

**PAJARO VALLEY COMMUNITY
HEALTH TRUST**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

AND INDEPENDENT AUDITORS' REPORT

PAJARO VALLEY COMMUNITY HEALTH TRUST

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**PAJARO VALLEY COMMUNITY HEALTH TRUST
BOARD OF DIRECTORS
FISCAL YEAR 2020 – 2021**

DeAndre' James, Chief Executive Officer

Robby Olson III, Board Chair

Elsa Mendoza Jimenez, Vice Chair

Matt Jones, Treasurer

Caroline Eiskamp, Secretary

Brooke Kondo Rains, DDS

Candy Newell

Christian Miranda

Christine Levan, MD

Cristina Gamboa, MD

Gretchen Regenhardt

Jan Wolf

Marcus Pimentel

Nancy Chen

Rebecca Garcia

Raven Adams

Shebreh Kalantari Johnson

Trina Coffman-Gomez

Vivian Rogers



HAYASHI | WAYLAND

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pajaro Valley Community Health Trust
Watsonville, California

Report on the Financial Statements

We have audited the accompanying financial statements of **Pajaro Valley Community Health Trust** (a California nonprofit corporation), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ***Pajaro Valley Community Health Trust*** as of June 30, 2021, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited ***Pajaro Valley Community Health Trust's*** 2020 financial statements, and we expressed an unmodified audit opinion on these audited financial statements in our report dated February 16, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hayashi Wayland, LLP

December 13, 2021
Salinas, California



PAJARO VALLEY COMMUNITY HEALTH TRUST
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2021
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2020)

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 317,032	\$ 386,012
Accounts receivable	119,118	124,506
Prepaid expenses	<u>53,215</u>	<u>39,648</u>
Total current assets	<u>489,365</u>	<u>550,166</u>
PROPERTY AND EQUIPMENT:		
Furniture and fixtures	61,729	38,183
Equipment	70,029	59,447
Leasehold improvements	<u>149,694</u>	<u>46,978</u>
Total property and equipment	281,452	144,608
Less accumulated depreciation	<u>70,769</u>	<u>50,229</u>
Total property and equipment – net	<u>210,683</u>	<u>94,379</u>
INVESTMENTS (NOTE 4)	<u>18,626,152</u>	<u>17,154,797</u>
TOTAL ASSETS	<u><u>\$ 19,326,200</u></u>	<u><u>\$ 17,799,342</u></u>

PAJARO VALLEY COMMUNITY HEALTH TRUST
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2021
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2020)
(Continued)

	<u>2021</u>	<u>2020</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 140,721	\$ 22,290
Other accrued liabilities	130,722	134,809
Fiscal sponsorship payable	–	68,508
Refundable advance (Note 5)	–	281,222
Line of credit (Note 6)	<u>250,551</u>	<u>250,334</u>
 Total current liabilities	 521,994	 757,163
OTHER LIABILITIES:		
Accrued workers' compensation fund (Note 8)	<u>93,911</u>	<u>78,188</u>
 Total liabilities	 <u>615,905</u>	 <u>835,351</u>
NET ASSETS:		
Without donor restrictions:	<u>15,586,125</u>	<u>14,057,358</u>
With donor restrictions:		
Purpose/time restricted	986,804	772,513
Donor endowments	<u>2,137,366</u>	<u>2,134,120</u>
 Total with donor restrictions	 <u>3,124,170</u>	 <u>2,906,633</u>
 Total net assets	 <u>18,710,295</u>	 <u>16,963,991</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 19,326,200</u>	 <u>\$ 17,799,342</u>

See Notes to Financial Statements.

