compared to 23,594 for the prior year.
- There was a decrease in rural health care clinic visits; 49,496 visits in the year 2023 as compared to 51,140 visits for the prior year as the Hospital continues to operate five rural health care clinics.
- Home health care visits decreased to 3,128 in the year 2023 as compared to 6,124 in the prior year.

Cash and Investments

For the fiscal year ended June 30, 2023, the Hospital's operating and board designated cash and investments totaled \$13,710,102 as compared to \$14,738,363 in fiscal year 2022. At June 30, 2023, days cash on hand were 32.63 thus meeting the required bond covenant of 30 days cash on hand. At June 30, 2022, days cash on hand were 37.11. 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 \$2,924,623. Changes in the current liability categories were: (1) current maturities increased by \$5,354,606 due to new debt from CHFFA; (2) accounts payable and accrued expenses decreased by \$7,906,315 as there repayments on advances on supplemental programs; and (3) accrued payroll and related liabilities increased by \$5,476,332 due mainly to a substantial increase in pension liabilities.

Management's Discussion and Analysis (continued)

SAN BENITO HEALTH CARE DISTRICT

Capital Assets

There were \$2,945,008 of new additions and transfers of construction-in-progress costs to capital assets during the year. Certain capital projects were completed and came "on-line" or put into service. Depreciation and amortization expense for the year was \$4,076,319 as compared to \$3,928,677 for the prior year. The Hospital has \$880,124 of remaining costs in construction in progress at year end with an estimated cost of approximately \$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 \$5,616,777 due to changes in volumes from the prior year coupled with some moderate rate increases.

The Hospital experienced significant increases in the outpatient areas as gross charges increased by \$38,185,601. These outpatient increases were again due mainly to volume increases in outpatient visits and related outpatient ancillary service areas, coupled with moderate rate increases.

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 2023 and fiscal year 2022 were \$258,377,580 and \$240,015,430, respectively. The increase in these deductions from revenue continues to be affected by State supplemental payments as well as the Hospital's change to a Critical Access (CAH) designation for Medicare reimbursement. Deductions from revenue (contractual allowances, provision for bad debts, charity, etc.) as a percentage of gross patient charges were 62.88% for fiscal year 2023 as compared to 63.44% 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 increased by \$14,206,674 in fiscal year 2023 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 prior 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 has increased Medicare funding and the reimbursement to the Hospital substantially during the year. The average daily acute care patient as of June 30, 2023 and 2022 were 17.32 and 20.67, respectively

Operating Expenses

Total operating expenses were \$155,495,079 for fiscal year 2023 compared to \$147,323,392 for the prior fiscal year, an increase of \$8,317,181. The 5.54% increase is due primarily to:

- A \$4,199,992 increase in salaries, wages and benefits. Full time equivalents (FTE's) increased from 534.75 in fiscal year 2022 to 546.16 in fiscal year 2023, however and salaries and benefits per FTE decreased from \$164,870 per FTE in 2022 to \$164,870 per FTE in 2023. Registry expense decreased from \$5,447,939 in 2022 to \$4,217,289 in 2023.
- 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.

Bankruptcy Proceedings

On May 23, 2023 the Hospital filed a voluntary petition for relief under Chapter 9 of title 11 of the United States Code (the Bankruptcy Code). The Hospital is represented by legal counsel in a pending reorganization under Chapter 9 of Title 11 United States Code (the Bankruptcy Code) in the United States Bankruptcy Court - Northern District of California - San Jose Division. The purpose of the Hospital's plan of reorganization is to restructure certain classifications of the Hospital's debt and provide for their payment in whole or part. Certain debt may be susceptible to being discharged or rendered unenforceable. The ultimate success of the plan will depend primarily on the ability of the Hospital's management to operate the hospital at a level of increased cash flows and thereby generate sufficient cash flows, coupled with Hospital property taxes, to meet their obligations in the normal course of hospital operations. Hospital management is continuing a program of cost reductions and revenue enhancement which it believes will result in improved cash flows.

Management's Discussion and Analysis (continued)

SAN BENITO HEALTH CARE DISTRICT

Economic Factors and Next Fiscal Year's Budget

The Hospital's board approved the fiscal year ending June 30, 2024 budget at the District board meeting on August 24, 2023. For fiscal year 2024, the Hospital is budgeted to increase net position by \$2.12 million. The increase is due to several assumptions:

- Both inpatient volumes were budgeted to increase as well as outpatient volumes, 1% and 2%, respectively. Patient rate charges were also slated to increase slightly at the acute facility.
- Operating expenses are expected to decrease by \$9.73 million (6.3%).

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

A Certified Public Accountancy Limited Liability Partnership

1111 East Herndon, Suite 211, Fresno, California 93720

Voic e: (559) 431-7708 Fax:(559) 431-7685

Report of Independent Auditors

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

Opinion

We have audited the accompanying financial statements of the San Benito Health Care District, *dba* Hazel Hawkins Memorial Hospital (the Hospital) as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Hospital and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but it is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

Emphasis of Matter - GASB 96 and GASB 87

As discussed in Note A, the Hospital analyzed GASB 96 for year fiscal year ended June 30, 2023 and GASB 87 for the fiscal year ended June 30, 2022. As discussed in Note A, after analysis, GASB 96 had no impact on the Hospital's financial presentation. Also discussed in Note A, the Hospital adopted GASB 87 for the year beginning July 1, 2021 and ending June 30, 2022. Our opinion is not modified with respect to this matter.

