



Report of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information

EI Camino Healthcare District

June 30, 2023 and 2022

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Management's Discussion and Analysis

El Camino Healthcare District Management's Discussion and Analysis Years Ended June 30, 2023, 2022, and 2021

El Camino Healthcare District (the "District") is comprised of five entities: the District, El Camino Hospital (the "Hospital"), El Camino Hospital Foundation (the "Foundation"), CONCERN: Employee Assistance Program ("CONCERN"), and Silicon Valley Medical Network d.b.a El Camino Health Medical Network ("ECHMN").

ECHMN was organized as a California Limited Liability Corporation ("LLC") that was formed in 2008. Starting in fiscal year 2019 and continuing into the current fiscal year, ECHMN has expanded to 14 clinic and urgent care sites.

Overview of the Consolidated Financial Statements

This annual report consists of the consolidated financial statements and notes to those statements. These statements are organized to present the District as a whole, including all the entities it controls. Financial information for each separate entity is shown in the supplemental schedules on the last pages of the report. In accordance with the Governmental Accounting Standards Board ("GASB") Codification Section 2200, *Comprehensive Annual Financial Report*, the District presents comparative financial highlights for the fiscal years ended June 30, 2023, 2022, and 2021. This discussion and analysis should be read in conjunction with the consolidated financial statements in this report.

The consolidated statements of net position, the consolidated statements of revenues, expenses, and changes in net position, and the consolidated statements of cash flows provide an indication of the District's financial health. The consolidated statements of net position include all the District's assets and liabilities, using the accrual basis of accounting. The consolidated statements of revenues, expenses, and changes in net position report all of the revenues and expenses during the time periods indicated. The consolidated statements of cash flows report the cash provided by the operating activities, as well as other cash sources such as investment income and cash payments for capital additions and improvements.

Consolidated Financial Highlights

Year Ended June 30, 2023

For fiscal year ended June 30, 2023, the District increased its net position by \$311 million. In 2023, operating revenues increased by \$83 million over 2022; this was the result of increased volume.

Year Ended June 30, 2022

For fiscal year ended June 30, 2022, the District increased its net position by \$59 million. In 2022, operating revenues increased by \$196 million over 2021; this was the result of increased volume.

Year Ended June 30, 2021

For fiscal year ended June 30, 2021, the District increased its net position by \$355 million. In 2021, operating revenues increased by \$119 million over 2020; this was the result of increased volume.

**EI Camino Healthcare District
Management's Discussion and Analysis
Years Ended June 30, 2023, 2022, and 2021**

Summary of Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position
As of June 30, 2023, 2022 and 2021

	(In Thousands)		
	2023	As restated 2022	2021
Assets:			
Current assets	\$ 715,606	\$ 641,921	\$ 687,412
Board designated and restricted funds, net of current portion	1,285,427	1,181,535	1,198,200
Funds held by trustee, net of current portion	40,256	35,272	36,939
Capital assets, net	1,250,440	1,201,330	1,160,286
Right of use ("ROU") assets, net of amortization	15,077	29,241	30,493
Subscription assets, net of amortization	13,505	18,691	-
Lease receivables, net of current portion	32,099	34,876	40,340
Other assets	114,974	174,247	151,294
Total assets	3,467,384	3,317,113	3,304,964
Deferred outflows:			
Loss on defeasance of bonds payable	10,560	11,160	11,761
Deferred outflows of resources	7,638	4,226	9,324
Deferred outflows - actuarial	37,339	792	1,005
Total deferred outflows	55,537	16,178	22,090
Total assets and deferred outflows	\$ 3,522,921	\$ 3,333,291	\$ 3,327,054
Liabilities:			
Current liabilities	\$ 168,169	\$ 212,626	\$ 252,584
Bonds payable, net of current portion	554,920	571,174	589,909
Operating lease liabilities, net of current portion	13,350	25,636	26,335
Subscription liabilities, net of current portion	10,926	14,090	-
Other long-term liabilities	39,979	51,318	58,740
Total liabilities	787,344	874,844	927,568
Deferred inflows:			
Deferred inflows of resources	4,015	4,522	4,522
Deferred inflows of resources - leases	42,923	46,369	51,180
Deferred inflows - actuarial	16,745	46,610	41,339
Total deferred inflows	63,683	97,501	97,041
Net position:			
Unrestricted and invested in capital assets, net	2,627,273	2,324,347	2,271,363
Restricted by donors - charity and other	33,278	27,438	22,960
Restricted - endowments	11,343	9,161	8,122
Total net position	2,671,894	2,360,946	2,302,445
Total liabilities, deferred inflows, and net position	\$ 3,522,921	\$ 3,333,291	\$ 3,327,054
Operating cash equivalents and short-term investments	\$ 408,955	\$ 361,340	\$ 456,605
Board designated, funds held by trustee, and restricted funds	1,348,340	1,227,936	1,253,796
Total available cash & investments	\$ 1,757,295	\$ 1,589,276	\$ 1,710,401

**El Camino Healthcare District
Management's Discussion and Analysis
Years Ended June 30, 2023, 2022, and 2021**

Investments

The District maintains sufficient cash balances to pay daily operational expenses and all short term liabilities. In late fiscal year 2012, the Hospital (exclusive of the District) selected an Investment Consultant to assist the Hospital and its subsidiaries in managing its investments, and both the investment policies for Surplus Cash and Cash Balance Plan were updated and approved by the Hospital Board of Directors (the "Board"). The policies allow for greater diversification in the investment portfolios to balance the need for liquidity with a long-term investment focus in order to improve investment returns and the organization's financial strength.

Capital Assets

Continuing on from the previous two fiscal years was the Women's Hospital Expansion project that was approved in February 2021 at a budget of \$149 million. At fiscal year end, the project was approximately 65% complete, expending \$99 million and the renovated Lobby/Gift Shop was put into service. It is expected that second and third floors, previously physician medical offices will open in late August, early September of 2023. The renovated second floor will now house the 20 bed Intensive Care Nursery, previously located on the first floor. The third floor will house a 26 bed Post-Partum, Mom/Baby Unit all in private rooms. Conversion of the existing Mom/Baby Unit on the first floor will be converted into larger rooms with cosmetic upgrades to the interiors later in the project. It is projected that the total project will be completed in February 2024.

Adoption of GASB No. 96

The District adopted GASB No. 96, *Subscription-Based Information Technology Arrangements*, (GASB 96) as of July 1, 2022. The adoption resulted in the recognition of a subscription assets of \$18.7 million and subscription liabilities of \$17.9 million as of July 1, 2022. The impact to beginning net position was not significant. See Note 15 in the notes to the consolidated financial statement.

