

Audited Financial Statements

**SAN BENITO
HEALTH CARE DISTRICT**

dba: HAZEL HAWKINS MEMORIAL HOSPITAL

June 30, 2024 and 2023

Audited Financial Statements

SAN BENITO HEALTH CARE DISTRICT

June 30, 2024

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Management's Discussion and Analysis

SAN BENITO HEALTH CARE DISTRICT

June 30, 2024

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, 2024 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, 2024 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 \$5,544,985 over the prior fiscal year due mainly to the increase in cash. Total operating cash and cash equivalents increased by \$21,492,104 over the prior year (see the *Statements of Cash Flows* for changes). Net patient accounts receivable decreased by \$1,657,749 which resulted in net days in patient accounts receivable of 29.42 at June 30, 2024 as compared to 32.88 in the prior year.
- Current assets increased by \$19,517,074 while current liabilities increased by \$6,274,669 over the prior fiscal year. The current ratio was 1.83 as compared to 1.60 for the prior year.
- The operating income was \$9,853,077 for fiscal year 2024 as compared to operating income of \$3,722,645 for the prior year, representing an increase of \$6,130,432 in operations due mainly to the increase in efficiency for the year.
- The increase in net position was \$15,617,272 for the current fiscal year as compared to an increase in net position of \$344,137 for the prior fiscal year. The pension adjustment for the year was a credit of \$1,424,210.
- Operating revenues decreased by \$4,331,246 from the prior year, however, operating expenses decreased by \$10,461,678 from the prior year due to a large decrease in employee benefits of \$9,373,791.
- The Hospital realized a \$1,424,210 credit in the pension adjustment for the year due the affects of the Plan being frozen early in the fiscal year.

Management's Discussion and Analysis (continued)

SAN BENITO HEALTH CARE DISTRICT

Volumes

- Acute patient days were 5,513 for fiscal year 2024 as compared to 6,322 for the prior year. The average length of stay decreased from 2.97 days in fiscal year 2023 to 2.89 days in fiscal year 2024.
- The Northside skilled nursing facility had an average daily census (ADC) of 44.90 for the fiscal year 2024, equaling a total of 16,434 patient days as compared to 16,424 days (ADC of 45.00) for the prior year.
- The Mabie skilled nursing facility had an ADC of 44.17 for the fiscal year 2024, equaling a total of 16,165 patient days. The prior year ADC was 45.11 for a total of 16,466 patient days.
- Surgery cases for the fiscal year were slightly lower than the prior year. There were 2,067 cases as compared to 2,134 cases for the prior fiscal year.
- There was a decrease in outpatient visits; 133,797 in the fiscal year 2024 as compared to 160,515 for the prior fiscal year.
- There was an increase in emergency room visits; 26,793 in the fiscal year 2024 as compared to 25,132 for the prior year.
- There was a decrease in rural health care clinic visits; 45,657 visits in the year 2024 as compared to 49,496 visits for the prior year as the Hospital continues to operate five rural health care clinics.
- Physical therapy treatments increased to 21,781 in the year 2024 as compared to 20,654 in the prior year.
- Focus Physical Therapy treatments increased to 30,157 in the year 2024 as compared to 27,239 in the prior year.

Cash and Investments

For the fiscal year ended June 30, 2024, the Hospital's operating and board designated cash and investments totaled \$35,206,330 as compared to \$13,710,102 in fiscal year 2023. At June 30, 2024, days cash on hand were 90.08 thus meeting the required bond covenant of 30 days cash on hand. At June 30, 2023, days cash on hand were 32.63. 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 \$6,274,669. Significant changes in the current liability categories were: (1) accounts payable and accrued expenses increased by \$3,830,176; (2) accrued payroll and related liabilities decreased by \$1,749,882; and (3) settlements increased by \$6,123,561.

Management's Discussion and Analysis (continued)

SAN BENITO HEALTH CARE DISTRICT

Capital Assets

There were \$1,646,656 of new additions capital assets during the year in the categories of equipment and construction-in-progress consisting of eight different projects. Depreciation and amortization expense for the year was \$4,046,659 as compared to \$4,076,320 for the prior year. The Hospital has \$1,393,964 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. Total combined charges of both inpatient and outpatient gross patient charges for the year increased by \$33,918,112 due to changes in volumes from the prior year coupled with rate increases. In just the outpatient areas, gross charges increased by \$47,191,423 as charges decreased by \$13,273,311.

