PAJARO VALLEY COMMUNITY HEALTH TRUST

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

AND INDEPENDENT AUDITORS' REPORT

PAJARO VALLEY COMMUNITY HEALTH TRUST

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PAJARO VALLEY COMMUNITY HEALTH TRUST
BOARD OF DIRECTORS
FISCAL YEAR 2021 – 2022

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Vivian Rogers

INDEPENDENT AUDITORS' REPORT

Board of Directors
Pajaro Valley Community Health Trust
Watsonville, California

Opinion

We have audited the financial statements of Pajaro Valley Community Health Trust (a California nonprofit corporation), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Pajaro Valley Community Health Trust (the Trust) as of June 30, 2022, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 Pajaro Valley Community Health Trust and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 the 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 Pajaro Valley Community Health Trust's ability to continue as a going concern within one year after the date that the financial statements are issued or within one year after the date that the financial statements are available to be issued when applicable.

Auditors' 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 is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment 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 Trust'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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for a reasonable period of time.

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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Board of Directors, which is the responsibility of management, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Board of Directors
Pajaro Valley Community Health Trust

Other Matter

The financial statements of Pajaro Valley Community Health Trust as of June 30, 2021 were audited by Hayashi Wayland, LLP whose partners and professional staff joined CliftonLarsonAllen LLP as of November 1, 2022 and has subsequently ceased operations. Hayashi Wayland LLP's report dated December 13, 2021 expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

March 16, 2023
Salinas, California

PAJARO VALLEY COMMUNITY HEALTH TRUST
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2021)

	2022	2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 141,258	$ 317,032
Accounts receivable	92,054	119,118
Prepaid expenses	35,674	53,215
Total current assets	268,986	489,365
PROPERTY AND EQUIPMENT:		
Furniture and fixtures	63,774	61,729
Equipment	89,021	70,029
Leasehold improvements	165,435	149,694
Total property and equipment	318,230	281,452
Less accumulated depreciation	100,723	70,769
Total property and equipment – net	217,507	210,683
INVESTMENTS (NOTE 4)	15,282,641	18,626,152
TOTAL ASSETS	$ 15,769,134	$ 19,326,200

See Notes to Financial Statements.

PAJARO VALLEY COMMUNITY HEALTH TRUST
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2021)
(Continued)

	2022	2021
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 111,802	$ 140,721
Other accrued liabilities	82,601	130,722
Deferred revenue	14,250	–
Current portion of long-term debt (Note 5)	1,000,000	–
Line of credit (Note 6)	960,946	250,551
Total current liabilities	2,169,599	521,994
OTHER LIABILITIES:		
Accrued workers' compensation fund (Note 8)	165,527	93,911
Long-term debt (Note 5)	5,000,000	–
Total other liabilities	5,165,527	93,911
Total liabilities	7,335,126	615,905
NET ASSETS:		
Without donor restrictions	5,822,486	15,586,125
With donor restrictions:		
Purpose/time restricted	470,256	986,804
Donor endowments	2,141,266	2,137,366
Total with donor restrictions	2,611,522	3,124,170
Total net assets	8,434,008	18,710,295
TOTAL LIABILITIES AND NET ASSETS	$ 15,769,134	$ 19,326,200

See Notes to Financial Statements.

PAJARO VALLEY COMMUNITY HEALTH TRUST
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
SUPPORT AND REVENUE:				
Grants, contributions, and donations	$ 58,277	$ 115,237	$ 173,514	$ 946,246
In-kind contributions	290,505	–	290,505	288,714
Special event revenues	126,244	36,280	162,524	138,666
DHC patient fees	143,963	–	143,963	175,410
Net investment income (loss) (Note 4)	(2,050,107)	(421,632)	(2,471,739)	3,488,494
Miscellaneous revenue	92,323	–	92,323	20,574
Loss on sale of property and equipment	–	–	–	(4,989)
Net assets released from restrictions (Note 9)	242,533	(242,533)	–	–
Total support and revenue	(1,096,262)	(512,648)	(1,608,910)	5,053,115
EXPENSES:				
Diabetes Health Center Services	824,825	–	824,825	872,072
Health Collaborative	6,768,624	–	6,768,624	1,514,179
Community Gardens	187,410	–	187,410	158,361
Fundraising	420,586	–	420,586	380,264
General and administrative	343,149	–	343,149	303,350
Total expenses	8,544,594	–	8,544,594	3,228,226
Increase (decrease) in net assets from continuing operations	(9,640,856)	(512,648)	(10,153,504)	1,824,889
Discontinued operations – additional gain (loss) on sale of hospital assets (Note 8)	(122,783)	–	(122,783)	(78,585)
Increase (decrease) in net assets	(9,763,639)	(512,648)	(10,276,287)	1,746,304
NET ASSETS, BEGINNING OF YEAR	15,586,125	3,124,170	18,710,295	16,963,991
NET ASSETS, END OF YEAR	$ 5,822,486	$ 2,611,522	$ 8,434,008	$ 18,710,295

See Notes to Financial Statements.