PAJARO VALLEY COMMUNITY HEALTH TRUST
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020)

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
SUPPORT AND REVENUE:				
Grants, contributions, and donations	\$ 401,226	\$ 545,020	\$ 946,246	\$ 2,451,704
In-kind contributions	288,714	—	288,714	305,688
Special event revenues	100,916	37,750	138,666	136,822
DHC patient fees	175,410	—	175,410	150,259
Net investment income (Note 4)	2,874,426	614,068	3,488,494	(114,077)
Miscellaneous revenue	20,574	—	20,574	7,696
Loss on sale of property and equipment	(4,989)	—	(4,989)	—
Net assets released from restrictions (Note 9)	<u>979,301</u>	<u>(979,301)</u>	<u>—</u>	<u>—</u>
Total support and revenue	<u>4,835,578</u>	<u>217,537</u>	<u>5,053,115</u>	<u>2,938,092</u>
EXPENSES:				
Diabetes Health Center Services	872,072	—	872,072	788,490
Health Collaborative	1,514,179	—	1,514,179	641,376
Community Gardens	158,361	—	158,361	—
Fundraising	380,264	—	380,264	283,487
General and administrative	<u>303,350</u>	<u>—</u>	<u>303,350</u>	<u>1,016,807</u>
Total expenses	<u>3,228,226</u>	<u>—</u>	<u>3,228,226</u>	<u>2,730,160</u>
Increase (decrease) in net assets from continuing operations	1,607,352	217,537	1,824,889	207,932
Discontinued operations – additional gain (loss) on sale of hospital assets (Note 8)	<u>(78,585)</u>	<u>—</u>	<u>(78,585)</u>	<u>(75,236)</u>
Increase (decrease) in net assets	1,528,767	217,537	1,746,304	132,696
NET ASSETS, BEGINNING OF YEAR	<u>14,057,358</u>	<u>2,906,633</u>	<u>16,963,991</u>	<u>16,831,295</u>
NET ASSETS, END OF YEAR	<u>\$ 15,586,125</u>	<u>\$ 3,124,170</u>	<u>\$ 18,710,295</u>	<u>\$ 16,963,991</u>

See Notes to Financial Statements.

PAJARO VALLEY COMMUNITY HEALTH TRUST
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020)

	<u>Diabetes Health</u> <u>Center Services</u>	<u>Health</u> <u>Collaborative</u>	<u>Community</u> <u>Gardens</u>	<u>Fundraising</u>	<u>General and</u> <u>Administrative</u>	<u>2021</u> <u>Total</u>	<u>2020</u> <u>Total</u>
EXPENSES:							
Salaries	\$ 451,458	\$ 216,018	\$ 66,816	\$ 172,784	\$ 147,542	\$ 1,054,618	\$ 833,846
Payroll taxes and benefits	110,490	66,382	23,166	43,066	46,905	290,009	199,436
Professional fees	40,165	30,343	13,899	4,726	25,904	115,037	866,246
Facilities and equipment	37,960	6,405	4,384	6,663	8,771	64,183	117,917
Rent	146,446	13,313	28,686	26,627	39,940	255,012	255,470
Depreciation	12,885	1,171	2,343	2,343	3,514	22,256	11,760
Miscellaneous office and board expenses	10,224	4,906	1,452	14,086	10,825	41,493	38,260
Duplicating	594	105	—	68	602	1,369	1,964
Special events	—	—	—	58,835	—	58,835	61,303
Postage	372	168	52	1,971	107	2,670	2,715
Publications	1,139	823	3,590	491	396	6,439	5,974
Supplies	11,294	21,555	5,680	1,559	1,981	42,069	13,039
Training	7,311	1,699	199	3,074	9,101	21,384	12,089
Outreach	—	—	—	38,873	137	39,010	3,400
Travel	32	60	401	169	680	1,342	3,186
Bad debt	35,987	50	102	4,302	6,439	46,880	57,190
Grantee disbursements	—	1,129,400	—	—	—	1,129,400	242,000
Insurance	4,258	—	703	—	—	4,961	4,031
Interest	1,457	1,052	324	627	506	3,966	334
Program Expenses	—	20,729	6,564	—	—	27,293	—
	<u>\$ 872,072</u>	<u>\$ 1,514,179</u>	<u>\$ 158,361</u>	<u>\$ 380,264</u>	<u>\$ 303,350</u>	<u>\$ 3,228,226</u>	<u>\$ 2,730,160</u>

See Notes to Financial Statements.

