

PAJARO VALLEY COMMUNITY HEALTH TRUST
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2024



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**PAJARO VALLEY COMMUNITY HEALTH TRUST
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**PAJARO VALLEY COMMUNITY HEALTH TRUST
BOARD OF DIRECTORS
FISCAL YEAR 2023 – 2024**

Caroline Eiskamp
Christian Miranda, Secretary
Gretchen Regenhardt
Jan Wolf
Krista Hanni
Leticia Salazar
Monica Morales
Nancy Chen
Patrice Roduner, Treasurer
Raven Adams, Vice Chair
Robby Olson III, Board Chair
Isabel Bjork
Emily Chung



INDEPENDENT AUDITORS' REPORT

Board of Directors
Pajaro Valley Community Health Trust
Watsonville, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Pajaro Valley Community Health Trust (the Trust), which comprise the statement of financial position as of June 30, 2024, 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 financial statements referred to above present fairly, in all material respects, the financial position of Pajaro Valley Community Health Trust as of June 30, 2024, and the results of its activities and its 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 *Auditors' 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 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

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 auditors' 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 a 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 Pajaro Valley Community Health 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 Pajaro Valley Community Health 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.

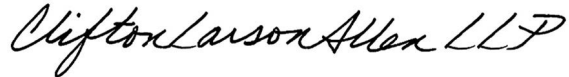
Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Board of Directors listing on page 1, 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

Report on Summarized Comparative Information

We have previously audited Pajaro Valley Community Health Trust's 2023 financial statements, and our report dated February 5, 2024, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Salinas, California
August 26, 2025

PAJARO VALLEY COMMUNITY HEALTH TRUST
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2024
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2023)

ASSETS	2024	2023
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,740,388	\$ 406,542
Accounts Receivable	145,774	184,483
Prepaid Expenses	41,632	49,403
Total Current Assets	1,927,794	640,428
PROPERTY AND EQUIPMENT		
Furniture and Fixtures	63,774	63,774
Equipment	94,941	89,561
Leasehold Improvements	165,435	165,435
Total Property and Equipment	324,150	318,770
Less: Accumulated Depreciation	(171,764)	(139,152)
Property and Equipment, Net	152,386	179,618
OPERATING ROU ASSET	392,321	380,857
INVESTMENTS	16,360,341	16,044,454
Total Assets	\$ 18,832,842	\$ 17,245,357
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 309,249	\$ 300,007
Current Lease Liability - Operating	11,658	7,482
Other Accrued Liabilities	137,501	150,532
Deferred Revenue	101,002	27,150
Current Portion of Long-Term Debt	2,500,000	-
Line of Credit	1,590,817	2,140,995
Total Current Liabilities	4,650,227	2,626,166
OTHER LIABILITIES		
Accrued Workers' Compensation Fund	52,253	140,545
Long-Term Lease Liability - Operating	380,183	373,134
Long-Term Debt	3,500,000	6,000,000
Total Other Liabilities	3,932,436	6,513,679
Total Liabilities	8,582,663	9,139,845
NET ASSETS		
Without Donor Restrictions	7,187,686	5,233,832
With Donor Restrictions:		
Restricted for Time or Purpose	917,586	727,631
Donor Endowments	2,144,907	2,144,049
Total With Donor Restrictions	3,062,493	2,871,680
Total Net Assets	10,250,179	8,105,512
Total Liabilities and Net Assets	\$ 18,832,842	\$ 17,245,357

See accompanying Notes to Financial Statements.

PAJARO VALLEY COMMUNITY HEALTH TRUST
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2024
(WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2023)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2024	2023
SUPPORT AND REVENUE				
Grants, Contributions, and Donations	\$ 2,130,904	\$ 444,602	\$ 2,575,506	425,397
In-Kind Contributions	259,666	-	259,666	271,948
Special Event Revenue	228,165	50,080	278,245	186,047
DHC Patient Fees	166,577	-	166,577	158,223
Net Investment Income (Loss)	1,728,178	375,101	2,103,279	1,701,300
Miscellaneous Revenue	57,731	-	57,731	59,866
Net Assets Released from Restrictions	678,970	(678,970)	-	-
Total Support and Revenue	5,250,191	190,813	5,441,004	2,802,781
EXPENSES				
Diabetes Health Center Services	1,022,212	-	1,022,212	931,066
Health Collaborative	799,841	-	799,841	819,204
Community Gardens	245,768	-	245,768	202,474
Physical Therapy	59,043	-	59,043	65,175
Allcove	25,293	-	25,293	-
Fundraising	557,689	-	557,689	465,045
Marketing	171,995	-	171,995	190,356
General and Administrative	473,516	-	473,516	462,775
Total Expenses	3,355,357	-	3,355,357	3,136,095
CHANGE IN NET ASSETS FROM CONTINUING OPERATIONS	1,894,834	190,813	2,085,647	(333,314)
DISCONTINUED OPERATIONS - ADDITIONAL GAIN ON SALE OF HOSPITAL ASSETS	59,020	-	59,020	4,818
CHANGE IN NET ASSETS	1,953,854	190,813	2,144,667	(328,496)
Net Assets - Beginning of Year	5,233,832	2,871,680	8,105,512	8,434,008
NET ASSETS - END OF YEAR	\$ 7,187,686	\$ 3,062,493	\$ 10,250,179	\$ 8,105,512