**El Camino Healthcare District
Management's Discussion and Analysis
Years Ended June 30, 2023, 2022, and 2021**

Revenues and Expenses

The following table displays revenues and expenses for 2023, 2022, and 2021:

Revenues & Expenses Years Ended June 30, 2023, 2022, and 2021 (In Thousands)			
	2023	2022 (As restated)	2021
Operating revenues:			
Net patient service revenue net of bad debt of \$15,361, \$20,316, and \$26,730, in 2023, 2022, and 2021, respectively	\$ 1,378,050	\$ 1,309,152	\$ 1,107,912
Other revenue	51,212	37,031	42,221
Total operating revenues	1,429,262	1,346,183	1,150,133
Operating expenses:			
Salaries, wages and benefits	731,536	654,619	574,797
Professional fees and purchased services	190,962	173,568	177,981
Supplies	198,163	183,665	171,720
Depreciation and amortization	87,104	83,873	74,595
Rent and utilities	24,478	20,733	20,693
Other	22,117	20,915	15,140
Total operating expenses	1,254,360	1,137,373	1,034,926
Operating income	174,902	208,810	115,207
Nonoperating revenues (expenses) items:			
Bond interest expense, net	(22,797)	(19,831)	(20,031)
Intergovernmental transfer expense	(2,178)	(2,613)	(4,460)
Realized investment income	31,024	25,882	79,736
Unrealized investment gains (losses)	81,205	(197,886)	151,188
Property tax revenues	36,748	34,053	32,464
Restricted gifts, grants and other net of contributions to related parties	8,750	7,345	2,868
Unrealized gain on interest rate swap	1,328	3,049	1,883
Community benefit expense	(11,293)	(11,143)	(11,297)
Provider Relief Fund revenue	11,301	15,629	-
Other, net	1,958	(4,794)	7,167
Total nonoperating revenues and expenses	136,046	(150,309)	239,518
Increase in net position	310,948	58,501	354,725
Total net position, beginning of year	2,360,946	2,302,445	1,947,720
Total net position, end of year	\$ 2,671,894	\$ 2,360,946	\$ 2,302,445

Fiscal Year 2023 Consolidated Financial Analysis

Net Patient Service Revenues

Net patient service revenue in fiscal year 2023 increased by \$69 million, or 5.3% over fiscal year 2022. This increase was consistent with adjusted patient days increasing by 9%.

**El Camino Healthcare District
Management’s Discussion and Analysis
Years Ended June 30, 2023, 2022, and 2021**

Specialty	2023 Days	2022 Days
Total days	121,703	111,538

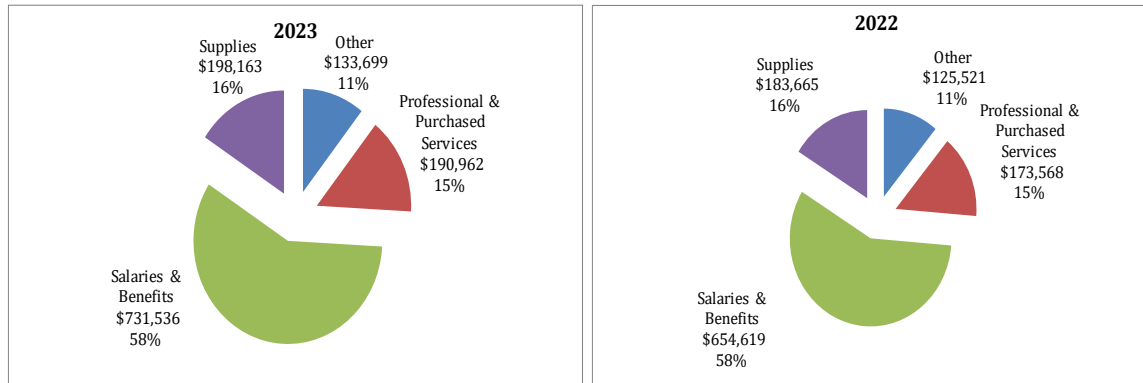
Specialty	2023 LOS	2022 LOS
Average Length of Stay ("LOS")	4.6	4.3

The overall case mix index, which is an indicator of patient acuity, was 1.57 in fiscal year 2023, and 1.58 in fiscal year 2022.

Other Revenue

Other revenue increased by \$14 million in fiscal year 2023 over the prior 2022 fiscal year. The primary increase was due to a \$4.5 million in miscellaneous income, \$5.8 million in capitated revenue and a \$3.2 million increase in IGT receipts.

Operating Expenses



Salaries and Wages

It is to be noted that the District as a stand-alone entity has no employees. All employees are at the Hospital and its related corporations.

Total salaries and wages (including employee benefits) increased by \$77 million in fiscal year 2023 over 2022, which is 58% of total operating expenses. Full-time equivalents (“FTEs”) increased by 221 along with the increase in labor due the high demand for healthcare workers.

Employee Benefits

Aggregate employee benefits, including accrued Paid Time Off (“PTO”) and Extended Sick Leave, increased by \$32.0 million.

Significant changes were as follows:

- PTO accrued expense increased by \$4.1 million over the 2022 fiscal year

EI Camino Healthcare District Management's Discussion and Analysis Years Ended June 30, 2023, 2022, and 2021

- Healthcare (medical, dental, and vision) increased by \$6.0 million in fiscal year 2023
- Employer match of 403B increased \$1.2 million in 2023 over 2022.
- Pension expense increased by \$16.3 million, primarily due to the decline in the Plan Assets for FY2023. Plan Assets had increased in the prior year due to market performance.

Professional and Purchased Services

Total professional and purchased services increased by \$17.4 million. Professional services increased by \$7 million due to increases in professional services agreements with ECHMN and hospital-based service agreements. Purchased services increase of \$5 million was due to inflation and volume increases. Additionally, repairs and maintenance also increased by \$5 million.

Supplies

Total supplies increased by \$14.5 million or 8% in fiscal year 2023 over 2022. This was mainly due to the increase in volume and inflation factors.

Depreciation and amortization

Depreciation and amortization expense this fiscal year increased by \$3.2 million over fiscal year 2022. The increases were mostly related to building improvements, computer equipment and other routine capital purchases.

Rent and Utilities

Rent and utilities increased \$3.7 million, with the majority of the increases being inflationary, associated with electricity and gas.

Other Expense

Other expenses stayed relatively flat year over year with an increase of \$1.2 million.

Nonoperating Revenue (Expense) Items:

Bond Interest Expense, net

Bond interest increased over the prior year by \$3 million which was anticipated due to annual debt service requirements.