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 2024 and fiscal year 2023 were \$294,934,103 and \$258,377,580, 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 66.30% for fiscal year 2024 as compared to 62.88% for prior fiscal year.

Net Patient Service Revenues

Net patient service revenues are the resulting difference between gross patient charges and the deductions from revenue. Net patient service revenues decreased by \$2,638,411 in fiscal year 2024 over the prior year.

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, 2024 and 2023 were 15.10 and 17.32, respectively

Operating Expenses

Total operating expenses were \$145,033,401 for fiscal year 2024 compared to \$155,495,079 for the prior fiscal year, a decrease of \$10,461,678. The decrease is due primarily to:

- A \$9,373,791 decrease in employee benefits due to changes in the pension plan . Paid full time equivalents (FTE's) decreased from 546.16 in fiscal year 2023 to 504.66 in fiscal year 2024. Productive FTE's were 488.71 in 2023 and 467.90 in 2024. Salaries and benefits per paid FTE decreased from \$168,849 per FTE in 2023 to \$163,062 per FTE in 2024. Registry expense increased only slightly from \$4,217,289 in 2023 to \$4,548,252 in 2024.
- Other operational expense changes experienced modest increases and decreases and were somewhat comparable with prior year expenses. There were generally mostly decreases in expenses throughout the various categories.

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. The District is working towards exiting the Chapter 9 process while an appeal is pending. It is also actively working toward a partnership, lease or sale with another entity that can continue providing quality care to the residents of San Benito County.

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, 2025 budget at a recent District board meeting. For fiscal year 2025, the Hospital is budgeted to increase net position.

The District's 2025 budget reflects the trend of non-growth in the acute inpatient census for the year. The SNF's will need to steadily increase their census in order to meet an ADC of 85 for 2025. The District has projected an increase of \$6.87 million for 2025 in net position which will allow them to continue to meet their Cal-Mortgage Bond requirements.

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 also being recruited in order to increase outpatient referrals.

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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, 2024 and 2023, 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, 2024 and 2023, 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 November 14, 2024, 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
November 14, 2024

Statements of Net Position

SAN BENITO HEALTH CARE DISTRICT

	June 30	
	<u>2024</u>	<u>2023</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 34,905,203	\$ 13,413,099
Restricted trust funds available for current debt service	2,776,067	2,830,800
Patient accounts receivable, net of allowances	12,081,403	13,739,152
Other receivables	5,931,344	8,381,301
Estimated third party payor settlements	4,303,214	2,286,546
Inventories	4,496,070	4,057,812
Prepaid expenses and deposits	<u>1,775,026</u>	<u>2,042,543</u>
Total current assets	66,268,327	46,751,253
Assets limited as to use	451,131	143,920
Capital assets, net of accumulated depreciation	54,888,670	57,288,673
Other assets	<u>653,261</u>	<u>1,212,567</u>
Total assets	125,213,719	105,396,413
Deferred outflows of resources, net of inflows	<u>7,436,297</u>	<u>18,756,288</u>
	<u>\$129,697,686</u>	<u>\$124,152,701</u>
Liabilities		
Current liabilities:		
Current maturities of debt borrowings	\$ 6,037,190	\$ 7,966,376
Accounts payable and accrued expenses	9,209,258	5,379,082
Accrued payroll and related liabilities	14,206,563	15,956,445
Estimated third party payor settlements and other liabilities	<u>6,782,507</u>	<u>658,946</u>
Total current liabilities	36,235,518	29,960,849
Long-term pension liabilities	23,814,514	36,485,864
Debt borrowings, net of current maturities	<u>30,488,375</u>	<u>34,163,981</u>
Total liabilities	90,538,407	100,610,694
Net position (deficit)		
Invested in capital assets, net of related debt	18,363,105	17,582,628
Restricted, by contributors and indenture agreements	2,893,545	2,677,717
Unrestricted (deficit)	<u>17,902,629</u>	<u>3,281,662</u>
Total net position	<u>39,159,279</u>	<u>23,542,007</u>
	<u>\$129,697,686</u>	<u>\$124,152,701</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>2024</u>	<u>2023</u>
Operating revenues		
Net patient service revenue	\$149,895,282	\$152,533,693
Other operating revenue	<u>4,991,196</u>	<u>6,684,031</u>
Total operating revenues	154,886,478	159,217,724
Operating expenses		
Salaries and wages	57,247,791	57,801,570
Employee benefits	25,042,972	34,416,763
Registry	4,548,252	4,217,289
Professional fees	19,352,379	20,482,577
Supplies	12,386,611	12,878,484
Purchased services and repairs	13,769,711	14,776,517
Utilities and phone	2,380,747	2,666,037
Building and equipment rent	1,753,051	1,803,465
Insurance	1,308,821	1,106,998
Depreciation and amortization	3,876,948	3,808,755
Other operating expenses	<u>3,366,118</u>	<u>1,536,624</u>
Total operating expenses	<u>145,033,401</u>	<u>155,495,079</u>
Operating income (loss)	9,853,077	3,722,645
Nonoperating revenues (expenses)		
District tax revenues	4,991,196	4,847,384
Investment income, net of unrealized gains and losses	489,248	218,106
Interest expense	(1,493,326)	(1,759,392)
Grants, contributions and other gains and losses	<u>423,467</u>	<u>592,634</u>
Total nonoperating revenues (expenses)	<u>4,410,585</u>	<u>3,898,732</u>
Excess of revenues over expenses	14,263,662	7,621,377
GASB 68 pension affect	1,424,210	(7,291,536)
Other increases (decreases) in net position	<u>(70,600)</u>	<u>14,296</u>
Net increase in net position	15,617,272	344,137
Net position at beginning of the year	<u>23,542,007</u>	<u>23,197,870</u>
Net position at end of the year	<u>\$ 39,159,279</u>	<u>\$ 23,542,007</u>