PAJARO VALLEY COMMUNITY HEALTH TRUST
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020)

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from contributions and grants	\$ 946,246	\$ 2,484,704
Cash received as revenue and support	340,038	216,189
Cash paid to suppliers and employees	(1,905,281)	(2,355,259)
Grants paid	(1,129,400)	(242,000)
Interest and dividends received	289,702	464,475
Contributions restricted for endowment	(3,246)	(1,001,770)
Loss on disposal of property and equipment	4,989	—
Forgiveness of PPP loan	<u>(281,222)</u>	<u>—</u>
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 <u>(1,738,174)</u>	 <u>(433,661)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(292,882)	(21,228)
Cash paid to purchase investments	2,103,334	(1,673,560)
Proceeds from sale of investments	<u>(144,721)</u>	<u>789,775</u>
 NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	 <u>1,665,731</u>	 <u>(905,013)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for endowment	3,246	1,001,770
Refundable advance proceeds - PPP	—	281,222
Borrowings on line of credit	<u>217</u>	<u>250,334</u>
 NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	 <u>3,463</u>	 <u>1,533,326</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 (68,980)	 194,652
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>386,012</u>	 <u>191,360</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$ 317,032</u>	 <u>\$ 386,012</u>

PAJARO VALLEY COMMUNITY HEALTH TRUST
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020)
(Continued)

	<u>2021</u>	<u>2020</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS USED BY OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 1,746,304	\$ 132,696
Adjustments to reconcile increase (decrease) in net assets to cash provided (used) by operating activities:		
Depreciation	23,428	12,217
Net realized/unrealized (gain) loss on investments	(3,281,807)	502,671
Contributions for endowment purposes	(3,246)	(1,001,770)
Loss on disposal of property and equipment	4,989	–
(Increase) decrease in:		
Accounts receivable	5,388	(77,088)
Pledges and grants receivable	–	33,000
Prepaid expenses	(13,567)	2,987
Increase (decrease) in:		
Accounts payable	118,431	(25,087)
Other accrued liabilities	(4,087)	8,454
Fiscal sponsorship payable	(68,508)	(35,681)
Deferred revenue	–	(1,500)
Accrued workers' compensation fund	15,723	15,440
Refundable advance	<u>(281,222)</u>	<u>–</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (1,738,174)</u>	<u>\$ (433,661)</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION –		
Interest paid	<u>\$ 3,966</u>	<u>\$ 334</u>

See Notes to Financial Statements.

PAJARO VALLEY COMMUNITY HEALTH TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business – The Pajaro Valley Community Health Trust (the Trust) is a nonprofit organization, which is the successor organization to Watsonville Community Hospital. In September 1998, substantially all of the Hospital’s operating assets were sold to Community Health Systems, Inc. (“CHS”) under an asset sale agreement. Subsequent to the sale, the Hospital’s corporate name was changed to the Pajaro Valley Community Health Trust. The Trust’s obligations include receiving and disbursing the residual sales proceeds in accordance with applicable California law. Its long-range goals include the development and maintenance of endowment funds, operation of health-related programs, and the distribution of funds to health care agencies located in the Pajaro Valley to provide support for the delivery of health and human services.

Under California charitable trust law, the Trust’s net assets and income derived from the sale of the assets of Watsonville Community Hospital must be used consistently with the purposes set forth in the Trust’s Articles of Incorporation at the time the assets were obtained. The Articles permit the Trust to make medical care grants or distributions, directly provide medical care, and make health/medical education expenditures to qualified non-profit organizations in the Pajaro Valley area of California as defined in the Articles.

During 2000, the Trust received the assets of the Watsonville Community Hospital Foundation (the Foundation). Due to the sale of the hospital assets and operations to a for-profit company, the Foundation’s assets were contributed to the Trust under an action approved by the Foundation’s board of directors with local court approval.

The Trust has adopted investment and spending policies, approved by the Board of Trustees, for non-endowed funds, which includes the proceeds from the sale of the hospital assets in the approximate amount of \$13 million. Distributions from these funds are made in accordance with the current spending policy and the Articles of Incorporation with the intention of preserving the original corpus.