PAJARO VALLEY COMMUNITY HEALTH TRUST
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021)

	Diabetes Health Center Services	Health Collaborative	Community Gardens	Fundraising	General and Administrative	2022 Total	2021 Total
EXPENSES:							
Salaries	$ 374,732	$ 182,556	$ 97,418	$ 182,261	$ 168,781	$ 1,005,748	$ 1,054,618
Payroll taxes and benefits	86,984	46,478	33,712	43,400	55,998	266,572	290,009
Professional fees	37,894	51,333	3,374	18,089	20,737	131,427	115,038
Facilities and equipment	38,727	5,379	4,003	22,020	7,856	77,985	64,182
Rent	146,326	13,302	26,605	26,605	39,907	252,745	255,012
Depreciation	16,475	1,498	2,995	2,995	4,493	28,456	22,256
Miscellaneous office and board expenses	14,278	4,885	4,165	14,299	9,819	47,446	41,503
Duplicating	1,242	250	259	607	757	3,115	1,361
Special events	5,668	–	–	71,939	10,720	88,327	58,833
Postage	359	145	77	528	203	1,312	2,669
Publications	956	418	221	479	334	2,408	6,439
Supplies	9,756	15,729	2,555	2,043	1,910	31,993	42,069
Training	1,687	73	14	341	2,019	4,134	21,384
Outreach	5,542	9,344	229	18,844	9,782	43,741	39,010
Travel	73	697	599	326	1,470	3,165	1,342
Bad debt	55,208	7,138	–	3,841	–	66,187	46,880
Grantee disbursements	–	6,321,700	–	–	–	6,321,700	1,129,400
Insurance	5,004	–	–	–	–	5,004	4,961
Interest	23,914	10,456	5,526	11,969	8,363	60,228	3,967
Program Expenses	–	97,243	5,658	–	–	102,901	27,293
Total	$ 824,825	$ 6,768,624	$ 187,410	$ 420,586	$ 343,149	$ 8,544,594	$ 3,228,226

See Notes to Financial Statements.

PAJARO VALLEY COMMUNITY HEALTH TRUST
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from contributions and grants	$ 173,514	$ 946,246
Cash received as revenue and support	440,124	340,038
Cash paid to suppliers and employees	(2,087,454)	(1,905,281)
Grants paid	(6,321,700)	(1,129,400)
Interest and dividends received	455,031	289,702
Contributions restricted for endowment	(3,900)	(3,246)
Loss on disposal of property and equipment	–	4,989
Forgiveness of PPP loan	–	(281,222)
NET CASH USED BY OPERATING ACTIVITIES	(7,344,385)	(1,738,174)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(36,778)	(144,721)
Cash paid to purchase investments	(458,272)	(292,882)
Proceeds from sale of investments	949,366	2,103,334
NET CASH PROVIDED BY INVESTING ACTIVITIES	454,316	1,665,731
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for endowment	3,900	3,246
Borrowings on long-term debt	6,000,000	–
Borrowings on line of credit	1,010,395	217
Repayments on line of credit	(300,000)	–
NET CASH PROVIDED BY FINANCING ACTIVITIES	6,714,295	3,463
NET DECREASE IN CASH AND CASH EQUIVALENTS	(175,774)	(68,980)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	317,032	386,012
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 141,258	$ 317,032

See Notes to Financial Statements.

PAJARO VALLEY COMMUNITY HEALTH TRUST
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021)
(Continued)

	2022	2021
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS USED BY OPERATING ACTIVITIES:		
Increase (decrease) in net assets	$ (10,276,287)	$ 1,746,304
Adjustments to reconcile increase (decrease) in net assets to cash used by operating activities:		
Depreciation	29,954	23,428
Net realized/unrealized (gain) loss on investments	2,852,417	(3,281,807)
Contributions for endowment purposes	(3,900)	(3,246)
Loss on disposal of property and equipment	–	4,989
(Increase) decrease in:		
Accounts receivable	27,064	5,388
Prepaid expenses	17,541	(13,567)
Increase (decrease) in:		
Accounts payable	(28,919)	118,431
Other accrued liabilities	(48,121)	(4,087)
Fiscal sponsorship payable	–	(68,508)
Deferred revenue	14,250	–
Accrued workers' compensation fund	71,616	15,723
Refundable advance	–	(281,222)
NET CASH USED BY OPERATING ACTIVITIES	$ (7,344,385)	$ (1,738,174)
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION –		
Interest paid	$ 60,228	$ 3,966

See Notes to Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business – The Pajaro Valley Community Health Trust, DBA 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, 2022, 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, 2022 was $29,954.