Change in Net Unrealized Gains and Losses on Investments

The Hospital experienced a change in net unrealized gains and losses on investments of \$81.2 million during fiscal year 2023 and the change in net unrealized gains and losses for fiscal year 2023 was a year-over-year increase of \$279.1 million. This change was driven primarily by the performance of U.S. equities, primarily U.S. growth equities which outperformed value stocks.

**El Camino Healthcare District
Management’s Discussion and Analysis
Years Ended June 30, 2023, 2022, and 2021**

Economic Factors and Next Year’s Budget

The Board approved the fiscal year 2024 budget at the June 2023 meeting. For the fiscal year 2024, budgeted patient days are projected to decrease by 1% when comparing to FY2023 actuals.

Fiscal Year 2022 Consolidated Financial Analysis

Net Patient Service Revenues

Net patient service revenue in fiscal year 2023 increased by \$201 million, or 18% over fiscal year 2022. This increase was consistent with adjusted patient days increasing by 13%.

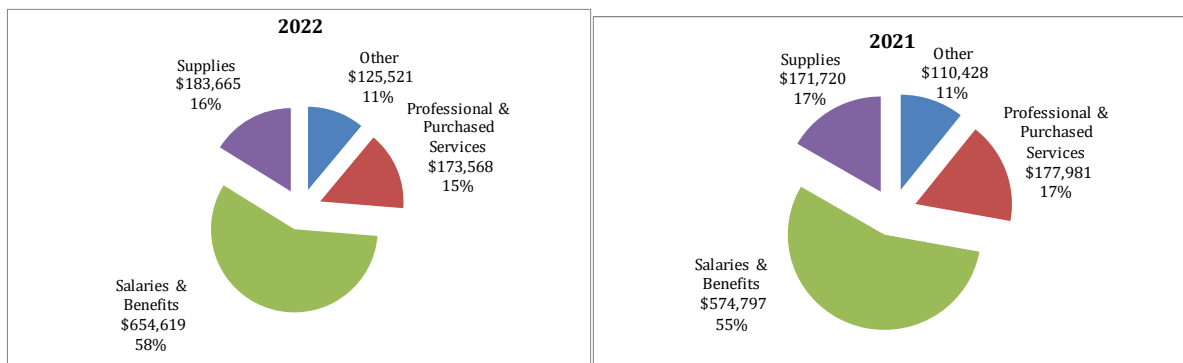
Specialty	2022 Days	2021 Days
Total days	111,538	98,386
Specialty	2022 LOS	2021 LOS
Average LOS	4.3	4.3

The overall case mix index, which is an indicator of patient acuity, was 1.58 in fiscal year 2023, and 1.62 in fiscal year 2022.

Other Revenue

Other revenue decreased by \$5 million in fiscal year 2023 over the prior 2022 fiscal year. The primary decrease was due to a \$2.2 million reduction in IGT receipts and \$1.8 million decline in miscellaneous operating revenue.

Operating Expenses



Salaries and Wages

It is to be noted that the District as a stand-alone entity has no employees. All employees are at the Hospital and its related corporations.

El Camino Healthcare District Management's Discussion and Analysis Years Ended June 30, 2023, 2022, and 2021

Total salaries and wages (including employee benefits) increased by \$80 million in fiscal year 2022 over 2021, which is 58% of total operating expenses and 3% more than fiscal year 2021. Due to the increased demand for services, there was an increase of 241 full-time equivalents ("FTEs") along with the increase in labor due the high demand for healthcare workers.

Employee Benefits

Aggregate employee benefits, including accrued Paid Time Off ("PTO") and Extended Sick Leave, increased by \$14.1 million.

Significant changes were as follows:

- PTO accrued expense increased by \$8.3 million over the 2021 fiscal year.
- Healthcare (medical, dental, and vision) increased by \$9.3 million in fiscal year 2021.
- Employer match of 403B increased \$1.1 million in 2021 over 2021.
- Pension expense decreased by \$4.7 million, primarily by decreased investment returns on the Plan's investment in the past year.

Professional and Purchased Services

Total professional and purchased services decreased year over year by \$4.4 million primarily due to the impact of adoption of GASB 96 in the fiscal year 2022, which resulted in capitalization of certain costs related to SBITA.

Supplies

Total supplies increased by \$12 million or 7% in fiscal year 2022 over 2021. This was mainly due to the increase in volume.

Depreciation and amortization

Depreciation and amortization expense this fiscal year increased by \$9.3 million over fiscal year 2021. Increases were primarily due to completion of projects and the replacement of high dollar value equipment (Radiation Oncology, etc), as well as impact of adoption of GASB 96, which resulted in a full year amortization of subscription assets.

Rent and Utilities

Rent and utilities remained the same year over year.

Other Expense

Other expense increased in the current fiscal year by \$5.8 million over the prior year, due to the insurance rate increases, property tax and marketing and advertising.

EI Camino Healthcare District Management's Discussion and Analysis Years Ended June 30, 2023, 2022, and 2021

Nonoperating Revenue (Expense) Items:

Bond Interest Expense, net

Bond interest was consistent year to year at \$20 million.

Change in Net Unrealized Gains and Losses on Investments

The Hospital experienced a change in net unrealized gains and losses on investments of \$195.3 million during fiscal year 2022 and the change in net unrealized gains and losses for fiscal year 2022 was a year-over-year decrease of \$478.6 million. This change was driven primarily by the change in net unrealized gains and loss of the Hospital's fixed income and mutual fund holdings. The fixed income change in net unrealized gains and losses was \$54.2 million and the mutual fund holdings change in unrealized gains and losses was \$132.8 million. The change in net unrealized gains and losses in 2022 was a result of a challenging environment in the capital markets due to rate tightening and rising inflation. These challenging conditions led to a rout in the fixed income market, as reflected in the Bloomberg U.S. Aggregate Index being down 10.3% and in equities, as reflected in the S&P Index being down 10.6%.

FIDUCIARY MD&A

Overview

The EI Camino Hospital Cash Balance Plan (the "Cash Balance Plan") was established on July 1, 1963, by EI Camino Hospital (the "Hospital") and has been amended from time to time since that date.

The Hospital also provides healthcare benefits and life insurance under the EI Camino Hospital Postretirement Health and Life Insurance Benefit Plan (the "OPEB Plan"), a single-employer defined benefit Postretirement Benefits Plan, for retired employees who meet eligibility requirements as outlined in the plan document, as approved by the board of directors of the Hospital.

Financial Highlights – 2023

Cash Balance Plan – During the year ended June 30, 2023, the net position held in trust for pension benefits decreased by approximately 15.2%. Employer contributions were \$12 million in 2023 compared to \$6.5 million in 2022. Benefit payments were \$14.2 million in 2023 compared to \$14.8 million in 2022. Net investment loss was \$53.1 million in 2023 compared to net investment income of \$33.2 million in 2022, which was the primary reason for the overall 15% decrease in net position as of June 30, 2023.