Basis of Presentation – The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The net assets, revenues, gains and losses, and other support and expenses and other changes in the accompanying financial statements are classified based on the existence or absence of donor-imposed restrictions. Accordingly, for reporting purposes, net assets of the Trust and changes therein are classified as follows:

- **Net Assets Without Donor Restrictions** – Net assets that are not subject to donor-imposed stipulations. This includes certain amounts designated by the Board for endowment and other purposes.
- **Net Assets With Donor Restrictions** – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Trust and/or the passage of time, or net assets that are perpetual in nature and subject to donor-imposed restrictions that they be maintained in perpetuity by the Trust. Generally, the donors of these assets permit the Trust to use all or a part of the income earned on related investments for general or specific purposes.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recognition of Donor Restrictions – Support that is restricted by the donor is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as “Net assets released from restrictions.”

Cash and Cash Equivalents – For the purposes of the statements of cash flows, cash equivalents include all highly liquid debt instruments purchased with an original maturity of three months or less, except for money market funds held in investment brokerage accounts, which are classified as investments.

Accounts Receivable, Current – Accounts receivable are recorded using the allowance method and are presented net of the allowance for uncollectability. At June 30, 2021, the allowance is estimated to be zero.

Investment Valuation and Income Recognition – Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values on the statement of financial position. Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date. Realized gains and losses on investments are recognized upon the sale of the related investments. Unrealized appreciation or depreciation is recognized at period end when the carrying values of the related investments are adjusted to their estimated fair market value and are included in the change in net assets. Purchases and sales of securities are reflected on a trade-date basis.

Property and Equipment – Property and equipment is recorded at cost, except for donated property which is recorded at fair market value on the date received. Such donations are reported as net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as net assets with donor restrictions. Absent donor stipulations regarding how long those donated assets are to be maintained, the Trust reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Trust capitalizes property if its value is greater than \$1,000 and its useful life is more than one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to thirty-nine years. Depreciation expense for the year ended June 30, 2021 was \$23,427.

Revenue Recognition – Contributions, which include unconditional promises to give, are recognized as revenues in the period received or promised. Conditional contributions are recorded when the conditions have been substantially met. Contributions are considered to be without donor restrictions unless specifically restricted by the donor.

The Trust receives contributions in the form of donations including program income, contracts, grants, and in-kind donations. The Foundation also generates special events income which can have an exchange as well as contribution component. The Trust has historically recognized revenue from admissions and sponsorships equal to the fair value of direct benefits to donors; and contribution income for the excess received when the event takes place. Contributions have no exchange component, though many have restrictions as to purpose. Grants received that are unconditional in nature with no barriers to overcome prior to recognition or exchange components are considered contributions.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other revenues, including program income, contracts and grants revenue, that have exchange components are recognized when earned.

Gains and losses on investments and other assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

Net patient service revenues are reported at the estimated net realizable amount from patients, third party payors including Medicare and Medi-Cal, and others for services rendered. Revenues from services provided are recognized when the services are performed for the patient, as the performance obligation is satisfied at that point in time, in an amount that reflects the consideration the Trust expects to receive. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Trust's revenues are disaggregated and presented on the Statement of Activities for the year ended June 30, 2021.

Donated Services and Facilities – Donated services are not recorded unless such services create or enhance nonfinancial assets or require specialized skills and are so essential that they would be purchased if not provided by donation. Program service expenses for diabetes health center services include \$13,750 in donated services for the year ending June 30, 2021. A substantial number of volunteers donated hours to the Trust's program services during the period; however, these donated services are not reflected in the financial statements since the services do not require specialized skills as specified by accounting standards for recognition.

The Trust receives use of facilities for its general operations. The fair value of donated facilities is determined based on the amount of current rental fees.

Taxes on Income – As a tax-exempt not-for-profit organization, the Trust is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from state franchise tax under California Revenue and Taxation Code Section 23701(d) but is subject to taxes on unrelated business income when earned.

Management has considered its tax positions and believes that all the positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Trust's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses – The costs of providing program services and other activities have been presented on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Salaries, payroll taxes and benefits are allocated on a percentage of use as determined by staff time. Facilities and equipment expenses are allocated based on square footage of the building. Payroll related overhead costs are allocated based on the actual time an employee spends on a program. Shared administrative expenses (i.e. miscellaneous office and board expenses, duplicating, supplies, etc.) are allocated based on total expenses in each function as a percentage of total expenses after considering direct expenses.