See accompanying notes and auditor's report

Statements of Cash Flows

SAN BENITO HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Cash received from patients and third-parties on behalf of patients	\$155,335,882	\$147,302,546
Cash received from operations, other than patient services	7,441,153	1,964,043
Cash payments to suppliers and contractors	(67,845,715)	(47,381,798)
Cash payments to employees and benefit programs	<u>(84,072,535)</u>	<u>(86,983,018)</u>
Net cash provided by operating activities	10,858,785	14,901,773
Cash flows from noncapital financing activities:		
District tax revenues related to operations	2,856,812	2,689,536
Grants, contributions and changes in restricted assets	<u>423,467</u>	<u>1,038,223</u>
Net cash provided by noncapital financing activities	3,280,279	3,727,759
Cash flows from capital financing activities:		
District tax revenues related to capital acquisitions	2,134,384	2,157,848
Net purchase of capital assets and changes in other assets	11,737,763	(24,044,000)
Proceeds from sale of capital assets		1,536,366
Principal borrowings on debt borrowings		3,090,086
Principal payments on debt borrowings	(5,262,551)	(2,605,136)
Interest payments, net of capitalized interest	<u>(1,493,326)</u>	<u>(1,759,392)</u>
Net cash provided by (used in) capital financing activities	7,116,270	(21,624,228)
Cash flows from investing activities:		
Net (purchase) or sale of assets limited as to use	(252,478)	1,747,687
Investment income, net of unrealized gains and losses	<u>489,248</u>	<u>218,106</u>
Net cash provided by investing activities	<u>236,770</u>	<u>1,965,793</u>
Net increase (decrease) in cash and cash equivalents	21,492,104	(1,028,903)
Cash and cash equivalents at beginning of year	<u>13,413,099</u>	<u>14,442,002</u>
Cash and cash equivalents at end of year	<u>\$ 34,905,203</u>	<u>\$ 13,413,099</u>

See accompanying notes and auditor's report

Statements of Cash Flows (continued)