See accompanying Notes to Financial Statements.

PAJARO VALLEY COMMUNITY HEALTH TRUST
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2024
(WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2023)

	Diabetes Health	Health	Community	Physical	Allcove	Fundraising	Marketing	General and	Totals	
	Center Services	Collaborative	Gardens	Therapy				Administrative	2024	2023
Salaries	\$ 483,924	\$ 153,070	\$ 117,880	\$ 31,324	\$ 16,041	\$ 139,637	\$ 85,728	\$ 171,924	\$ 1,199,528	\$ 1,223,533
Payroll Taxes and Benefits	123,316	47,761	40,303	10,035	6,055	26,795	26,048	51,275	331,588	315,762
Professional Fees	68,416	87,198	338	1,392	37	107,256	240	118,858	383,735	256,731
Facilities and Equipment	38,390	9,966	1,444	51	-	15,286	6,194	11,813	83,144	79,347
Rent	101,471	35,011	22,662	5,170	-	41,387	23,332	35,869	264,902	263,311
Depreciation and Amortization	12,353	4,262	2,759	629	-	5,039	2,841	4,367	32,250	37,770
Miscellaneous Office and Board Expenses	9,752	10,822	1,452	326	102	11,513	3,585	30,402	67,954	30,740
Duplicating	1,345	372	140	-	-	906	285	489	3,537	5,176
Special Events	11,416	27	242	-	-	155,086	-	-	166,771	122,279
Postage	370	217	33	-	-	1,262	137	306	2,325	2,711
Supplies	5,090	1,223	262	-	-	582	880	1,529	9,566	13,612
Training	3,149	20	-	-	-	1,832	300	-	5,301	18,617
Outreach	1,641	4,018	581	342	-	5,681	2,303	8,413	22,979	29,053
Travel	313	232	925	-	-	1,885	154	1,123	4,632	3,268
Bad Debt	25,355	306	-	-	-	350	-	-	26,011	36,505
Grantee Disbursements	-	311,000	-	-	-	-	-	-	311,000	350,628
Insurance	9,599	1,600	-	-	-	1,067	-	-	12,266	5,622
Interest	123,407	29,802	28,153	9,774	3,058	42,125	19,968	37,148	293,435	254,064
Program Expenses	2,905	102,934	28,594	-	-	-	-	-	134,433	87,366
Total Expenses by Function	<u>\$ 1,022,212</u>	<u>\$ 799,841</u>	<u>\$ 245,768</u>	<u>\$ 59,043</u>	<u>\$ 25,293</u>	<u>\$ 557,689</u>	<u>\$ 171,995</u>	<u>\$ 473,516</u>	<u>\$ 3,355,357</u>	<u>\$ 3,136,095</u>

See accompanying Notes to Financial Statements.

PAJARO VALLEY COMMUNITY HEALTH TRUST
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2024
(WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2023)

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Contributions and Grants	\$ 2,575,506	\$ 425,397
Cash Received as Revenue and Support	615,114	324,607
Cash Paid to Suppliers and Employees	(2,540,269)	(2,059,801)
Grants Paid	(311,000)	(350,628)
Interest and Dividends Received	436,044	346,608
Contributions Restricted for Endowment	(857)	(2,783)
Net Cash Provided (Used) by Operating Activities	774,538	(1,316,600)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(5,380)	(540)
Cash Paid to Purchase Investments	(1,267,641)	(353,328)
Proceeds from Sale of Investments	2,681,472	1,007,969
Net Cash Provided by Investing Activities	1,408,451	654,101
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions Restricted for Endowment	857	2,783
Borrowings on Line of Credit	-	925,000
Repayments on Line of Credit	(850,000)	-
Net Cash Provided (Used) by Financing Activities	(849,143)	927,783
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,333,846	265,284
Cash and Cash Equivalents - Beginning of Year	406,542	141,258
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,740,388	\$ 406,542

See accompanying Notes to Financial Statements.