OPEB Plan – Benefit payments were \$1 million in 2023 and \$0.9 million in 2022.

Financial Highlights – 2022

Cash Balance Plan – During the year ended June 30, 2022, the net position held in trust for pension benefits increased by approximately 7%. Employer contributions were \$6.5 million in 2022 compared to \$10.5 million in 2021. Benefit payments were \$14.8 million in 2022 compared to \$12.2 million in 2021. Net investment income was \$33.2 million in 2022 compared to \$43.8 million in 2021, which was the primary reason for the overall 7% increase in net position as of June 30, 2022.

**EI Camino Healthcare District
Management's Discussion and Analysis
Years Ended June 30, 2023, 2022, and 2021**

Overview of the Fiduciary Financial Statements

The basic financial statements present information about the Cash Balance Plan and OPEB Plan's fiduciary net position and changes in fiduciary net position for the respective years. The basic financial statements also include notes to explain some of the information in the financial statements and to provide more details. The statement of fiduciary net position displays the assets and liabilities and resulting net position of the Plan as of the end of the year. All assets are valued at fair value.

The following is the abbreviated statement of fiduciary net position and statement of changes in fiduciary net position (in thousands):

	CASH BALANCE PLAN		
	2023	2022	2021
ASSETS			
Investments, at fair value	\$ 305,344	\$ 363,419	\$ 336,548
Receivables	3,580	1,565	3,553
Noninterest-bearing cash	749	67	4
Net pending trades	-	(46)	-
NET POSITION RESTRICTED FOR PENSIONS	<u>\$ 309,673</u>	<u>\$ 365,005</u>	<u>\$ 340,105</u>
ADDITIONS			
Investments (loss) income	\$ (53,125)	\$ 33,161	\$ 43,836
Contributions	12,000	6,513	10,636
Total additions, net	<u>(41,125)</u>	<u>39,674</u>	<u>54,472</u>
DEDUCTIONS			
Deductions	14,207	14,774	12,222
(DECREASE) INCREASE IN NET POSITION RESTRICTED FOR PENSIONS	<u>\$ (55,332)</u>	<u>\$ 24,900</u>	<u>\$ 42,250</u>

**EI Camino Healthcare District
Management's Discussion and Analysis
Years Ended June 30, 2023, 2022, and 2021**

	OPEB PLAN		
	2023	2022	2021
ASSETS			
Investments, at fair value	\$ -	\$ -	\$ -
Receivables	-	-	-
NET POSITION RESTRICTED FOR OPEB	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
ADDITIONS			
Contributions	\$ 1,001	\$ 943	\$ 881
Total additions	<u>1,001</u>	<u>943</u>	<u>881</u>
DEDUCTIONS			
Deductions	<u>1,001</u>	<u>943</u>	<u>881</u>
INCREASE IN NET POSITION RESTRICTED FOR OPEB	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Cash Balance Plan – During the year ended June 30, 2023, the Cash Balance Plan's fiduciary net position decreased by 15%. The Cash Balance Plan's policies allow investments consisting of fixed income and equity marketable securities, alternatives, and cash. During the year ended June 30, 2022, the Cash Balance Plan's fiduciary net position increased by 7%. The Cash Balance Plan's policies allow investments consisting of fixed income and equity marketable securities, alternatives, and cash.

The statement of changes in fiduciary net position reflects the employer contributions and investment return, net of investment expenses, less benefits paid.

The decrease in investment income during the year ended June 30, 2023, compared to 2022, is due to a net depreciation in fair value of investments. Benefit payments decreased from the prior year due to a decrease in the number of retirees and beneficiaries receiving benefits. The decrease in investment income during the year ended June 30, 2022, compared to 2021, is due to a decrease in the net appreciation of fair value of investments due to smaller returns in global security markets and on the Cash Balance Plan's investments during the year. Benefit payments increased from the prior year due to an increase in the number of retirees and beneficiaries receiving benefits.

Report of Independent Auditors

The Board of Directors
El Camino Healthcare District

Report on the Audit of the Financial Statements

Opinions

We have audited the consolidated financial statements of the business-type activities and the aggregate remaining fund information of El Camino Healthcare District (the “District”) as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District’s consolidated financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of El Camino Healthcare District as of June 30, 2023 and 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS); the California Code of Regulations, Title 2, Section 1131.2, State Controller’s Minimum Audit Requirements for California Special Districts. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 the District’s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinions. 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 consolidated 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 consolidated 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 District’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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District’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.

Emphasis of Matter – New Accounting Standard

As discussed in Note 1 to the consolidated financial statements, the District adopted Government Accounting Standards Board (“GASB”) Statement No. 96, *Subscription-Based Information Technology Arrangements*, as of July 1 2022. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 12 and the accompanying supplemental pension and post-retirement benefit information on pages 70 through 71 be presented to supplement the consolidated financial statements. Such information is the responsibility of management and, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise the District's consolidated financial statements. The consolidating statement of net position and consolidating statement of revenues, expenses, and changes in net position, on page 67 through 69, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating statement of net position and consolidating statement of revenues, expenses, and changes in net position is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

The accompanying supplemental schedule of community benefit on page 72 has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



San Francisco, California
October 20, 2023

Consolidated Financial Statements

El Camino Healthcare District
Consolidated Statements of Net Position
June 30, 2023 and 2022
(In Thousands)

	2023	2022
		(As restated)
ASSETS AND DEFERRED OUTFLOWS		
Current assets		
Cash and cash equivalents	\$ 260,818	\$ 207,923
Short-term investments	148,137	153,417
Current portion of board-designated funds	22,657	11,129
Patient accounts receivable, net of allowances for doubtful accounts of \$99,691 and \$77,016 in 2023 and 2022, respectively	217,982	209,274
Current portion of lease receivables	9,813	10,403
Prepaid expenses and other current assets	56,199	49,775
Total current assets	715,606	641,921
Non-current cash and investments		
Board-designated funds	1,285,277	1,180,885
Restricted funds	150	650
Funds held by trustee	40,256	35,272
	1,325,683	1,216,807
Capital assets		
Nondepreciable	286,002	207,618
Depreciable, net	964,438	993,712
Total capital assets	1,250,440	1,201,330
Right of use ("ROU") assets, net of amortization	15,077	29,241
Subscription assets, net of amortization	13,505	18,691
Lease receivables, net of current portion	32,099	34,876
Pledges receivable, net of current portion	2,592	2,200
Prepaid pension asset	75,105	137,149
Investments in healthcare affiliates	33,262	30,376
Beneficial interest in charitable remainder unitrusts	4,015	4,522
Total assets	3,467,384	3,317,113
Deferred outflows of resources		
Loss on defeasance of bonds payable	10,560	11,160
Deferred outflows of resources	7,638	4,226
Deferred outflows - actuarial	37,339	792
Total deferred outflows of resources	55,537	16,178
Total assets and deferred outflows of resources	\$ 3,522,921	\$ 3,333,291

See accompanying notes.