SAN BENITO HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2024</u>	<u>2023</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 9,853,077	\$ 3,722,645
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,876,948	3,808,755
Provision for bad debts and other	11,008,966	4,707,915
Changes in operating assets, liabilities and other:		
Patient accounts receivables, net of allowances	(9,351,217)	(4,146,548)
Other receivables	2,449,957	(4,719,988)
Inventories	(438,258)	(911,651)
Prepaid expenses and deposits	267,517	(1,116,046)
Accounts payable and accrued expenses	3,830,176	(7,906,315)
Accrued payroll and related liabilities	(1,781,772)	5,235,315
Estimated third party payor settlements and other liabilities	3,782,851	(5,792,514)
Net long-term pension liability	(12,671,350)	21,779,188
Health insurance claims payable (IBNR)	<u>31,890</u>	<u>241,017</u>
Net cash provided by operating activities	<u>\$ 10,858,785</u>	<u>\$ 14,901,773</u>

See accompanying notes and auditor's report

June 30, 2024

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, 2024 and 2023, 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 \$72,852 and \$74,676 for the years ended June 30, 2024 and 2023, respectively.

Deferred outflows of resources is also comprised of defined benefit pension resources of \$12,454,189 of deferred outflows netted against \$5,416,040 of deferred inflows for a net \$7,038,149 for the year ended June 30, 2024 and \$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.

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, 2024 and 2023 are \$3,850,336 and \$4,211,368, 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, 2024 and 2023, the Hospital had operating deposits invested in various financial institutions in the form of cash and cash equivalents amounted to \$36,005,044 and \$14,364,758. 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, 2024, 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, 2024, cost reports through June 30, 2022, 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>2024</u>	<u>2023</u>
Daily hospital acute care routine services	\$ 40,084,613	\$ 46,889,961
Skilled nursing routine services	24,707,998	24,725,200
Inpatient ancillary services	52,224,086	58,674,847
Outpatient services	<u>327,812,688</u>	<u>280,621,265</u>
Gross patient service revenues	444,829,385	410,911,273
Less contractual allowances and provision for bad debts	<u>(294,934,103)</u>	<u>(258,377,580)</u>
Net patient service revenues	<u>\$149,895,282</u>	<u>\$152,533,693</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, 2024 and 2023 were as follows:

	<u>2024</u>	<u>2023</u>
Medicare	\$ 23,453,628	\$ 17,944,182
Medi-Cal	21,330,412	15,902,192
Other third party payors	12,947,872	8,901,492
Self pay and other	<u>10,116,873</u>	<u>6,485,776</u>
Gross patient accounts receivable	67,848,785	49,233,642
Less allowances for contractual adjustments and bad debts	<u>(55,767,382)</u>	<u>(35,494,490)</u>
Net patient accounts receivable	<u>\$ 12,081,403</u>	<u>\$ 13,739,152</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, 2024 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, 2024 and 2023 were comprised of the following:

	<u>2024</u>	<u>2023</u>
Receivable due from the State for supplemental programs	\$ 4,994,577	\$ 7,627,745
San Benito County property taxes	151,958	156,958
Lease receivable - current portion	559,306	559,307
Other various receivables	<u>225,503</u>	<u>37,291</u>
	<u>\$ 5,931,344</u>	<u>\$ 8,381,301</u>

NOTE F - ASSETS LIMITED AS TO USE

Assets limited as to use as of June 30, 2024 and 2023 were comprised of the following:

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents restricted by contributors	\$ 127,119	\$ 125,193
Cash designated by the board for specific purposes	301,127	297,003
Cash and cash equivalents and debt securities held under bond indenture agreements for debt service requirements	<u>2,798,952</u>	<u>2,552,524</u>
	3,227,198	2,974,720
Less amounts available for current obligations	<u>(2,776,067)</u>	<u>(2,830,800)</u>
	<u>\$ 451,131</u>	<u>\$ 143,920</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, 2024 and 2023 were comprised of the following:

	<u>Balance at June 30, 2023</u>	<u>Transfers & Additions</u>	<u>Disposals & Retirements</u>	<u>Balance at June 30, 2024</u>
Land and land improvements	\$ 3,370,474			\$ 3,370,474
Buildings and improvements	100,098,374			100,098,374
Equipment	43,302,208	\$ 1,132,816		44,435,024
Construction-in-progress	<u>880,124</u>	<u>513,840</u>		<u>1,393,964</u>
Totals at historical cost	147,651,180	1,646,656		149,297,836
Less accumulated depreciation for:				
Land and land improvements	(1,530,941)	(73,294)		(1,604,235)
Buildings and improvements	(51,354,211)	(2,629,189)		(53,983,400)
Equipment	<u>(37,477,355)</u>	<u>(1,344,176)</u>		<u>(38,821,531)</u>
Total accumulated depreciation	<u>(90,362,507)</u>	<u>(4,046,659)</u>		<u>(94,409,166)</u>
Capital assets, net	<u>\$ 57,288,673</u>	<u>\$ (1,235,442)</u>	<u>\$</u>	<u>\$ 54,888,670</u>