PAJARO VALLEY COMMUNITY HEALTH TRUST
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED JUNE 30, 2024
(WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2023)

	2024	2023
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in Net Assets	\$ 2,144,667	\$ (328,496)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	32,612	38,194
Net Realized and Unrealized (Gain) Loss on Investments	(1,729,960)	(1,416,460)
Contributions for Endowment Purposes	(857)	(2,783)
Changes in Operating Assets and Liabilities:		
Accounts Receivable	38,709	(92,429)
Prepaid Expenses	7,771	(13,729)
Accounts Payable	9,242	188,205
Other Accrued Liabilities	(13,031)	67,931
Deferred Revenue	73,852	12,900
Accrued Interest Portion of Line of Credit	299,825	255,049
Accrued Workers' Compensation Fund	(88,292)	(24,982)
Net Cash Provided (Used) by Operating Activities	\$ 774,538	\$ (1,316,600)
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 293,435	\$ 254,064

See accompanying Notes to Financial Statements.

PAJARO VALLEY COMMUNITY HEALTH TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1 PRINCIPAL ACTIVITY AND 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 nonprofit 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 nonendowed 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 GAAP. 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.

PAJARO VALLEY COMMUNITY HEALTH TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1 PRINCIPAL ACTIVITY AND 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 statement 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 and Allowance for Credit Losses

Accounts receivable are stated at amounts management expects to collect from outstanding balances and are presented net of the allowance for credit losses. The allowance represents the estimate of expected credit losses based on historical experience, current economic conditions, and certain forward-looking information. The allowance for credit losses and its activity within the year was insignificant for the year ended June 30, 2024.

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 3 to 39 years. Depreciation and amortization expense for the year ended June 30, 2024 was \$32,612, \$362 of which was included in discontinued operations.

**PAJARO VALLEY COMMUNITY HEALTH TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024**

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Special event revenues consisted of contribution revenue of \$194,926 and exchange component of \$83,319 of auction items.

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, 2024.

In-Kind Contributions

The Trust received the following contributions of professional services, supplies and discounted rent for the year ended June 30, 2024:

Supplies	\$ 83,537
Professional Services	12,500
Rent	246,948
Total	<u>\$ 342,985</u>

PAJARO VALLEY COMMUNITY HEALTH TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In-Kind Contributions (Continued)

The Trust received donated supplies used for fundraising. The fair value of these supplies has been determined based on the fair value of goods received at the time of donation.

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 donated rent, 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.

Deferred Revenue

Fees for the various program services are recognized in the period for which the services are provided. Amounts received prior to the services being provided are reported as deferred revenue. The following table provides information about significant changes in deferred revenue for the years ended June 30:

	<u>2024</u>	<u>2023</u>
Deferred Revenue - Beginning of Year	\$ 27,150	\$ 14,250
Revenue Recognized that was Included in Deferred Revenue - Beginning of Year	(27,150)	-
Increases in Deferred Revenue Due to Cash Received During the Year	101,002	12,900
Deferred Revenue - End of Year	<u>\$ 101,002</u>	<u>\$ 27,150</u>

Leases

The Trust leases office space and equipment. The Trust determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets and operating lease liabilities on the statement of financial position. The trust does not have any finance leases.

ROU assets represent the Trust's right to use an underlying asset for the lease term and lease liabilities represent the Trust's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As most leases do not provide an implicit rate, the Trust uses its incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Trust will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Trust has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the statement of financial position.

PAJARO VALLEY COMMUNITY HEALTH TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Foundation has elected not to separate nonlease components from lease components and instead accounts for each separate lease component and the nonlease component as a single lease component.

Taxes on Income

As a tax-exempt nonprofit organization, the Trust is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC) 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.

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 GAAP 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 GAAP. Accordingly, such information should be read in conjunction with the Trust's financial statements for the year ended June 30, 2023, from which the summarized information was derived.

PAJARO VALLEY COMMUNITY HEALTH TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Standards

At the beginning of 2024, the Trust adopted Financial Accounting Standards Board (FASB) ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which modifies the measurement of expected credit losses. The adoption of this standard did not have a material impact on the Trust's financial statements but did change how the allowance for credit losses is determined.