El Camino Healthcare District
Consolidated Statements of Net Position (Continued)
June 30, 2023 and 2022
(In Thousands)

	2023	2022 (As restated)
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
Current liabilities		
Accounts payable and accrued expenses	\$ 50,735	\$ 51,365
Salaries, wages, and related liabilities	60,507	80,733
Other current liabilities	26,061	41,624
Estimated third-party payor settlements	11,295	14,942
Current portion of operating lease liabilities	2,714	4,502
Current portion of subscription liabilities	3,164	3,795
Current portion of bonds payable	13,693	15,665
Total current liabilities	168,169	212,626
Bonds payable, net of current portion	554,920	571,174
Operating lease liabilities, net of current portion	13,350	25,636
Subscription liabilities, net of current portion	10,926	14,090
Other long-term obligations	2,239	7,506
Workers' compensation, net of current portion	13,498	14,029
Post-retirement medical benefits	24,242	29,783
Total liabilities	787,344	874,844
Deferred inflows of resources		
Deferred inflows of resources	4,015	4,522
Deferred inflows of resources - leases	42,923	46,369
Deferred inflows of resources - actuarial	16,745	46,610
Total deferred inflows of resources	63,683	97,501
Net position		
Invested in capital assets, net of related debt	720,511	649,672
Restricted - expendable	33,278	27,438
Restricted - nonexpendable	11,343	9,161
Unrestricted	1,906,762	1,674,675
Total net position	2,671,894	2,360,946
Total liabilities, deferred inflows of resources, and net position	\$ 3,522,921	\$ 3,333,291

See accompanying notes.

El Camino Healthcare District
Consolidated Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2023 and 2022
(In Thousands)

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		(As restated)
Net patient service revenue (net of provision for bad debts of \$15,361 and \$20,316 in 2023 and 2022, respectively)	\$ 1,378,050	\$ 1,309,152
Other revenue	51,212	37,031
Total operating revenues	<u>1,429,262</u>	<u>1,346,183</u>
OPERATING EXPENSES		
Salaries, wages, and benefits	731,536	654,619
Professional fees and purchased services	190,962	173,568
Supplies	198,163	183,665
Depreciation and amortization	87,104	83,873
Rent and utilities	24,478	20,733
Other	22,117	20,915
Total operating expenses	<u>1,254,360</u>	<u>1,137,373</u>
Income from operations	<u>174,902</u>	<u>208,810</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income (losses), net	112,229	(172,004)
Property tax revenue		
Designated to support community benefit programs and operating expenses	11,129	10,221
Designated to support capital expenditures	13,045	11,528
Levied for debt service	12,574	12,304
Bond interest expense, net	(22,797)	(19,831)
Intergovernmental transfer expense	(2,178)	(2,613)
Restricted gifts, grants and bequests, and other, net of contributions to related parties	8,750	7,345
Unrealized gain on interest rate swap	1,328	3,049
Community benefit expense	(11,293)	(11,143)
Provider Relief Fund revenue	11,301	15,629
Other, net	1,958	(4,794)
Total nonoperating revenues (expenses)	<u>136,046</u>	<u>(150,309)</u>
Increase in net position	310,948	58,501
TOTAL NET POSITION, beginning of year	<u>2,360,946</u>	<u>2,302,445</u>
TOTAL NET POSITION, end of year	<u>\$ 2,671,894</u>	<u>\$ 2,360,946</u>

See accompanying notes.

El Camino Healthcare District
Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022
(In Thousands)

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		(As restated)
Cash received from and on behalf of patients	\$ 1,363,517	\$ 1,202,871
Other cash receipts	39,636	37,031
Provider relief funds	-	26,930
Cash payments to employees	(768,500)	(654,369)
Cash payments to suppliers	(484,179)	(463,189)
	<u>150,474</u>	<u>149,274</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	24,174	21,749
Restricted contributions and investment income	8,750	7,345
	<u>32,924</u>	<u>29,094</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of property, plant, and equipment	(112,953)	(112,569)
Payments on lease liabilities	(2,924)	(7,128)
Payments on subscription liabilities	(4,471)	(4,414)
Proceeds from lease receivables	12,295	12,884
Interest paid on General Obligation bonds payable	(5,171)	(2,943)
Repayments of bonds payable	(15,665)	(14,480)
Tax revenue related to General Obligation bonds payable	12,574	12,304
	<u>(116,315)</u>	<u>(116,346)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(1,714,738)	(1,859,468)
Sales of investments	1,604,598	2,024,934
Investment income (losses), net	112,229	(172,004)
Community benefit and other investing activities	(11,293)	(11,143)
Change in funds held by trustee, net	(4,984)	1,667
	<u>(14,188)</u>	<u>(16,014)</u>
Net increase in cash and cash equivalents	52,895	46,008
CASH AND CASH EQUIVALENTS at beginning of year	<u>207,923</u>	<u>161,915</u>
CASH AND CASH EQUIVALENTS at end of year	<u>\$ 260,818</u>	<u>\$ 207,923</u>

See accompanying notes.

El Camino Healthcare District
Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2023 and 2022
(In Thousands)

	2023	2022
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES		(As restated)
Income from operations	\$ 174,902	\$ 208,810
Adjustments to reconcile income from operations to net cash net cash from operating activities		
Loss on disposal of property, plant and equipment	118	2,271
Amortization of bond premium and bond issuance costs	(2,561)	(3,070)
Depreciation and amortization	87,104	83,873
Provision for bad debts	15,361	20,316
Changes in assets and liabilities		
Patient accounts receivable, net	(24,069)	(60,301)
Prepaid expenses and other current assets	49,530	(34,819)
Medicare accelerated payments	-	(65,635)
Current liabilities	(58,143)	4,825
Other long-term obligations	(8,117)	(2,015)
Deferred inflows/outflows of resources - actuarial	(66,412)	5,484
Deferred inflows - leases	(12,374)	(9,665)
Subscriptions liabilities/assets	676	74
Post-retirement medical benefits	(5,541)	(874)
	<u>\$ 150,474</u>	<u>\$ 149,274</u>
Net cash provided by operating activities		
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Noncash purchase of property, plant, and equipment	\$ 14,553	\$ -
Change in fair value of beneficial interest in charitable remainder unitrusts, and deferred inflow of resources, net	\$ (507)	\$ -
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES		
Noncash (disposition) acquisition of ROU assets	\$ (11,150)	\$ 4,543
Acquisition of lease receivables	\$ 8,928	\$ 4,854
Noncash acquisition of subscription assets	\$ -	\$ 13,126

See accompanying notes.