Use of Estimates – Preparing the Trust’s 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Summarized Comparative Totals – The financial statements include prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Trust’s financial statements for the year ended June 30, 2020, from which the summarized information was derived.

Reclassifications – Certain reclassifications have been made to prior year comparative financial statements to conform with the current year presentation.

Subsequent Events – Subsequent events have been evaluated by the Trust’s management through December 13, 2021, which is the date the financial statements were available to be issued.

Effects of New Pronouncement – The Trust has adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09 *Revenue from Contracts with Customers* (Topic 606), as amended as management believes the standard improves the usefulness and understandability of the Trust’s financial reporting. Analysis of various provisions of this standard resulted in no significant changes in the way the Trust recognizes revenue, and therefore no changes to the previously issues audited financial statements were required on the retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

Recent Accounting Pronouncements – On February 25, 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). Under the new standard, a lessee recognizes in the balance sheet a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. For nonpublic entities, this new standard is effective for annual reporting periods beginning after December 15, 2021, with early adoption permitted. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Trust has no plan for early implementation of this Statement. At this time the Trust is not certain of the effect the adoption of ASU 2016-02 will have on the accompanying financial statements.

NOTE 2. CONCENTRATION OF RISK

Custodial credit risk is the risk that in the event of a bank failure, the Trust's deposits may not be returned to it. The Trust maintains cash in bank accounts at various financial institutions. The balance, at times, exceeds federally insured limits. As of June 30, 2021, \$18,036,552 of the Trust's deposits was exposed to custodial credit risk as this balance is in excess of federally insured amounts.

The Trust's investments are exposed to various risks, such as fluctuations in the market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that the changes in the values of investment securities will occur in the near future and that such changes could materially affect the amounts reported in the statement of activities.

NOTE 3. FAIR VALUE MEASUREMENTS

The Trust measures its assets and liabilities at fair value in accordance with the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification. This guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. The guidance establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The guidance expands disclosures about instruments measured at fair value. The guidance applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, the guidance does not require any new fair value measurements. As noted above, the guidance establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial statement.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurements.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Following is a description of the Trust's valuation methodologies for assets and liabilities measured at fair value:

Fair value for Level 1 is based upon quoted market prices. Inputs are obtained from various sources including market participants, dealers, brokers and financial institutions.

Fair value for Level 2 investments are determined by reference to quoted market prices for similar investments, yield curves, and other relevant information.

NOTE 3. FAIR VALUE MEASUREMENTS (Continued)

The following table sets forth by level, within the fair value hierarchy, the Trust's assets at fair value as of June 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments, at fair value:				
Money market	\$ 89,600	\$ –	\$ –	\$ 89,600
Mutual funds:				
Equities	13,199,089	–	–	13,199,089
Fixed income	4,577,411	–	–	4,577,411
Nontraditional	<u>760,052</u>	<u>–</u>	<u>–</u>	<u>760,052</u>
Total investments	<u>\$ 18,626,152</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 18,626,152</u>

NOTE 4. INVESTMENTS

Investments were composed of the following at June 30, 2021:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Money market	\$ 89,600	\$ 89,600	\$ –
Mutual funds:			
Equities	10,509,310	13,199,089	2,689,779
Fixed income	4,569,794	4,577,411	7,617
Nontraditional	<u>850,605</u>	<u>760,052</u>	<u>(90,553)</u>
Total investments	<u>\$ 16,019,309</u>	<u>\$ 18,626,152</u>	<u>\$ 2,606,843</u>

The following schedule summarizes investment returns and its classification in the statement of activities for the year ended June 30, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest/dividend income	\$ 242,402	\$ 47,300	\$ 289,702
Realized/unrealized gains (losses) on investments	2,704,789	577,018	3,281,807
Investment fees	<u>(72,765)</u>	<u>(10,250)</u>	<u>(83,015)</u>
Total net investment income	<u>\$ 2,874,426</u>	<u>\$ 614,068</u>	<u>\$ 3,488,494</u>

NOTE 5. REFUNDABLE ADVANCE

The Trust received \$281,222 of funding under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration (SBA). The loan accrues interest at 1%, but payments are not required to begin until the date that the SBA remits the borrower's loan forgiveness amount to the lender. The loan was uncollateralized and was fully guaranteed by the Federal government. The loan was recorded as a refundable advance on the statement of financial position in the prior year. Upon meeting certain requirements, the Trust submitted an application and was approved for full forgiveness of the loan in the fiscal year ended June 30, 2021. The Trust has recognized the entire amount as a contribution on the statement of activities, in accordance with the guidance in ACS 958-605.