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, which 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, 2022.

In-Kind Contributions – The Trust received the following contributions of nonfinancial assets for the year ending June 30:

Professional Services	$ 25,000
Supplies	15,557
Rent	249,948
Total	$ 290,505

The Trust received donated rent from the Watsonville Community Hospital. Using publicly available commercial real estate rental listings in the area, the Trust determined the fair value of the property, which is included in the rental allocation on the statement of functional expenses.

Contributed services are recognized as in-kind revenues at their estimated fair value if they create or enhance nonfinancial assets or they require specialized skills that would need to be purchased if they were not donated. The Trust receives contributed medical services that are reported using current rates for similar medical services.

Contributed fruits, vegetables, vegetable starters, and contributed medical services were utilized in the Trust's client services programs.

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, 2021, 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 March 16, 2023, which is the date the financial statements were available to be issued.

Effects of New Pronouncement – The Trust has implemented Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets.* ASU 2020-07 was issued to improve generally accepted accounting principles (GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in this Update address certain stakeholders' concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in an NFP's programs and other activities. The implementation of this standard enhanced the note disclosures around contributed nonfinancial assets.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2022, $14,681,192 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.

NOTE 3. FAIR VALUE MEASUREMENTS (Continued)

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.

The following table sets forth by level, within the fair value hierarchy, the Trust's assets at fair value as of June 30, 2022:

	Level 1	Level 2	Level 3	Total
Investments, at fair value:				
Money market	$ 101,450	$ –	$ –	$ 101,450
Mutual funds:				
Equities	10,638,267	–	–	10,638,267
Fixed income	3,774,013	–	–	3,774,013
Nontraditional	768,911	–	–	768,911
Total investments	$ 15,282,641	$ –	$ –	$ 15,282,641

NOTE 4. INVESTMENTS

Investments were composed of the following at June 30, 2022:

	Cost	Fair Value	Unrealized Gain (Loss)
Money market	$ 101,450	$ 101,450	$ –
Mutual funds:			
Equities	11,260,733	10,638,267	(622,466)
Fixed income	3,950,567	3,774,013	(176,554)
Nontraditional	859,062	768,911	(90,151)
Total investments	$ 16,171,812	$ 15,282,641	$ (889,171)

The following schedule summarizes investment returns and its classification in the statement of activities for the year ended June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Interest/dividend income	$ 378,947	$ 76,084	$ 455,031
Realized/unrealized gains (losses) on investments	(2,366,815)	(485,602)	(2,852,417)
Investment fees	(62,239)	(12,114)	(74,353)
Total net investment Income (loss)	$ (2,050,107)	$ (421,632)	$ (2,471,739)

NOTE 5. LONG-TERM DEBT

Long-Term debt at June 30 consists of the following:

	2022
Loan with UBS Bank USA, fixed interest rate of 1.990%, due on March 3, 2023. Secured by investments.	$ 1,000,000
Loan with UBS Bank USA, fixed interest rate of 2.490%, due on March 3, 2025. Secured by investments.	1,000,000
Loan with UBS Bank USA, fixed interest rate of 2.490%, due on March 3, 2025. Secured by investments.	1,000,000
Loan with UBS Bank USA, fixed interest rate of 2.690%, due on March 3, 2027. Secured by investments.	1,000,000
Loan with UBS Bank USA, fixed interest rate of 2.690%, due on March 3, 2027. Secured by investments.	1,000,000
Loan with UBS Bank USA, fixed interest rate of 2.690%, due on March 3, 2027. Secured by investments.	1,000,000
Total Debt	6,000,000
Less Current Portion	1,000,000
Long-Term Debt	$ 5,000,000

Long-term debt repayments as of June 30, 2022 are as follows:

2024	$ –
2025	2,000,000
2026	–
2027	3,000,000
Total	$ 5,000,000

Interest paid was $60,756 for the year ended June 30, 2022.