El Camino Healthcare District
Statements of Fiduciary Net Position
June 30, 2023 and 2022
(In Thousands)

	CASH BALANCE PLAN		OPEB PLAN		TOTAL	
	2023	2022	2023	2022	2023	2022
ASSETS						
Investments						
Mutual funds	\$ 192,389	\$ 240,563	\$ -	\$ -	\$ 192,389	\$ 240,563
Limited liability companies	55,363	59,573	-	-	55,363	59,573
Common stock	30,500	30,285	-	-	30,500	30,285
Partnerships	9,642	11,490	-	-	9,642	11,490
Pooled, common and collective trusts	10,575	11,686	-	-	10,575	11,686
Corporate bonds	122	3,265	-	-	122	3,265
U.S. government securities	1,747	815	-	-	1,747	815
Cash and cash equivalents	5,006	5,742	-	-	5,006	5,742
Total investments, at fair value	<u>305,344</u>	<u>363,419</u>	<u>-</u>	<u>-</u>	<u>305,344</u>	<u>363,419</u>
Receivables						
Employer contributions	3,500	1,500	-	-	3,500	1,500
Interest and dividends	80	65	-	-	80	65
Total receivables	<u>3,580</u>	<u>1,565</u>	<u>-</u>	<u>-</u>	<u>3,580</u>	<u>1,565</u>
Noninterest-bearing cash	749	67	-	-	749	67
Net pending trades	-	(46)	-	-	-	(46)
NET POSITION RESTRICTED FOR PENSIONS	<u>\$ 309,673</u>	<u>\$ 365,005</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 309,673</u>	<u>\$ 365,005</u>

See accompanying notes.

El Camino Healthcare District
Statements of Changes in Fiduciary Net Position
Years Ended June 30, 2023 and 2022
(In Thousands)

	CASH BALANCE PLAN		OPEB PLAN		TOTAL	
	2023	2022	2023	2022	2023	2022
ADDITIONS						
Investments income						
Net (depreciation) appreciation in fair value of investments	\$ (57,817)	\$ 29,452	\$ -	\$ -	\$ (57,817)	\$ 29,452
Dividends	4,538	3,525	-	-	4,538	3,525
Interest	154	184	-	-	154	184
Total investment (loss) income	<u>(53,125)</u>	<u>33,161</u>	<u>-</u>	<u>-</u>	<u>(53,125)</u>	<u>33,161</u>
Contributions						
Employer contributions	12,000	6,500	1,001	943	13,001	7,443
Pending investment settlements	-	13	-	-	-	13
Total contributions	<u>12,000</u>	<u>6,513</u>	<u>1,001</u>	<u>943</u>	<u>13,001</u>	<u>7,456</u>
Total additions, net	<u>(41,125)</u>	<u>39,674</u>	<u>1,001</u>	<u>943</u>	<u>(40,124)</u>	<u>40,617</u>
DEDUCTIONS						
Benefits paid to participants	14,207	14,774	1,001	943	15,208	15,717
Administrative expenses	-	-	-	-	-	-
Total deductions	<u>14,207</u>	<u>14,774</u>	<u>1,001</u>	<u>943</u>	<u>15,208</u>	<u>15,717</u>
(DECREASE) INCREASE IN NET POSITION	<u>(55,332)</u>	<u>24,900</u>	<u>-</u>	<u>-</u>	<u>(55,332)</u>	<u>24,900</u>
NET POSITION RESTRICTED FOR PENSIONS						
Beginning of year	<u>365,005</u>	<u>340,105</u>	<u>-</u>	<u>-</u>	<u>365,005</u>	<u>340,105</u>
End of year	<u>\$ 309,673</u>	<u>\$ 365,005</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 309,673</u>	<u>\$ 365,005</u>

See accompanying notes.

El Camino Healthcare District

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies

Organization – The El Camino Healthcare District (the “District”) includes the following component units, which are included as blended component units of the District’s consolidated financial statements: El Camino Hospital (the “Hospital”), El Camino Hospital Foundation (the “Foundation”), CONCERN: Employee Assistance Program (“CONCERN”), and Silicon Valley Medical Network d.b.a El Camino Health Medical Network (“ECHMN”).

The District is organized as a political subdivision of the State of California and was created for the purpose of operating an acute care hospital and providing management services to certain related corporations. The District is the sole member of the Hospital, and the Hospital is the sole corporate member of the Foundation and CONCERN. As sole member, the District (with respect to the Hospital) and the Hospital (with respect to the Foundation and CONCERN) have certain powers, such as the appointment and removal of the boards of directors and approval of changes to the articles of incorporation and bylaws.

ECHMN was organized as a California Limited Liability Corporation (“LLC”) that was formed in 2008. Starting in fiscal year 2019 and continuing into the current fiscal year, ECHMN has expanded to 14 clinic and urgent care sites.

All significant inter-entity accounts and transactions have been eliminated in the consolidated financial statements.

The District utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis and consolidated financial statements are prepared using the economic resources measurement focus.

The District has fiduciary responsibility for the El Camino Hospital Cash Balance Plan and El Camino Hospital Postretirement Health and Life Insurance Benefit Plan. See Notes 7 and 8.

El Camino Hospital Cash Balance Plan (the Plan) – The Plan was originally adopted as a defined benefit plan and was amended and restated in its entirety to a cash-balance formula effective January 1, 1995. Effective January 1, 2014, the Plan was restated and amended. The Plan is administered by the sponsor, El Camino Hospital (the “Hospital”), and Plan assets are held by the custodian of the Plan, Wells Fargo Bank, N.A. (“Wells Fargo”). The Plan is a noncontributory defined benefit plan intended to qualify under Section 401(a) of the Internal Revenue Code (“IRC”). At December 31, 2022, there were 4,859 Plan participants consisting of 3,093 active participants and 1,766 inactive or separated participants, and at December 31, 2021, there were 4,588 Plan participants consisting of 2,946 active participants and 1,642 inactive or separated participants.

El Camino Hospital Postretirement Health and Life Insurance Benefit Plan – The Hospital also provides healthcare benefits and life insurance under the El Camino Hospital Postretirement Health and Life Insurance Benefit Plan (the “OPEB Plan”), a single-employer defined benefit Postretirement Benefits Plan, for retired employees who meet eligibility requirements as outlined in the plan document, as approved by the board of directors of the Hospital.