NOTE 6. LINE OF CREDIT

The Trust has a line of credit with UBS Bank USA, which provides for borrowings up to \$9,000,000, with a variable interest rate equal to 2.16% as of June 30, 2021. At June 30, 2021, the Trust owed \$250,551.

NOTE 7. OPERATING LEASES

The Trust leases facilities at 85 Nielson Street in Watsonville, under a nine-year lease, which commenced September 8, 1998. The original agreement called for monthly rent of \$1,250, with a provision for a CPI increase after 5 years. It renews automatically for successive nine-year terms at the end of the initial term and at the end of every successive term, through a maximum of nine extension terms, unless terminated earlier.

The Trust occupies an additional 12,782 square feet, rent free, under an arrangement with Community Health Systems. The fair market value of this space is \$1.61 per square foot annually, totaling \$246,948. This amount is recorded both as revenue and expense in the accompanying Statement of Activities.

The Trust also leases office equipment under non-cancelable leases. The following is a schedule by years and in the aggregate of future minimum rental payments under operating leases that have initial or remaining non-cancelable lease terms in excess of one year for the years ending June 30:

2022	\$	23,939
2023		23,939
2024		20,965
2025		<u>3,220</u>
Total	\$	<u><u>72,063</u></u>

Total rental expense charged to operations for the year ended June 30, 2021 was \$23,937.

NOTE 8. DISCONTINUED OPERATIONS

As described in Note 1, on September 1, 1998 the operating assets of Watsonville Community Hospital, consisting principally of the hospital building, furniture and equipment, and working capital, were sold to CHS under an asset sale agreement. The agreement also provided that the Trust would be liable for certain liabilities and entitled to receive certain other assets. The Trust refers to these liabilities and entitlements as “discontinued hospital business.” The Trust has a workers’ comp liability of \$93,911 related to discontinued operations. This liability is calculated based on actuarial assumptions on the claims outstanding.

Since the asset sale date, the Trust has actively tracked and recorded yearly discontinued hospital business activity, meeting its liability obligations under the asset sale agreement and collecting discontinued hospital business revenues as they become available.

Many of the transactions described below are estimates based on the best information currently available, and are subject to change in the near term. The reserve associated with the self-insured workers’ compensation plan is subject to change according to the results of audits of outstanding claims performed by the State of California Department of Industrial Relations. The liabilities for MediCare and MediCal are subject to change according to steps taken by the Trust to resolve outstanding cases.

The principal transactions and adjustments made during the 2021 fiscal year are as follows:

Adjust reserve associated with self-insured workers’ compensation plan	\$ (15,723)
Salary and personnel related expenses	(18,222)
Workers’ compensation claims and settlements, net of refunds	(26,789)
Facilities and equipment	(2,192)
Rent	(13,313)
Depreciation	(1,171)
Other costs	<u>(1,175)</u>
Total	<u>\$ (78,585)</u>

NOTE 9. NET ASSETS WITH DONOR RESTRICTIONS

For the year ended June 30, 2021, activity in net assets with donor restrictions is as follows:

	Balance 6/30/2020	Additions	Satisfied	Balance 6/30/2021
Purpose or time:				
Diabetes Health Center	\$ 20,951	\$ 119,768	\$ (118,219)	\$ 22,500
Health Collaborative	142,500	522,850	(556,153)	109,197
Eiskamp Scholarship Fund	128,414	218,263	(119,508)	227,169
Dental Health Center Services	21,828	25,888	–	47,716
General	458,820	306,823	(185,421)	580,222
Donor endowments	<u>2,134,120</u>	<u>3,246</u>	<u>–</u>	<u>2,137,366</u>
	<u>\$ 2,906,633</u>	<u>\$ 1,196,838</u>	<u>\$ (979,301)</u>	<u>\$ 3,124,170</u>

NOTE 10. ENDOWMENT

At June 30, 2021, the Trust had six donor restricted endowment funds totaling \$2,137,366, which were established for a variety of purposes.