Emphasis of Matter - Bankruptcy Uncertainties

As more fully described in Note P, on May 23, 2023, the Hospital filed a voluntary petition for relief under Chapter 9 of title 11 of the United States Code (the Bankruptcy Code). The Hospital has incurred negative cash flows from hospital operations and was unable to meet certain of its future obligations. These conditions raised substantial doubt about the Hospital's ability to continue hospital operations in the future. The Hospital's plans in regard to these matters are also more fully described in Note P. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of assets or the amounts and classifications of liabilities that resulted from the inability of the Hospital to meet its obligations from continued hospital operations.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be 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 auditing standards generally accepted in the United States of America *Government Auditing Standards*, 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 audit 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.

Supplementary Schedule

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedule as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. In our opinion, the supplementary schedule as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2023, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

JW7 & Associates, LLP

Fresno, California
December 14, 2023

Statements of Net Position

SAN BENITO HEALTH CARE DISTRICT

	June 30	
Assets	<u>2023</u>	<u>2022</u>
Current assets:		
Cash and cash equivalents	\$ 13,413,099	\$ 14,442,002
Restricted trust funds available for current debt service	2,830,800	2,684,733
Patient accounts receivable, net of allowances	13,739,152	14,300,519
Other receivables	8,381,301	3,661,313
Estimated third party payor settlements	2,286,546	152,427
Inventories	4,057,812	3,146,161
Prepaid expenses and deposits	<u>2,042,543</u>	<u>926,497</u>
Total current assets	46,751,253	39,313,652
Assets limited as to use	143,920	2,037,674
Capital assets, net of accumulated depreciation	57,288,673	60,491,774
Other assets	<u>1,212,567</u>	<u>1,788,631</u>
Total assets	105,396,413	103,631,731
Deferred outflows of resources, net of inflows	<u>18,756,288</u>	<u>4,343,313</u>
	<u><u>\$124,152,701</u></u>	<u><u>\$107,975,044</u></u>
Liabilities		
Current liabilities:		
Current maturities of debt borrowings	\$ 7,966,376	\$ 2,611,770
Accounts payable and accrued expenses	5,379,082	13,285,397
Accrued payroll and related liabilities	<u>15,956,445</u>	<u>10,480,113</u>
Total current liabilities	29,301,903	26,377,280
Other payables	658,946	4,317,341
Long-term pension liabilities	36,485,864	14,706,676
Debt borrowings, net of current maturities	<u>34,163,981</u>	<u>39,375,877</u>
Total liabilities	100,610,694	84,777,174
Net position (deficit)		
Invested in capital assets, net of related debt	17,582,628	20,785,729
Restricted, by contributors and indenture agreements	2,677,717	4,424,046
Unrestricted (deficit)	<u>3,281,662</u>	<u>(2,011,905)</u>
Total net position	<u>23,542,007</u>	<u>23,197,870</u>
	<u><u>\$124,152,701</u></u>	<u><u>\$107,975,044</u></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>2023</u>	<u>2022</u>
Operating revenues		
Net patient service revenue	\$152,533,693	\$138,327,019
Other operating revenue	<u>6,684,031</u>	<u>8,267,252</u>
Total operating revenues	159,217,724	146,594,271
Operating expenses		
Salaries and wages	57,801,570	56,772,326
Employee benefits	34,416,763	31,246,015
Registry	4,217,289	5,447,939
Professional fees	20,482,577	17,339,122
Supplies	12,878,484	13,944,423
Purchased services and repairs	14,776,517	12,719,664
Utilities and phone	2,666,037	2,127,648
Building and equipment rent	1,803,465	1,707,887
Insurance	1,106,998	963,929
Depreciation and amortization	3,808,755	3,749,096
Other operating expenses	<u>1,536,624</u>	<u>1,159,849</u>
Total operating expenses	<u>155,495,079</u>	<u>147,177,898</u>
Operating income (loss)	3,722,645	(583,627)
Nonoperating revenues (expenses)		
District tax revenues	4,847,384	4,475,770
Investment income, net of unrealized gains and losses	218,106	116,543
Interest expense	(1,759,392)	(1,528,522)
Grants, contributions and other gains and losses	<u>592,634</u>	<u>300,852</u>
Total nonoperating revenues (expenses)	<u>3,898,732</u>	<u>3,364,643</u>
Excess of revenues over expenses	7,621,377	2,781,016
GASB 68 pension affect	(7,291,536)	(145,494)
Other increases (decreases) in net position	<u>14,296</u>	<u>34,577</u>
Net increase in net position	344,137	2,670,099
Net position at beginning of the year	<u>23,197,870</u>	<u>20,527,771</u>
Net position at end of the year	<u>\$ 23,542,007</u>	<u>\$ 23,197,870</u>