	<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>

Notes to Financial Statements (continued)

SAN BENITO HEALTH CARE DISTRICT

NOTE H - DEBT BORROWINGS

As of June 30, 2024 and 2023, debt borrowings were as follows:

	<u>2024</u>	<u>2023</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:	\$ 21,815,000	\$ 23,035,000
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:	8,330,000	9,810,000
California Health Facilities Financing Authority (CHFFA) Bridge Loan; no interest charged; entire outstanding principal due September, 2024; collateralized by security agreement:	3,090,086	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:	1,693,358	1,780,472
California Health Facilities Financing Authority (CHFFA) Non-designated 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
Premiums, net of accumulated accretion:	<u>1,597,121</u>	<u>1,939,361</u>
	36,525,565	42,130,357
Less current maturities of debt borrowings	<u>(6,037,190)</u>	<u>(7,966,376)</u>
	<u>\$ 30,488,375</u>	<u>\$ 34,163,981</u>

Future principal maturities for debt borrowings for the next succeeding years are: \$6,037,190 in 2025; \$3,040,000 in 2026; \$3,225,000 in 2027; \$3,420,000 in 2028; and \$3,615,000 in 2029.

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, 2024 and 2023.

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 \$2,044,653 and \$1,979,570 for the years ended June 30, 2024 and 2023, 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, 2024 and 2023 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, 2024 and 2023, the DSCR was 9.38 and 1.68, 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, 2024 and 2023, the current ratio was 1.77 and 1.60 and the days cash on hand are 90.08 and 32.61, 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 \$33,085,568 and \$33,956,744 as of June 30, 2024 and 2023 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, 2024 and 2023, the Hospital recognized pension (credit) and expense under Plan II of \$(1,424,210) and \$7,291,536, respectively. At June 30, 2024 and 2023 the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2024</u>	<u>2023</u>
Deferred outflows of resources:		
Differences between expected and actual experience	\$ 925,724	\$ 1,312,573
Changes in assumptions	9,382,924	12,900,689
Contributions to pension plan after measurement date		
Net difference between projected and actual earnings on investments	<u>2,145,541</u>	<u>5,000,452</u>
	12,454,189	19,213,714
Deferred inflows of resources:		
Changes in assumptions and other differences	<u>(5,416,040)</u>	<u>(928,425)</u>
Net deferred outflows and inflows related to pension	<u>\$ 7,038,149</u>	<u>\$ 18,285,289</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:		
2025		\$ 2,579,454
2026		2,681,874
2027		2,539,486
2028		(762,665)
Thereafter		-0-
		<u>\$ 7,038,149</u>

The following is the aggregate pension expense for the year:

	<u>2024</u>	<u>2023</u>
Service costs, plus related administrative expense	\$ 2,398,957	\$ 2,280,614
Interest on the total pension liability	3,510,551	3,394,641
Recognized difference between expected and actual experience	19,116	117,029
Recognized changes of assumptions	2,183,211	3,422,209
Projected earnings on pension plan investments and contributions	(9,375,075)	(3,006,371)
Recognized differences between projected and actual earnings	<u>(64,137)</u>	<u>1,060,665</u>
Aggregate pension expense	<u>\$ (1,327,377)</u>	<u>\$ 7,268,787</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 5.44% 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>2024</u>	<u>2023</u>
Total Pension Liability		
Service costs	\$ 2,376,022	\$ 2,257,746
Interest on the total pension liability	3,510,551	3,394,641
Differences between expected and actual experience	(453,339)	1,069,590
Changes of assumptions	(5,736,563)	10,293,791
Benefit payments/changes, including refunds of employee contributions	<u>(8,712,089)</u>	<u>(1,323,008)</u>
Net change in total pension liability	(9,015,418)	15,692,760
Total pension liability at the beginning of the year	<u>71,623,317</u>	<u>55,930,557</u>
Total pension liability at the end of the year	<u>\$ 62,607,899</u>	<u>\$ 71,623,317</u>
 Plan Fiduciary Net Position		
Contributions - employer (Hospital)	\$ 96,833	\$ 1,545,627
Contributions - employees	173,193	310,498
Net investment income	5,155,028	(6,596,677)
Administrative expense	(22,935)	(22,868)
Benefit payments, including refunds of employee contributions	<u>(1,746,187)</u>	<u>(1,323,008)</u>
Net change in Plan Fiduciary Net Position	3,655,932	(6,086,428)
Total plan fiduciary net position at the beginning of the year	<u>35,137,453</u>	<u>41,223,881</u>
Total plan fiduciary net position at the end of the year	<u>\$ 38,793,385</u>	<u>\$ 35,137,453</u>
Hospital's net pension liability (liability less net position)	<u>\$ 23,814,514</u>	<u>\$ 36,485,864</u>
Plan fiduciary net position as a % of the total liability	42%	49%
Covered employee payroll	\$ 26,658,478	\$ 25,765,287
Hospital's net pension liability as a % of covered employee payroll	89%	142%
 Schedule of Hospital Contributions		
Actuarially determined contributions	\$ 3,401,336	\$ 3,154,060
Contributions in relation to the actuarially determined contributions	<u>(96,833)</u>	<u>(1,545,627)</u>
Contribution deficiency	<u>\$ 3,304,503</u>	<u>\$ 1,608,433</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, 2024, there are currently 258 active participants in the plan, 159 retired participants, 148 terminated vested participants entitled to future benefits, 10 active participants (frozen status) for a total of 575 total participants.

Contributions: For the fiscal year ended June 30, 2024, the actuarially determined contributions for the Hospital for the plan year was \$3,401,336 with actual employer contributions of \$96,833 leaving a contribution deficiency of \$3,304,503 on a covered employee payroll of \$26,658,478. 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 \$1,545,627 leaving a contribution deficiency of \$1,608,433 on a covered employee payroll of \$25,765,287.

Discount rate: The discount rate used to measure the total pension liability was 5.44%. In the previous valuation, the discount rate used to measure the total pension liability was 4.80%. 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 5.44% to 4.44% would increase the net liability by about \$9.3 million dollars and a 1% increase in the discount rate from 5.44% to 6.44% would decrease the net liability by about \$7.5 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, 2024, the Hospital had recorded \$1,393,964 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, 2024 and 2023 related to these projects. Estimated cost to complete these projects as of June 30, 2024 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, 2024 and 2023 (including GASB 87 qualifiers), were \$1,753,051 and \$1,803,465, respectively. Future minimum lease payments for the succeeding years under operating leases as of June 30, 2024 other than those disclosed in Note N, that have initial or remaining lease terms in excess of one year are not considered material.

SAN BENITO HEALTH CARE DISTRICT

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, 2024, 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, 2024 and June 30, 2023, this amount was estimated at \$1,384,438 and \$1,352,538, 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, 2024 and 2023.

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, 2024 and 2023:

<i>As of June 30, 2024</i>	Fair Value	Investment Maturities in Years		
		Less than 1	1 to 5	Over 5
U. S. government obligations	\$ 135,374		\$ 34,426	\$ 100,948
Local agency investment fund	175,899	\$ 175,899		
Corporate bonds and notes	96,782	15,830	34,482	46,470
Money market and mutual funds	<u>7,526</u>	<u>7,526</u>		
Total investments	<u>\$ 415,581</u>	<u>\$ 199,255</u>	<u>\$ 68,908</u>	<u>\$ 147,418</u>

<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	<u>14,264</u>	<u>14,264</u>		
Total investments	<u>\$ 404,997</u>	<u>\$ 187,658</u>	<u>\$ 100,362</u>	<u>\$ 116,977</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 and (decreases) in net position of \$(70,600) and \$14,296 as other decreases in net position as of June 30, 2024 and 2023, respectively, within the statement of revenues, expenses and changes in net position. For the year ended June 30, 2024, these amounts were comprised of restricted contributions and net assets placed in restriction for a net amount of \$70,600. For the year ended June 30, 2023, these amounts were comprised of net assets released from restriction for a net amount of \$14,296.