The Founders' Fund was contributed by the Watsonville Community Hospital Foundation (see Note 1). Under the terms of the contribution the original donation must be kept in perpetuity and the earnings are available to fund health programs for seniors and children. These donor restricted endowment funds totaled \$687,953.

The General Endowment Fund totaled \$193,720 as of June 30, 2021 and is composed of a bequest from the Frank F. Orr and Zoe Ann Orr Fund and individual contributions. The original donations must be kept in perpetuity and the earnings are available for the unrestricted use of the Trust.

In 2005, the Phil Rather Endowment Fund was established with an initial contribution of \$2,125. Under the terms of the contribution the earnings are available to fund the Diabetes Health Center. At June 30, 2021, the Phil Rather Endowment Fund totaled \$81,304.

In 2010, the Ralph Flood "Healthy lifestyles" Fund was established with a contribution of \$100,000. Under the terms of the contribution the original donation must be kept in perpetuity and the earnings are available to fund services that help prevent obesity and diabetes in Pajaro Valley children. At June 30, 2021, the Ralph Flood Endowment Fund totaled \$100,000.

In 2011, the Dental Health Fund was established with an initial contribution of \$5,000. Under the terms of the contribution the original donation and earnings for the first five years must be kept in perpetuity. After the first five years, the earnings are available as prescribed by the endowment spending policy to support dental health programs and projects approved by the Trust's Board of Directors and for the benefit of low-income Pajaro Valley Residents. At June 30, 2021, the Dental Health Fund totaled \$74,389.

In 2019, the Eiskamp Endowment Scholarship Fund was established with an initial contribution of \$1,000,000. Under the terms of the contribution, the full \$1,000,000 will be permanently restricted and up to 4% of the earnings from this fund are available to grant scholarships to students from the Watsonville area studying in the allied health field at Cabrillo College. At June 30, 2021, the Eiskamp Endowment Fund totaled \$1,000,000.

As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTE 10. ENDOWMENT (Continued)

Interpretation of Relevant Law

The Trust's Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Trust retains in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the endowment and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not held in perpetuity under net assets with donor restrictions is classified as net assets with donor restrictions that are restricted by purpose until those amounts are appropriated for expenditure by the Trust in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Trust considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Trust and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect on inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Trust
- (7) The investment policies of the Trust

Spending/Investment Policies

The Trust has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term. The Trust spending and investment policies work together to achieve this objective. The investment policy establishes a goal of the aggregate endowment assets to equal or exceed an absolute rate of return of 8.0%. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Trust relies on a total return strategy in which investment returns are achieved through both capital appreciation and dividend and interest income. The Trust targets a diversified asset allocation that places emphasis on equity-based and government securities to achieve its long-term objectives within prudent risk parameters.

Unless specified by the original gift, the spending policy calculates the amount of money annually distributed from the Trust's various endowed funds, for grant making and administration. The current spending policy is to distribute an amount equal to 4% calculated based on a 12-quarter moving average of the fair value of the endowment funds. Accordingly, over the long term, the Trust expects its current spending policy to allow its endowment assets to grow at an average rate of 4% annually. If a particular fund has no accumulated earnings at the time of the spending policy calculation, that fund will not be able to participate in grant making or appropriations for the upcoming year.

NOTE 10. ENDOWMENT (Continued)

Asset Allocation Limitations – Domestic equities 40% – 60%, target 45%; International Equities 10% – 25%, target 25%; Fixed Income Intermediate 25% – 50%, target 25%; Liquid Alternatives 0% – 20%, target 5%.