El Camino Healthcare District Notes to Consolidated Financial Statements

Accounting standards – Pursuant to Governmental Accounting Standards Board (“GASB”) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the District’s proprietary fund accounting and financial reporting practices are based on all applicable GASB pronouncements as well as codified pronouncements issued on or before November 30, 1989, and the California Code of Regulations, Title 2, Section 1131, State Controller’s *Minimum Audit Requirements* for California Special Districts and the State Controller’s Office prescribed reporting guidelines.

Use of estimates – The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Estimates include contractual allowances related to net patient service revenue, provision for uncollectible accounts, fair market values of investments, uninsured losses for professional liability, minimum pension liability, workers’ compensation liability, post-retirement medical benefits liability, valuation of gift annuities and beneficial interest in charitable remainder unitrusts, useful lives of capital assets, discount rate for leases, useful lives of right of use assets, deferred inflows of resources, subscription term of subscription assets, and discount rates used for subscription liabilities. Actual results could differ from those estimates.

Cash and cash equivalents – Cash and cash equivalents include deposits with financial institutions, and investments in highly liquid debt instruments with an original maturity of three months or less. In addition, in fiscal years 2023 and 2022, cash and cash equivalents include repurchase agreements, which consist of highly liquid obligations of U.S. governmental agencies. Cash and cash equivalents exclude amounts whose use is limited by board designation or by legal restriction.

Investments – Investments consist primarily of highly liquid debt instruments and other short-term interest-bearing certificates of deposit, U.S. Treasury bills, U.S. government obligations, hedge funds, hedge fund of funds, and corporate debt, excluding amounts whose use is limited by board designation or other arrangements under trust agreements.

Board-designated and restricted funds include assets set aside by the Board of Directors (the “Board”) for future capital improvements and other operational reserves, over which the Board retains control and may at its discretion use for other purposes; assets set aside for qualified capital outlay projects in compliance with state law; and assets restricted by donors or grantors.

Investment income, realized gains and losses, and unrealized gains and losses on investments are reflected as nonoperating revenue or expense.

Funds held by trustee – According to the terms of both indenture agreements (General Obligation and Revenue Bonds), these amounts are held by the bond trustee and paying agent and are maintained and managed by an investment manager or the trustee. These assets are available for the settlement of future current bond obligations and capital expenditures.

El Camino Healthcare District

Notes to Consolidated Financial Statements

Lease receivables – The District’s lease receivable is measured at the present value of lease payments expected to be received during the lease term. Under the lease agreement, the District may receive variable lease payments that are dependent upon the lessee’s revenue. The variable payments are recorded as an inflow of resources in the period the payment is received. The deferred inflow of resources is recorded at the initiation of each lease in an amount equal to the initial recording of the lease receivable. The deferred inflows of resources are amortized on an effective interest method basis over the term of each lease.

Capital assets – Capital asset acquisitions are recorded at cost. Donated property is recorded at its fair market value on the date of donation. All purchases over \$2,500 are capitalized. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the related assets. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Land improvements	16 years
Buildings and fixtures	25 to 47 years
Equipment	3 to 16 years

The District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Impairment losses on capital assets are measured using the method that best reflects the diminished service utility of the capital asset.

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Right of use assets – The District has recorded right to use lease assets as a result of implementing Governmental Accounting Standards Board (“GASB”) No. 87. The right to use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right to use assets are amortized on a straight-line basis over the life of the related lease.

Subscription assets – The District has recorded subscription assets as a result of implementing GASB No. 96. The subscription assets are initially measured at an amount equal to the initial measurement of the related subscription liability plus any contract payments made to the SBITA vendor at the commencement of the subscription term, capitalizable initial implementation cost, less any incentive payments received from the SBITA vendor at the commencement of the subscription term. The subscription assets are amortized on a straight-line basis over the shorter of the subscription term or the useful life of the underlying assets.

El Camino Healthcare District
Notes to Consolidated Financial Statements

Prepaid expenses and other current assets – Prepaid expenses and other current assets consist primarily of premiums paid in advance, inventories, dues, and other receivables related to new capitation and hospitalist contracts associated with ECHMN. Prepaid expenses and other current assets consisted of the following at June 30:

	2023	2022
Inventory	\$ 21,215	\$ 19,546
Prepaid expense and other deposits	23,822	16,931
Other receivables	11,162	13,298
	\$ 56,199	\$ 49,775

Investments in healthcare affiliates – The Hospital holds an interest in Pathways Home Health & Hospice (“Pathways”), and five Satellite Dialysis Centers, which are reported using the equity method of accounting.

Affiliate	Percent interest
Pathways	50%
Satellite Dialysis	30%

Deferred outflows and inflows – The District records deferred outflows or inflows of resources in its consolidated financial statements for consumption or acquisition of its consolidated net position that is applicable to a future reporting period. These financial statement elements are distinct from assets and liabilities.

	2023	2022
Deferred outflows of resources as of June 30:		
Loss on defeasance of bonds payable	\$ 10,560	\$ 11,160
Deferred outflows of resources - employee benefit plan contribution	7,000	3,000
Deferred outflows of resources - goodwill	638	1,226
Deferred outflows - actuarial, employee benefit plan	37,339	588
Deferred outflows - actuarial, post-retirement medical benefit	-	204
Total	\$ 55,537	\$ 16,178
Deferred inflows of resources as of June 30:		
Deferred inflows of resources - charitable remainder unitrusts	\$ 4,015	\$ 4,522
Deferred inflows of resources - leases	42,923	46,369
Deferred inflows - actuarial, employee benefit plan	14,893	46,075
Deferred inflows - actuarial, post-retirement medical benefit	1,852	535
Total	\$ 63,683	\$ 97,501

El Camino Healthcare District
Notes to Consolidated Financial Statements

Risk management – The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Self-insurance plans – The Hospital maintains professional liability insurance on a claims-made basis, with liability limits of \$40,000,000 in aggregate, which is subject to a \$500,000 deductible. Additionally, the Hospital is self-insured for workers’ compensation benefits. The Hospital purchases a Workers’ Compensation Excess Policy that insures claims greater than \$1,000,000 with a limit of statutory and a \$1,000,000 deductible. Actuarial estimates of uninsured losses for professional liability and workers’ compensation have been accrued as other current liabilities and workers’ compensation, net of current portion, respectively, in the accompanying consolidated financial statements.