See accompanying notes and auditor's report

Statements of Cash Flows

SAN BENITO HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Cash received from patients and third-parties on behalf of patients	\$147,302,546	\$136,872,654
Cash received from operations, other than patient services	1,964,043	4,764,499
Cash payments to suppliers and contractors	(47,381,798)	(52,229,954)
Cash payments to employees and benefit programs	<u>(86,983,018)</u>	<u>(87,277,932)</u>
Net cash provided by operating activities	14,901,773	2,129,267
Cash flows from noncapital financing activities:		
District tax revenues	2,689,536	2,427,679
Grants, contributions and changes in restricted assets	<u>1,038,223</u>	<u>300,852</u>
Net cash provided by noncapital financing activities	3,727,759	2,728,531
Cash flows from capital financing activities:		
District tax revenues related to capital acquisitions	2,157,848	2,048,091
Net purchase of capital assets and changes in other assets	(24,044,000)	(9,545,670)
Proceeds from sale of capital assets	1,536,366	
Principal borrowings on debt borrowings	3,090,086	4,331,582
Principal payments on debt borrowings	(2,605,136)	(2,365,537)
Interest payments, net of capitalized interest	<u>(1,759,392)</u>	<u>(1,528,522)</u>
Net cash (used in) capital financing activities	(21,624,228)	(7,060,056)
Cash flows from investing activities:		
Net (purchase) or sale of assets limited as to use	1,747,687	(1,980,909)
Investment income, net of unrealized gains and losses	<u>218,106</u>	<u>116,543</u>
Net cash provided by investing activities	<u>1,965,793</u>	<u>(1,864,366)</u>
Net (decrease) in cash and cash equivalents	(1,028,903)	(4,066,624)
Cash and cash equivalents at beginning of year	<u>14,442,002</u>	<u>18,508,626</u>
Cash and cash equivalents at end of year	<u>\$ 13,413,099</u>	<u>\$ 14,442,002</u>

See accompanying notes and auditor's report

Statements of Cash Flows (continued)

SAN BENITO HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2023</u>	<u>2022</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 3,722,645	\$ (729,121)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,808,755	3,749,096
Provision for bad debts and other	4,707,915	3,551,085
Changes in operating assets, liabilities and other:		
Patient accounts receivables, net of allowances	(4,146,548)	(5,005,450)
Other receivables	(4,719,988)	(1,124,420)
Inventories	(911,651)	(301,726)
Prepaid expenses and deposits	(1,116,046)	(421,548)
Accounts payable and accrued expenses	(7,906,315)	2,510,387
Accrued payroll and related liabilities	5,235,315	885,903
Estimated third party payor settlements and other liabilities	(5,792,514)	(2,378,333)
Net long-term pension liability	21,779,188	2,462,758
Health insurance claims payable (IBNR)	<u>241,017</u>	<u>(1,069,364)</u>
Net cash provided by operating activities	<u>\$ 14,901,773</u>	<u>\$ 2,129,267</u>

See accompanying notes and auditor's report

June 30, 2023

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, 2023 and 2022, 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 \$74,676 and \$76,991 for the years ended June 30, 2023 and 2022, respectively.

Deferred outflows of resources is also comprised of defined benefit pension resources of \$19,213,714 of deferred outflows netted against \$928,425 of deferred inflows for a net \$18,285,289 for the year ended June 30, 2023 and \$8,322,871 of deferred outflows netted against \$ 4,525,234 of deferred inflows for a net \$3,797,637 for the year ended June 30, 2022.

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, 2023 and 2022 are \$4,211,368 and \$4,273,485, 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.

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.

Revenue Recognition: As previously stated, net patient service revenues are reported at amounts that reflect the consideration to which the Hospital expects to be entitled in exchange for patient services. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of third-party payor audits, reviews, and investigations. Generally, the Hospital bills the patients and third-party payors several days after the patient receives healthcare services at the Hospital. Revenue is recognized as services are rendered.

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per day, discharge or visit, reimbursed costs, discounted charges and per diem payments. 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.

Gifts of long-lived assets such as land, buildings, or equipment are reported as net assets without donor restrictions unless explicit donor stipulations specify how the donated asset must be used. Gifts of long-lived assets with explicit donor restrictions that specify how the asset is to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived asset is placed in service. Cash received in excess of revenue recognized is deferred revenue.

Contributions are recognized as revenue when they are received or unconditionally pledged. Donor stipulations that limit the use of the donation are recognized as contributions with donor restrictions. When the purpose is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from donor restrictions. Donor restricted contributions whose restriction expire during the same fiscal year are recognized as net assets without donor restrictions. Absent donor imposed restrictions, the Hospital records donated services, materials, and facilities as net assets without donor restrictions.

From time to time, the Hospital receives grants from various governmental agencies and private organizations. Revenues from grants are recognized when all eligibility requirements, including time requirements are met. Grants 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.

SAN BENITO HEALTH CARE DISTRICT

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES (continued)

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

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.

Recently Adopted Accounting Pronouncement: In June, 2017 the Governmental Accounting Standards Board released GASB 87 regarding changes in the way leases are accounted for. GASB 87 superceded GASB 13 and GASB 62 and more accurately portrays lease obligations by recognizing lease assets and lease liabilities on the statement of net position and disclosing key information about leasing arrangements. The District has adopted GASB 87 effective July 1, 2021 in accordance with the timetable established by GASB 87.