NOTE 6. LINE OF CREDIT

The Trust has a line of credit with UBS Bank USA, which provides for total borrowings, including the fixed rate loans, up to $9,000,000, with a variable interest rate equal to 2.949% as of June 30, 2022. At June 30, 2022, the Trust owed $960,946 on the variable portion of the line of credit. The line of credit is secured by the Trust's investments.

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 value of this space in the amount of $249,948 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:

2023	$ 23,939
2024	20,965
2025	3,220
Total	$ 48,124

Total rental expense charged to operations for the year ended June 30, 2022 was $18,919.

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 $165,527 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.

NOTE 8. DISCONTINUED OPERATIONS (Continued)

The principal transactions and adjustments made during the 2022 fiscal year are as follows:

Adjust reserve associated with self-insured workers' compensation plan	$	(71,616)
Salary and personnel related expenses		(17,857)
Workers' compensation claims and settlements, net of refunds		(10,210)
Facilities and equipment		(16,578)
Other costs		(6,522)
Total	$	(122,783)

NOTE 9. NET ASSETS WITH DONOR RESTRICTIONS

For the year ended June 30, 2022, activity in net assets with donor restrictions is as follows:

	Balance 6/30/2021	Additions	Satisfied	Balance 6/30/2022
Purpose or time:				
Diabetes Health Center	$ 22,500	$ (15,134)	$ (48,000)	$ (40,634)
Health Collaborative	109,197	103,334	(135,601)	76,930
Eiskamp Scholarship Fund	227,169	(171,222)	–	55,947
Community Gardens	–	13,000	(7,171)	5,829
Fundraising	–	5,780	(5,780)	–
Dental Health Center Services	47,716	(16,322)	–	31,394
General	580,222	(193,451)	(45,981)	340,790
Donor endowments	2,137,366	3,900	–	2,141,266
	$ 3,124,170	$ (270,115)	$ (242,533)	$ 2,611,522

NOTE 10. ENDOWMENT

At June 30, 2022, the Trust had six donor restricted endowment funds totaling $2,528,763, 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 $905,476.

The General Endowment Fund totaled $316,987 as of June 30, 2022 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, 2022, the Phil Rather Endowment Fund totaled $66,510.

NOTE 10. ENDOWMENT (Continued)

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, 2022, the Ralph Flood Endowment Fund totaled $78,059.

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, 2022, the Dental Health Fund totaled $105,783.

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, 2022, the Eiskamp Endowment Fund totaled $1,055,948.

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

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

NOTE 10. ENDOWMENT (Continued)

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.

From time to time, certain donor-restricted endowment funds may have fair values that are less than the amount required to be maintained by donors or by law (underwater endowments). The Trust has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2022, funds with original gift values of $185,204, had fair values of $144,570, and deficiencies of $40,634 were reported in net assets with donor restrictions. During the year, the Trust did not appropriate any expenditure from underwater endowments. Management expects these amounts to be fully recovered during 2023 due to favorable market fluctuations.

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%.

NOTE 10. ENDOWMENT (Continued)

Endowment Net Asset Composition

Endowment net asset composition as of June 30, 2022:

	With Donor Restrictions
Corpus:	
Founders Fund	$ 687,953
Frank and Ann Orr	193,720
Rather Fund	85,204
Ralph Flood	100,000
Dental Health Fund	74,389
Eiskamp Fund	1,000,000
Total corpus	2,141,266
Unappropriated:	
Founders Fund	217,523
Frank and Ann Orr	123,267
Rather Fund	(18,694)
Ralph Flood	(21,940)
Dental Health	31,393
Eiskamp Fund	55,948
Total unappropriated	387,497
Total endowments	$ 2,528,763

Changes in Endowment Net Assets

Changes in endowment net assets for the year ended June 30, 2022:

	With Donor Restrictions
Balance, Beginning of Year	$ 2,992,472
Net investment return	(409,516)
Contributions	3,900
Financial advisor fees	(12,112)
Appropriation of endowment assets for expenditure	(45,981)
Total endowments	$ 2,528,763

NOTE 11. <u>DEFINED CONTRIBUTION RETIREMENT PLAN</u>

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, 2022, on behalf of eligible employees, totaled $35,021.

NOTE 12. <u>LIQUIDITY AND AVAILABILITY OF RESOURCES</u>

The Trust has $1,817,927 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 $141,258, Endowment funds (see below) available for $91,457 and Non-Endowed funds (see below), available for $1,585,212. $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). $91,457 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). $1,585,212 of appropriations from the non-endowed funds will be available for operations within the next 12 months.