Subsequent Events

Subsequent events have been evaluated by the Trust's management through August 26, 2025, which is the date the financial statements were available to be issued.

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 and investments in accounts at various financial institutions. The balance, at times, exceeds federally insured limits. As of June 30, 2024, \$16,147,860 of the Trust's cash and investment deposits were 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:

**PAJARO VALLEY COMMUNITY HEALTH TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024**

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

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.

The following table sets forth by level, within the fair value hierarchy, the Trust’s assets at fair value as of June 30, 2024:

	Level 1	Level 2	Level 3	Total
Money Market	\$ 137,258	\$ -	\$ -	\$ 137,258
Mutual Funds:				
Equities	11,428,511	-	-	11,428,511
Fixed Income	4,794,260	-	-	4,794,260
Nontraditional	312	-	-	312
Total Investments at Fair Value	<u>\$ 16,360,341</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,360,341</u>

PAJARO VALLEY COMMUNITY HEALTH TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 4 INVESTMENTS

Investments were composed of the following at June 30, 2024:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Money Market	\$ 137,258	\$ 137,258	\$ -
Mutual Funds:			
Equities	9,300,568	11,428,511	2,127,943
Fixed Income	4,910,016	4,794,260	(115,756)
Nontraditional	99,315	312	(99,003)
Total Investments	<u>\$ 14,447,157</u>	<u>\$ 16,360,341</u>	<u>\$ 1,913,184</u>

The following schedule summarizes investment returns and its classification in the statement of activities for the year ended June 30, 2024:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and Dividend Income	\$ 366,220	\$ 69,824	\$ 436,044
Realized and Unrealized Gains (Losses) on Investments	1,413,941	316,019	1,729,960
Investment Fees	(51,983)	(10,742)	(62,725)
Net Investment Income	<u>\$ 1,728,178</u>	<u>\$ 375,101</u>	<u>\$ 2,103,279</u>

PAJARO VALLEY COMMUNITY HEALTH TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 5 LONG-TERM DEBT

Long-term debt at June 30, 2024 consists of the following:

<u>Description</u>	<u>Amount</u>
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
Loan with UBS Bank USA, fixed interest rate of 5.250%, due on March 3, 2025. Secured by investments.	500,000
Loan with UBS Bank USA, fixed interest rate of 5.250%, due on March 3, 2028 Secured by investments.	<u>500,000</u>
Total	6,000,000
Less: Current Portion	<u>(2,500,000)</u>
Total Long-Term Debt	<u><u>\$ 3,500,000</u></u>

Long-term debt repayments as of June 30, 2024 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2025	\$ 2,500,000
2026	-
2027	3,000,000
2028	500,000
Total	<u><u>\$ 6,000,000</u></u>

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 \$10,800,000, with a variable interest rate equal to 6.446% as of June 30, 2024. At June 30, 2024, the Trust owed \$1,590,817 on the variable portion of the line of credit due on demand. The line of credit is secured by the Trust's investments.

PAJARO VALLEY COMMUNITY HEALTH TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 7 LEASES – ASC 842

The Trust leases equipment as well as an office facility for various terms under long-term, non-cancelable lease agreements. The leases expire at various dates through 2088 and the office facility lease provides for various nine-year renewal options. In the normal course of business, it is expected that this lease will be renewed. The facility lease provides for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases.

The following table provides quantitative information concerning the Trust's leases.

Lease Costs:	
Operating Lease Costs	\$ 28,898
Short-Term Lease Costs	2,330
Total Lease Costs	<u>\$ 31,228</u>
Other Information:	
Operating Cash Flows from Operating Leases	\$ 29,138
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	\$ 20,232
Weighted-Average Remaining Lease Term - Operating Leases	58.4 Years
Weighted-Average Discount Rate - Operating Leases	5.23%

The Trust classifies the total undiscounted lease payments that are due in the next 12 months as current. A maturity analysis of annual undiscounted cash flows for lease liabilities as of June 30, 2024, is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2025	\$ 31,756
2026	30,092
2027	27,968
2028	25,826
2029	21,936
Thereafter	1,142,994
Total Lease Payments	<u>1,280,572</u>
Less: Imputed Interest	<u>(888,731)</u>
Present Value of Lease Liabilities	<u>\$ 391,841</u>

Operating lease payments in the table above include approximately \$1,220,266 related to options to extend lease terms that are reasonably certain to be exercised.

PAJARO VALLEY COMMUNITY HEALTH TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

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 worker’s compensation liability of \$52,253 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 Medi-Cal are subject to change according to steps taken by the Trust to resolve outstanding cases.