Recently the Governmental Accounting Standards Board released GASB 96 regarding changes in the way certain IT contracts are accounted for. The Hospital analyzed the possible impact of GASB 96 noting that there were no contracts which materially qualified under this new pronouncement and therefore no changes in the financial presentation were considered necessary.

SAN BENITO HEALTH CARE DISTRICT

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS

As of June 30, 2023 and 2022, the Hospital had operating deposits invested in various financial institutions in the form of cash and cash equivalents amounted to \$14,364,758 and \$17,196,019. 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. These combined open settlements are classified as current assets. A summary of the payment arrangements with major third-party payors follows:

Medicare: Payments for acute care services rendered to Medicare program beneficiaries are paid on cost reimbursement principles. The Hospital was classified as a critical access hospital during the fiscal year ended June 30, 2020. The Hospital is paid for services at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. At June 30, 2023, cost reports through June 30, 2021 have been audited or otherwise 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, 2023, cost reports through June 30, 2021, 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>2023</u>	<u>2022</u>
Daily hospital acute care routine services	\$ 46,889,961	\$ 49,340,302
Skilled nursing routine services	24,725,200	21,120,560
Inpatient ancillary services	58,674,847	65,445,923
Outpatient services	<u>280,621,265</u>	<u>242,435,664</u>
Gross patient service revenues	410,911,273	378,342,449
Less contractual allowances and provision for bad debts	<u>(258,377,580)</u>	<u>(240,015,430)</u>
Net patient service revenues	<u>\$152,533,693</u>	<u>\$138,327,019</u>

Medicare and Medi-Cal revenue accounts for approximately 60% 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, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Medicare	\$ 17,944,182	\$ 14,468,671
Medi-Cal	15,902,192	17,069,532
Other third party payors	8,901,492	9,126,239
Self pay and other	<u>6,485,776</u>	<u>4,902,719</u>
Gross patient accounts receivable	49,233,642	45,567,161
Less allowances for contractual adjustments and bad debts	<u>(35,494,490)</u>	<u>(31,266,642)</u>
Net patient accounts receivable	<u>\$ 13,739,152</u>	<u>\$ 14,300,519</u>

Notes to Financial Statements (continued)

SAN BENITO HEALTH CARE DISTRICT

NOTE D - CONCENTRATION OF CREDIT RISK (continued)

Financial Instruments: Financial instruments, potentially subjecting the Hospital to concentrations of credit risk, consist primarily of bank deposits in excess of the Federal Deposit Insurance Corporation (FDIC) limits of \$250,000. There are two accounts as of June 30, 2023 that exceed the FDIC limit, however Management believes that there is no risk of material loss for these funds as of June 30, 2023 and 2022 due to the high financial quality of the banking institutions with which the Hospital does business. Management further believes that there is no risk of material loss due to government held investments in the Local Agency Investment Fund (LAIF) due to the nature of this account as government owned.

NOTE E - OTHER RECEIVABLES

Other receivables as of June 30, 2023 and 2022 were comprised of the following:

	<u>2023</u>	<u>2022</u>
Receivable due from the State for supplemental programs	\$ 7,627,745	\$ 2,948,679
San Benito County property taxes	156,958	139,262
Lease receivable - current portion	559,307	526,489
Other various receivables	<u>37,291</u>	<u>46,883</u>
	<u>\$ 8,381,301</u>	<u>\$ 3,661,313</u>

NOTE F - ASSETS LIMITED AS TO USE

Assets limited as to use as of June 30, 2023 and 2022 were comprised of the following:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents restricted by contributors	\$ 125,193	\$ 124,099
Cash designated by the board for specific purposes	297,003	298,361
Cash and cash equivalents and debt securities held under bond indenture agreements for debt service requirements	<u>2,552,524</u>	<u>4,299,947</u>
	2,974,720	4,722,407
Less amounts available for current obligations	<u>(2,830,800)</u>	<u>(2,684,733)</u>
	<u>\$ 143,920</u>	<u>\$ 2,037,674</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, 2023 and 2022 were comprised of the following:

	<u>Balance at June 30, 2022</u>	<u>Transfers & Additions</u>	<u>Disposals & Retirements</u>	<u>Balance at June 30, 2023</u>
Land and land improvements	\$ 3,237,474	\$ 133,000		\$ 3,370,474
Buildings and improvements	97,716,675	2,381,699		100,098,374
Equipment	41,539,565	1,762,643		43,302,208
Construction-in-progress	<u>4,284,247</u>	<u>(1,436,464)</u>	<u>(1,967,659)</u>	<u>880,124</u>
Totals at historical cost	146,777,961	2,840,878	(1,967,659)	147,651,180
Less accumulated depreciation for:				
Land and land improvements	(1,461,273)	(69,668)		(1,530,941)
Buildings and improvements	(48,786,190)	(2,568,021)		(51,354,211)
Equipment	<u>(36,038,724)</u>	<u>(1,438,631)</u>		<u>(37,477,355)</u>
Total accumulated depreciation	<u>(86,286,187)</u>	<u>(4,076,320)</u>		<u>(90,362,507)</u>
Capital assets, net	<u>\$ 60,491,774</u>	<u>\$ (1,235,442)</u>	<u>\$ (1,967,659)</u>	<u>\$ 57,288,673</u>