Endowment Net Asset Composition

Endowment net asset composition as of June 30, 2021:

	<u>With Donor Restrictions</u>
Corpus:	
Founders Fund	\$ 687,953
Frank and Ann Orr	193,720
Rather Fund	81,304
Ralph Flood	100,000
Dental Health Fund	74,389
Eiskamp Fund	<u>1,000,000</u>
Total corpus	<u>2,137,366</u>
Unappropriated	
Founders Fund	404,347
Frank and Ann Orr	175,875
Rather Fund	–
Ralph Flood	–
Dental Health	47,716
Eiskamp Fund	<u>227,169</u>
Total unappropriated	<u>855,107</u>
Total endowments	<u><u>\$ 2,992,473</u></u>

Changes in Endowment Net Assets

Changes in endowment net assets for the year ended June 30, 2021:

	<u>With Donor Restrictions</u>
Balance, Beginning of Year	\$ 2,743,182
Net investment return	624,318
Contributions	3,246
Financial advisor fees	(10,250)
Appropriation of endowment assets for expenditure	<u>(368,023)</u>
Total endowments	<u><u>\$ 2,992,473</u></u>

NOTE 11. DEFINED CONTRIBUTION RETIREMENT PLAN

The Pajaro Valley Community Health Trust Retirement Plan is a tax-sheltered annuity plan under Section 403(b) of the Internal Revenue Code. It has been established for all employees of the Trust as a Trust-paid benefit. Employees of the Trust, if not covered by another plan, become eligible after three months of employment. Employee accounts are 100% vested after one year of employment.

The Trust contributes between three to five percent of each eligible employee's gross wages on a monthly basis. Eligible employees may contribute any amount up to the legal limit on a voluntary payroll deduction basis, although no voluntary contribution is required. Contributions made by the Pajaro Valley Community Health Trust for the year ended June 30, 2021, on behalf of eligible employees, totaled \$43,387.

NOTE 12. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Trust has \$1,978,693 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures consisting of cash and cash equivalents of \$317,032, Endowment funds (see below) available for \$95,981 and Non-Endowed funds (see below), available for \$1,565,680. \$13.5 million of the financial assets are subject to quasi-restrictions from the original proceeds of the sale of WCH. The balance of the non-endowed funds are subject to finance committee recommendations and Board Approval. Pledges and grants receivables are subject to implied time restrictions, but are expected to be collected within one year. As part of the Trust's liquidity management, it has been the policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations come due.

The Endowment funds consist of donor-restricted endowments of \$2.1 million. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditures. The target-spending rate of 8% will be calculated based on a 12-quarter moving average. Both the Finance Committee and the Board of Directors of the Trust must approve any change to the spending percentage. (Current Rate of Return 8% = 3% spending policy + 1% administration fees + 4% to be returned to the fund for growth). \$95,981 of appropriations from the endowment funds will be available for operations within the next 12 months.

The Non-Endowed funds consist of funds received from the Watsonville Hospital Sale of \$13.5 million. Target-spending rate 6.5% will be calculated based on a 12-quarter moving average. Both the Finance Committee and the Board of Directors of the Trust must approve any change to the spending percentage. (Current Rate of Return 10.56% = 10.04% net spending target + 0.52% investment management fees). \$1,565,680 of appropriations from the non-endowed funds will be available for operations within the next 12 months.

NOTE 13. CONTINGENCIES

COVID-19 Pandemic – On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses.

The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, which could lead to an adverse impact on the Trust's future financial results.

In response to the pandemic and the associated economic decline, the impact to the Trust has been manageable for a number of reasons including the receipt of funding through the Federal Government's Paycheck Protection Program and access to a UBS Line of Credit that will help meet the demands for the next fiscal year. Santa Cruz County Health Department has also granted funds to assist with COVID relief for the next fiscal year.

NOTE 14. SUBSEQUENT EVENTS

On November 22, 2021, the Board of Directors authorized the Trust to loan up to \$4.5 million to Pajaro Valley Healthcare District Project (PVHDP) for the purchase of the Watsonville Community Hospital, which has filed for Chapter 11 bankruptcy. The Trust plans to use its \$9 million line of credit to borrow the \$4.5 million for a low interest rate and still allow its corpus to grow. The Board of Directors approved the access of the line of credit for \$4.5 million paid to the PVHDP to support costs throughout the transition period of the bankruptcy of Watsonville Community Hospital. Through the report date, the Trust has yet to draw on its line of credit and distribute any of the \$4.5 million to PVHDP.

The Trust has undergone a name change and new branding. In October 2021, the Trust finalized the process and is now doing business as Community Health Trust of Pajaro Valley.