The principal transactions and adjustments made during the 2024 fiscal year are as follows:

Adjust Reserve Associated with Self-Insured	
Workers' Compensation Plan	\$ 88,292
Salary and Personnel Related Expenses	(17,422)
Workers' Compensation Claims and Settlements,	
Net of Refunds	(308)
Facilities and Equipment	(3,366)
Other Costs	(8,176)
Total	<u>\$ 59,020</u>

PAJARO VALLEY COMMUNITY HEALTH TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 9 NET ASSETS WITH DONOR RESTRICTIONS

For the year ended June 30, 2024, activity in net assets with donor restrictions is as follows:

	Balance Beginning of Year	Additions	Satisfied	Balance End of Year
Restricted for Purpose or Time:				
Diabetes Health Center	\$ 24,895	\$ 321,730	\$ (247,319)	\$ 99,306
Health Collaborative	151,716	136,770	(226,771)	61,715
Eiskamp Scholarship Fund	124,775	156,000	(46,200)	234,575
Community Gardens	-	70,986	(70,986)	-
Dental Health Center Services	42,508	14,714	-	57,222
General	383,737	168,725	(87,694)	464,768
Donor Endowments	2,144,049	858	-	2,144,907
Total	<u>\$ 2,871,680</u>	<u>\$ 869,783</u>	<u>\$ (678,970)</u>	<u>\$ 3,062,493</u>

NOTE 10 ENDOWMENT

At June 30, 2024, the Trust had six donor-restricted endowment funds totaling \$2,923,618, 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 \$1,002,213.

The General Endowment Fund totaled \$344,228 as of June 30, 2024 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, 2024, the Phil Rather Endowment Fund totaled \$96,732.

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, 2024, the Ralph Flood Endowment Fund totaled \$111,768.

PAJARO VALLEY COMMUNITY HEALTH TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 10 ENDOWMENT (CONTINUED)

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, 2024, the Dental Health Fund totaled \$134,101.

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, 2024, the Eiskamp Endowment Fund totaled \$1,234,576.

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:

- The duration and preservation of the fund
- The purposes of the Trust and the donor-restricted endowment fund
- General economic conditions
- The possible effect on inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Trust
- The investment policies of the Trust

PAJARO VALLEY COMMUNITY HEALTH TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 10 ENDOWMENT (CONTINUED)

Spending and 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 grand 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, 2024, the Trust did not have underwater endowments.

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%.

PAJARO VALLEY COMMUNITY HEALTH TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 10 ENDOWMENT (CONTINUED)

Endowment Net Assets

Endowment net asset composition as of June 30, 2024:

	With Donor Restrictions
Corpus:	
Founders Fund	\$ 687,953
Frank and Ann Orr	193,720
Rather Fund	86,354
Ralph Flood	100,000
Dental Health Fund	76,880
Eiskamp Fund	1,000,000
Total Corpus	2,144,907
Unappropriated:	
Founders Fund	314,260
Frank and Ann Orr	150,508
Rather Fund	10,378
Ralph Flood	11,768
Dental Health Fund	57,221
Eiskamp Fund	234,576
Total Unappropriated	778,711
Total Endowments	\$ 2,923,618

Changes in endowment net assets for the year ended June 30, 2024:

	With Donor Restrictions
Endowment Net Assets - Beginning of Year	\$ 2,681,555
Net Investment Return	385,841
Contributions	857
Financial Advisor Fees	(10,740)
Appropriation of Endowment Assets for Expenditure	(133,895)
Endowment Net Assets - End of Year	\$ 2,923,618

PAJARO VALLEY COMMUNITY HEALTH TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

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 IRC. 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 three years of employment.

The Trust contributes between 3% to 5% 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, 2024, on behalf of eligible employees, totaled \$54,442.

NOTE 12 LIQUIDITY AND AVAILABILITY OF RESOURCES

The Trust has \$3,250,552 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 \$1,740,388, Endowment funds (see below) available of \$84,956 and nonendowed funds (see below), available of \$1,425,208. \$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 nonendowed 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). \$84,956 of appropriations from the endowment funds will be available for operations within the next 12 months.

The nonendowed funds consist of funds received from the Watsonville Hospital sale of \$13.5 million. Target-spending rate 10.28% 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 10.28% = 9.82% net spending target + 0.46% investment management fees). \$1,425,208 of appropriations from the nonendowed funds will be available for operations within the next 12 months.



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