	<u>Balance at June 30, 2021</u>	<u>Transfers & Additions</u>	<u>Disposals & Retirements</u>	<u>Balance at June 30, 2022</u>
Land and land improvements	\$ 3,237,474			\$ 3,237,474
Buildings and improvements	97,184,444	\$ 532,231		97,716,675
Equipment	39,899,483	1,640,082		41,539,565
Construction-in-progress	<u>425,000</u>	<u>3,859,247</u>		<u>4,284,247</u>
Totals at historical cost	140,746,401	6,031,560		146,777,961
Less accumulated depreciation for:				
Land and land improvements	(1,397,965)	(63,308)		(1,461,273)
Buildings and improvements	(46,201,278)	(2,584,912)		(48,786,190)
Equipment	<u>(34,758,267)</u>	<u>(1,280,457)</u>		<u>(36,038,724)</u>
Total accumulated depreciation	<u>(82,357,510)</u>	<u>(3,928,677)</u>		<u>(86,286,187)</u>
Capital assets, net	<u>\$ 58,388,891</u>	<u>\$ 2,102,883</u>	<u>\$</u>	<u>\$ 60,491,774</u>

Notes to Financial Statements (continued)

SAN BENITO HEALTH CARE DISTRICT

NOTE H - DEBT BORROWINGS

As of June 30, 2023 and 2022, debt borrowings were as follows:

	<u>2023</u>	<u>2022</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, 2020 to \$2,755,000 on June 30, 2035; collateralized by property taxes:	\$ 23,035,000	\$ 24,150,000
San Benito Health Care District Insured Refunding Revenue Bonds, Series 2021; interest charged at 4.0% due semiannually; principal due in annual amounts ranging from \$1,340,000 on March 1, 2022 to \$1,800,000 on March 1, 2029; collateralized by Hospital revenues and other property:	9,810,000	11,230,000
California Health Facilities Financing Authority (CHFFA) Bridge Loan; no interest charged; entire outstanding principal due September, 2024; collateralized by security agreement:	3,090,086	
California Health Facilities Financing Authority (CHFFA) Help II Loan; interest charged at 2%; payable in monthly installments of \$9,602; final payment due November 1, 2041; collateralized by Hospital revenues:	1,780,472	1,850,608
California Health Facilities Financing Authority (CHFFA) Nondesignated Public Hospital Bridge Loans; no interest charged and principal payments due in full upon receipt of supplemental payments from the State of California's QIP program:	2,475,438	2,475,438
Premiums, net of accumulated accretion:	<u>1,939,361</u>	<u>2,281,601</u>
	42,130,357	41,987,647
Less current maturities of debt borrowings	<u>(7,966,376)</u>	<u>(2,611,770)</u>
	<u>\$ 34,163,981</u>	<u>\$ 39,375,877</u>

Future principal maturities for debt borrowings for the next succeeding years are: \$7,966,376 in 2024; \$3,333,365 in 2025; \$3,123,761 in 2026; \$3,310,452 in 2027; and \$3,507,177 in 2028.

Bank Line of Credit: The Hospital had a line of credit available for \$1 million. Shortly after the declaration of fiscal emergency in November, 2022, the Bank cancelled the line of credit. There were no outstanding balances on this line of credit as of June 30, 2023 and 2022.

SAN BENITO HEALTH CARE DISTRICT

NOTE H - DEBT BORROWINGS - (continued)

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 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 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 \$1,979,570 and \$1,921,086 for the years ended June 30, 2023 and 2022, 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, 2023 and 2022 are considered minor.

In January, 2021, the Hospital issued Series 2021 San Benito Health Care District Insured Refunding Revenue Bonds, Series 2021 (the 2021 Bonds) in the amount of \$12,750,000 for the purpose of defeasing the San Benito Health Care District Insured Revenue Bonds, Series 2013 Bonds. The 2021 Bonds were issued at a \$1,982,753 premium. The 2021 Bonds are the obligation of the Hospital and mature on or before March 1, 2029 and will not be subject to optional redemption prior to maturity. The Hospital is required under the 2021 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, 2023 and 2022, the DSCR was 1.68 and 2.91, 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, 2023 and 2022, the current ratio was 1.60 and 1.49 and the days cash on hand are 32.61 and 37.11, respectively.

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 \$33,956,744 and \$31,598,692 as of June 30, 2023 and 2022 respectively. No employer contributions have been made to this part of Plan I after December 31, 2003. A part of Plan I, however, still includes the 457 plan that employees still currently contribute to.

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 current 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, 2023 and 2022, the Hospital recognized pension expense under Plan II of \$7,268,787 and \$3,034,944, respectively. At June 30, 2023 and 2022, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2023</u>	<u>2022</u>
Deferred outflows of resources:		
Differences between expected and actual experience	\$ 1,312,573	\$ 629,832
Changes in assumptions	12,900,689	6,124,663
Contributions to pension plan after measurement date		1,567,876
Net difference between projected and actual earnings on investments	<u>5,000,452</u>	
	19,213,714	8,322,871
Deferred inflows of resources:		
Changes in assumptions and other differences	<u>(928,425)</u>	<u>(4,525,234)</u>
Net deferred outflows and inflows related to pension	<u>\$ 18,285,289</u>	<u>\$ 3,797,637</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:		
2024		\$ 4,058,911
2025		4,500,175
2026		4,602,595
2027		4,460,207
2028		663,401
Thereafter		-0-
		<u>\$ 18,285,289</u>