NOTE M - RESTRICTED BY CONTRIBUTORS

Restricted assets by contributors as of June 30, 2024 and 2023 are available for the following purposes:

	<u>2024</u>	<u>2023</u>
Restricted by the foundation for capital assets and other purposes	\$ 38,985	\$ 38,672
Restricted by the auxiliary for capital assets and other purposes	34,264	33,028
Restricted for scholarships and tuitions	<u>53,870</u>	<u>53,493</u>
Total restricted net position, by contributor	<u>\$ 127,119</u>	<u>\$ 125,193</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, 2024 and 2023 consist of the following:

Assets:	<u>2024</u>	<u>2023</u>
Operating lease - current portion	\$ 559,306	\$ 559,307
Operating lease - noncurrent portion	<u>10,383</u>	<u>569,689</u>
Total lease assets	<u>\$ 569,689</u>	<u>\$ 1,128,996</u>
Liabilities:		
Operating lease - current portion	\$ 334,904	\$ 508,395
Operating lease - noncurrent portion	<u>324,042</u>	<u>658,946</u>
Total lease liabilities	<u>\$ 658,946</u>	<u>\$ 1,167,341</u>

The future minimum rental payments required under operating lease obligations as of June 30, 2024, 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,

	2025	359,223
	2026	163,716
	2027	116,547
	Thereafter	<u>63,031</u>
	Total	702,517
	Less: interest	<u>(43,571)</u>
liabilities	Present value of lease	<u>\$ 658,946</u>

The weighted average for the remaining lease term of these operating leases is an average of 1.50 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 \$412,984 and \$712,342 for the years ended June 30, 2024 and 2023, 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 \$36,568 and \$15,000 for the years ended June 30, 2024 and 2023. 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, 2024 the Hospital realized a pension adjustment of \$1,424,210 which had an affect of increasing net position for that year. In contrast, for the year ended June 30, 2023 the Hospital realized a pension adjustment of \$7,291,536 which 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 November 14, 2024, 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>2024</u>	<u>2023</u>
Debt Service Coverage Ratio		
Excess of revenues over expenses	\$ 15,617,272	\$ 344,137
Less district taxes for general obligation bond debt service	(2,134,384)	(2,157,848)
Add in interest expense related to general obligation bonds	<u>824,653</u>	<u>864,570</u>
Revised excess of revenues over expenses	14,307,541	(949,141)
Add in other interest expense	411,336	472,891
Add in depreciation and amortization	<u>3,876,948</u>	<u>3,808,755</u>
Total adjusted excess of revenues over expenses	<u>\$ 18,595,825</u>	<u>\$ 3,332,505</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>1,868,200</u>	<u>1,872,400</u>
Total debt service requirements - next fiscal year (2024)	<u>\$ 1,983,421</u>	<u>\$ 1,987,621</u>
Debt Service Coverage Ratio	<u>9.38</u>	<u>1.68</u>
Required by covenants	<u>1.25</u>	<u>1.25</u>
Current Ratio		
Current assets	<u>\$ 66,268,327</u>	<u>\$ 46,751,253</u>
Current liabilities	<u>\$ 36,235,518</u>	<u>\$ 29,301,903</u>
Current ratio	<u>1.83</u>	<u>1.60</u>
Required by covenants	<u>1.50</u>	<u>1.50</u>
Days Cash on Hand		
Cash and cash equivalents	\$ 34,905,203	\$ 13,413,099
Board designated funds	<u>301,127</u>	<u>297,003</u>
Total available cash on hand	<u>\$ 35,206,330</u>	<u>\$ 13,710,102</u>
Operating expenses	\$145,033,401	\$155,495,079
Add in interest expense	1,493,326	1,759,392
Less depreciation and amortization	<u>(3,876,948)</u>	<u>(3,808,755)</u>
Net expenses to be covered by available cash on hand	<u>\$142,649,779</u>	<u>\$153,445,716</u>
Days in the year	<u>366</u>	<u>365</u>
Average daily cash requirements	<u>\$ 389,753</u>	<u>\$ 420,399</u>
Days cash on hand	<u>90.33</u>	<u>32.61</u>
Required by covenants	<u>30.00</u>	<u>30.00</u>

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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, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Hospital's financial statements, and have issued our report thereon dated November 14, 2024.

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
November 14, 2024