The following is the aggregate pension expense for the year:

	<u>2023</u>	<u>2022</u>
Service costs, plus related administrative expense	\$ 2,280,614	\$ 2,107,206
Interest on the total pension liability	3,394,641	3,176,715
Recognized difference between expected and actual experience	117,029	(84,400)
Recognized changes of assumptions	3,422,209	1,483,642
Projected earnings on pension plan investments and contributions	(3,006,371)	(2,602,875)
Recognized differences between projected and actual earnings	<u>1,060,665</u>	<u>(1,045,344)</u>
Aggregate pension expense	<u>\$ 7,268,787</u>	<u>\$ 3,034,944</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 4.80% 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>2023</u>	<u>2022</u>
Total Pension Liability		
Service costs	\$ 2,257,746	\$ 2,084,768
Interest on the total pension liability	3,394,641	3,176,715
Differences between expected and actual experience	1,069,590	485,864
Changes of assumptions	10,293,791	4,008,624
Benefit payments, including refunds of employee contributions	<u>(1,323,008)</u>	<u>(1,207,348)</u>
Net change in total pension liability	15,692,760	8,548,623
Total pension liability at the beginning of the year	<u>55,930,557</u>	<u>47,381,934</u>
Total pension liability at the end of the year	<u>\$ 71,623,317</u>	<u>\$ 55,930,557</u>
 Plan Fiduciary Net Position		
Contributions - employer (Hospital)	\$ 1,545,627	\$ 2,738,385
Contributions - employees	310,498	262,258
Net investment income	(6,596,677)	4,315,008
Administrative expense	(22,868)	(22,438)
Benefit payments, including refunds of employee contributions	<u>(1,323,008)</u>	<u>(1,207,348)</u>
Net change in Plan Fiduciary Net Position	(6,086,428)	6,085,865
Total plan fiduciary net position at the beginning of the year	<u>41,223,881</u>	<u>35,138,016</u>
Total plan fiduciary net position at the end of the year	<u>\$ 35,137,453</u>	<u>\$ 41,223,881</u>
Hospital's net pension liability (liability less net position)	<u>\$ 36,485,864</u>	<u>\$ 14,706,676</u>
Plan fiduciary net position as a % of the total liability	49%	74%
Covered employee payroll	\$ 25,765,287	\$ 24,420,350
Hospital's net pension liability as a % of covered employee payroll	142%	60%
 Schedule of Hospital Contributions		
Actuarially determined contributions	\$ 3,154,060	\$ 3,438,240
Contributions in relation to the actuarially determined contributions	<u>(1,856,125)</u>	<u>(2,738,385)</u>
Contribution deficiency (excess)	<u>\$ 1,297,935</u>	<u>\$ 699,855</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, 2023:

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 normal cost method
Amortization method	Straight line amortization
Asset valuation method	Market value as of the measurement date
Salary increases	Salary scale (1) CNA at 4% a year; (2) NUHW at 3.5% a year; (3) all others at 3.00% a year; in 2023
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	4.80%, net of pension plan investment expense, including inflation
Retirement age	65
Mortality	PubG-2010 Public Retirement Mortality Tables for Males & Females with projection scale MP2021

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 current, 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, 2023, there are currently 288 active participants in the plan, 138 retired participants, 137 terminated vested participants entitled to future benefits, 13 active participants (frozen status) for a total of 576 total participants.

Contributions: For the fiscal year ended June 30, 2023, the actuarially determined contributions for the Hospital for the plan year was \$3,154,060 with actual contributions of \$1,856,125 leaving a contribution deficiency of \$1,297,935 on a covered employee payroll of \$25,765,287. For the fiscal year ended June 30, 2022, the actuarially determined contributions for the Hospital for the plan year was \$3,438,240 with actual contributions of \$2,738,385 leaving a contribution deficiency of \$699,855 on a covered employee payroll of \$24,420,350.

Discount rate: The discount rate used to measure the total pension liability was 4.80%. In the previous valuation, the discount rate used to measure the total pension liability was 5.90%. 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 4.80% to 3.80% would increase the net liability by about \$10.6 million dollars and a 1% increase in the discount rate from 4.80% to 5.80% would decrease the net liability by about \$8.7 million dollars.

Freeze: Effective July 3, 2023 Plan II, the single-employer defined benefit plan, was frozen.

NOTE J - COMMITMENTS AND CONTINGENCIES

Construction-in-Progress: As of June 30, 2023, the Hospital had recorded \$880,124 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, 2023 and 2022 related to these projects. Estimated cost to complete these projects as of June 30, 2023 is approximately \$1 million.

Operating Leases: The Hospital leases various equipment and facilities under operating leases expiring at various dates. Those which qualified under GASB 87 are disclosed in Note N. Total building and equipment rent expense for the years ended June 30, 2023 and 2022 (including GASB 87 qualifiers), were \$1,803,465 and \$1,707,887, respectively. Future minimum lease payments for the succeeding years under operating leases as of June 30, 2023 other than those disclosed in Note N, that have initial or remaining lease terms in excess of one year are not considered material.

NOTE J - COMMITMENTS AND CONTINGENCIES (continued)

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, 2023, other than the bankruptcy issue, will be resolved without material adverse effect on the Hospital's future financial position, results from operations or cash flows.

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, 2023 and June 30, 2022, this amount was estimated at \$1,352,538 and \$1,111,531, 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, 2023 and 2022.

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, 2023 and 2022:

<i>As of June 30, 2023</i>	Fair Value	Investment Maturities in Years		
		Less than 1	1 to 5	Over 5
U. S. government obligations	\$ 123,315	\$ 984	\$ 42,496	\$ 79,835
Local agency investment fund	169,439	169,439		
Corporate bonds and notes	97,979	2,971	57,866	37,142
Money market and mutual funds	14,264	14,264		
Total investments	<u>\$ 404,997</u>	<u>\$ 187,658</u>	<u>\$ 100,362</u>	<u>\$ 116,977</u>

<i>As of June 30, 2022</i>	Fair Value	Investment Maturities in Years		
		Less than 1	1 to 5	Over 5
U. S. government obligations	\$ 113,387	\$ 4,863	\$ 46,933	\$ 61,591
Local agency investment fund	166,550	166,550		
Corporate bonds and notes	120,075	3,996	79,244	36,835
Money market and mutual funds	3,455	3,455		
Total investments	<u>\$ 403,467</u>	<u>\$ 178,864</u>	<u>\$ 126,177</u>	<u>\$ 98,426</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.

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.

Notes to Financial Statements (continued)

SAN BENITO HEALTH CARE DISTRICT

NOTE K -INVESTMENTS (continued)

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.

Investment Hierarchy - The Hospital categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant other unobservable inputs. The Hospital investments are solely measured by Level 1 inputs and does not have any investments that are measured using Level 2 or 3 inputs.

NOTE L - OTHER DECREASES IN NET POSITION

The Hospital has recorded increases in net position of \$14,296 and \$34,577 as other decreases in net position as of June 30, 2023 and 2022, respectively, within the statement of revenues, expenses and changes in net position. For the year ended June 30, 2023, these amounts were comprised of restricted contributions and net assets released from restriction for a net amount of \$14,296. For the year ended June 30, 2022, these amounts were also comprised of net assets released from restriction for a net amount of \$34,577.

NOTE M - RESTRICTED BY CONTRIBUTORS

Restricted assets by contributors as of June 30, 2023 and 2022 are available for the following purposes:

	<u>2023</u>	<u>2022</u>
Restricted by the foundation for capital assets and other purposes	\$ 38,672	\$ 38,442
Restricted by the auxiliary for capital assets and other purposes	33,028	32,465
Restricted for scholarships and tuitions	<u>53,493</u>	<u>53,192</u>
Total restricted net position, by contributor	<u>\$ 125,193</u>	<u>\$ 124,099</u>

Notes to Financial Statements (continued)

SAN BENITO HEALTH CARE DISTRICT

NOTE N - LEASES

As of July 1, 2021 the Hospital adopted the Governmental Accounting Standards Board (GASB) 87 requiring certain changes in the way the Hospital accounted for leases, both as a lessee and as a lessor.

Lessee: The Hospital leases space for various clinic and other health care services under operating leases. Lease commencement occurs on the date the Hospital takes possession or control of the property. Original terms for the capitalized leases range from four to five years. Capitalized leases have either an option to extend the contract or open contracts after the end of the lease term. Annual rent increases to base rent are based on the Consumer Price Index (CPI) or a fixed contractual rate that approximates CPI increases.

These leases does not contain a readily determinable discount rate. The estimated borrowing rate of 5.0% was used to discount the remaining cash flows for these operating leases.

These leases requires payment of common area maintenance and real estate taxes which represent the majority of variable lease costs. Variable lease costs are excluded from the present value of lease obligations due to their immateriality.

The Hospital's lease agreements do not contain any material restrictions, covenants, or any material residual value guarantees.

Lessee -lease related assets and liabilities as of June 30, 2023 and 2022 consist of the following:

Assets:	<u>2023</u>	<u>2022</u>
Operating lease - current portion	\$ 559,307	\$ 526,489
Operating lease - noncurrent portion	<u>569,689</u>	<u>1,145,753</u>
Total lease assets	<u>\$ 1,128,996</u>	<u>\$ 1,672,242</u>
Liabilities:		
Operating lease - current portion	\$ 508,395	\$ 520,961
Operating lease - noncurrent portion	<u>658,946</u>	<u>1,167,341</u>
Total lease liabilities	<u>\$ 1,167,341</u>	<u>\$ 1,688,302</u>

The future minimum rental payments required under operating lease obligations as of June 30, 2023, having initial or remaining non-cancelable lease terms in excess of one year are summarized as follows:

Notes to Combined Financial Statements (continued)

SAN BENITO HEALTH CARE DISTRICT

NOTE N - LEASES (continued)

Years ending June 30,

	2024	\$	554,482
	2025		359,223
	2026		163,716
	2027		116,547
	Thereafter		<u>63,032</u>
	Total		1,257,000
	Less: interest		<u>(89,659)</u>
liabilities	Present value of lease		<u>\$ 1,167,341</u>

The weighted average for the remaining lease term of these operating leases is an average of 3.06 and the weighted average discount rate for this operating leases is 5%

Lessor: The Hospital had no leases as lessor which qualified under GASB 87.

NOTE O - 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 \$712,342 and \$164,302 for the years ended June 30, 2023 and 2022, 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 \$15,000 and \$50,000 for the years ended June 30, 2023 and 2022. Both of these entities are considered component units of the Hospital due to their relationship.

SAN BENITO HEALTH CARE DISTRICT

NOTE P - CHAPTER 9 BANKRUPTCY

On May 23, 2023, the Hospital filed a voluntary petition for relief under Chapter 9 of title 11 of the United States Code (the Bankruptcy Code). The Hospital is represented by legal counsel in a pending reorganization under Chapter 9 of Title 11 United States Code (the Bankruptcy Code) in the United States Bankruptcy Court - Northern District of California - San Jose Division. The purpose of the Hospital's plan of reorganization is to restructure certain classifications of the Hospital's debt and provide for their payment in whole or part. Certain debt may be susceptible to being discharged or rendered unenforceable. The ultimate success of the plan will depend primarily on the ability of the Hospital's management to operate the hospital at a level of increased cash flows and thereby generate sufficient cash flows, coupled with Hospital property taxes, to meet their obligations in the normal course of hospital operations. Hospital management is continuing a program of cost reductions and revenue enhancement which it believes will result in improved cash flows.

The financial statements do not include any adjustments relating to the recoverability and classification of asset amounts or the amounts and classification of liabilities that might be necessary should the Hospital be unable to continue hospital operations.

NOTE Q - GASB 68 IMPACT

For the year ended June 30, 2023 the Hospital realized a pension adjustment of \$7,291,536 which had an affect of decreasing net position for that year. In contrast, for the year ended June 30, 2022 the Hospital realized a pension adjustment of \$145,494 which also decreased net position for that year. According to the consulting group contracted by the Hospital as the actuaries for the Plan II, the single-employer defined benefit plan, the reason for the significant difference between the two years was a result of the change in discount rate due to the Plan II being frozen on July 3, 2023.

NOTE R - SUBSEQUENT EVENTS

Management evaluated the effect of subsequent events on the financial statements through December 14, 2023, the date the financial statements are issued, and determined that there are no material subsequent events that have not been disclosed.

Supplementary Schedule

Bond Covenant Requirements

SAN BENITO HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2023</u>	<u>2022</u>
Debt Service Coverage Ratio		
Excess of revenues over expenses	\$ 344,137	\$ 2,670,099
Less district taxes for general obligation bond debt service	(2,157,848)	(2,048,091)
Add in interest expense related to general obligation bonds	<u>864,570</u>	<u>901,086</u>
Revised excess of revenues over expenses	(949,141)	1,523,094
Add in other interest expense	472,891	509,273
Add in depreciation and amortization	<u>3,808,755</u>	<u>3,749,096</u>
Total adjusted excess of revenues over expenses	<u>\$ 3,332,505</u>	<u>\$ 5,781,463</u>
Debt service requirements for fiscal year ended June 30		
Capital lease debt service requirements	\$ 115,221	\$ 115,221
Series 2021 revenue bond requirements	<u>1,872,400</u>	<u>1,869,200</u>
Total debt service requirements - next fiscal year (2024)	<u>\$ 1,987,621</u>	<u>\$ 1,984,421</u>
Debt Service Coverage Ratio	<u>1.68</u>	<u>2.91</u>
Required by covenants	<u>1.25</u>	<u>1.25</u>
Current Ratio		
Current assets	<u>\$ 46,751,253</u>	<u>\$ 39,313,652</u>
Current liabilities	<u>\$ 29,301,903</u>	<u>\$ 26,377,280</u>
Current ratio	<u>1.60</u>	<u>1.49</u>
Required by covenants	<u>1.50</u>	<u>1.50</u>
Days Cash on Hand		
Cash and cash equivalents	\$ 13,413,099	\$ 14,442,002
Board designated funds	<u>297,003</u>	<u>296,361</u>
Total available cash on hand	<u>\$ 13,710,102</u>	<u>\$ 14,738,363</u>
Operating expenses	\$155,495,079	\$147,177,898
Add in interest expense	1,759,392	1,528,522
Less depreciation and amortization	<u>(3,808,755)</u>	<u>(3,749,096)</u>
Net expenses to be covered by available cash on hand	<u>\$153,445,716</u>	<u>\$144,957,324</u>
Days in the year	<u>365</u>	<u>365</u>
Average daily cash requirements	<u>\$ 420,399</u>	<u>\$ 397,143</u>
Days cash on hand	<u>32.61</u>	<u>37.11</u>
Required by covenants	<u>30.00</u>	<u>30.00</u>

JWT & Associates, LLP

A Certified Public Accountancy Limited Liability Partnership

1111 East Herndon, Suite 211, Fresno, California 93720

Voicemail: (559) 431-7708 Fax: (559) 431-7685

Independent Auditors Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the San Benito Health Care District, *dba* Hazel Hawkins Memorial Hospital (the Hospital) as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Hospital's financial statements, and have issued our report thereon dated December 14, 2023.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given those limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

JW7 & Associates, LLP

Fresno, California
December 14, 2023