The following is a summary of changes in workers’ compensation liabilities for the years ended June 30 (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion</u>
2023	\$ 16,329	\$ 1,711	\$ 2,242	\$ 15,798	\$ 2,300
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion</u>
2022	\$ 19,302	\$ -	\$ 2,973	\$ 16,329	\$ 2,300

Compensated absences – Vested or accumulated vacation and sick leave are recorded as an expense and liability of the Hospital as the benefits accrue to employees. For most employees, the maximum accumulated vacation is 400 hours. Sick leave is accumulated indefinitely at a maximum of 40 hours for a full-time employee per year, and is not vested with the employee upon termination. The following is a summary of changes in compensated absences transactions for the years ended June 30, (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion</u>
2023	\$ 34,449	\$ 64,573	\$ 62,918	\$ 36,104	\$ 36,104
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion</u>
2022	\$ 33,197	\$ 58,222	\$ 56,970	\$ 34,449	\$ 34,449

El Camino Healthcare District
Notes to Consolidated Financial Statements

Lease liabilities – The District recognizes lease contracts or equivalents that have a term exceeding one year and the cumulative future payments on the contract exceeding \$12,000 that meet the definition of an other than short-term lease. The District uses a discount rate that is explicitly stated or implicit in the contract. When a readily determinable discount rate is not available, the discount rate is determined using the District’s incremental borrowing rate at start of the lease for a similar asset type and term length to the contract. Short-term lease payments are expensed when incurred.

The following is a summary of changes in lease liabilities, net for the years ended June 30 (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2023	\$ 30,138	\$ -	\$ 14,074	\$ 16,064	\$ 2,714
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2022	\$ 31,398	\$ 3,803	\$ 5,063	\$ 30,138	\$ 4,502

Subscription liabilities – The District entered into various agreements for IT subscriptions. These agreements range in terms up to year 2028. Total lease payments were \$4.5 million and \$3.3 million for fiscal years 2023 and 2022, respectively. Variable payments based upon the use of the underlying IT asset are not included in the subscription liability because they are not fixed in substance — therefore, these payments are not included in subscription assets or subscription liabilities. There were no variable lease expenses or payments in the fiscal years ended June 30, 2023 and 2022. The District did not enter into any additional subscription agreements that have yet to commence as of June 30, 2023.

The District recognizes contracts or equivalents that have a term exceeding one year and the cumulative future payments on the contract exceeding \$1 million that meet the definition of an other than short-term lease. The District uses a discount rate that is explicitly stated or implicit in the contract. When a readily determinable discount rate is not available, the discount rate is determined using the District’s incremental borrowing rate at start of the lease for a similar asset type and term length to the contract. Short-term lease payments are expensed when incurred

The following is a summary of changes in subscription liabilities, net for the years ended June 30 (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2023	\$ 17,885	\$ -	\$ 3,795	\$ 14,090	\$ 3,164
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2022	\$ 9,097	\$ 11,993	\$ 3,205	\$ 17,885	\$ 3,795

El Camino Healthcare District

Notes to Consolidated Financial Statements

Medicare accelerated payments and CARES Act grant – On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by the novel coronavirus, a pandemic. Management is closely monitoring the evolution of this pandemic, including how it may affect operations and the general population. Management has not yet determined the full financial impact of these events. Centers for Medicare & Medicaid Services (“CMS”) distributed \$50 billion of the \$100 billion in the form of grants to hospitals. For the year ended June 30, 2022, the Hospital received approximately \$26.9 million of provider relief funds. The Hospital did not receive additional funds in the fiscal year ended June 30, 2023. The Hospital recognized \$11.3 million and \$15.6 million included as “Provider Relief Fund revenue” (nonoperating revenue) in the consolidated statement of revenues, expenses, and changes in net position, for the year ended June 30, 2023 and 2022, respectively. The Hospital will have to submit reports documenting lost revenue and expenses incurred to support the grant funds, among other terms and conditions.

Interest rate swap agreements – During the fiscal year ended June 30, 2007, the Hospital entered into derivative instruments in the form of three swap agreements to hedge variable interest rate exposure. During the fiscal year ended June 30, 2008, the underlying variable rate debt was refunded for fixed rate debt, leaving the Hospital with speculative derivative instruments that largely offset the variable rate debt issued in 2009. Two of these swaps were terminated in the fiscal year ended June 30, 2010. Refer to Note 10 for a full description of the interest rate swap agreements.

Net position – Net position of the District is classified as invested in capital assets, restricted-expendable, restricted-nonexpendable, and unrestricted net position.

Invested in capital assets, net of related debt – Invested in capital assets of \$720,511,000 and \$649,672,000 at June 30, 2023 and 2022, respectively, represent investments in all capital assets (building and building improvements, furniture and fixtures, and information and technology equipment), net of depreciation and amortization less any debt issued to finance those capital assets.

Restricted-expendable – The restricted-expendable net position is restricted through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation and includes assets in self-insurance trust funds, revenue bond reserve fund assets, and net position restricted to use by donors.

Restricted-nonexpendable – The restricted-nonexpendable net position is equal to the principal portion of permanent endowments.

Unrestricted net position – Unrestricted net position consists of net position that does not meet the definition of invested in capital assets, net of related debt, or restricted.

El Camino Healthcare District

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Statements of revenues, expenses, and changes in net position – For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provisions of healthcare services are reported as revenues and expenses. Peripheral or incidental transactions are reported as gains and losses. These peripheral activities include investment income, property tax revenue, gifts, grants and bequests, change in net unrealized gains and losses on short-term investments, unrealized losses or gains on interest rate swap, and nonexchange contributions received from the Foundation’s fundraising activities and are reported as nonoperating. Investments in Pathways Home Health & Hospice and Satellite Dialysis of Mountain View, LLC, are accounted for under the equity method. The Hospital’s share of the operating income of these entities is included as other, net in the consolidated financial statements.

Net patient service revenue and patient accounts receivable – Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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. The distribution of net patient accounts receivable by payor is as follows:

	June 30,	
	2023	2022
Medicare	11%	12%
Medi-Cal	3%	2%
Commercial and other	85%	85%
Self pay	1%	1%
	100%	100%

Provision for uncollectible accounts – The Hospital provides care to patients without requiring collateral or other security. Patient charges not covered by a third-party payor are billed directly to the patient if it is determined that the patient has the ability to pay. A provision for uncollectible accounts is recognized based on management’s estimate of amounts that ultimately may be uncollectible.

Charity care – The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of estimated costs for services and supplies furnished under the Hospital’s charity care policy aggregated approximately \$4,244,000 and \$4,106,000 for the years ended June 30, 2023 and 2022, respectively.

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Notes to Consolidated Financial Statements

Property tax revenue – The District received approximately 12% in 2023 and 58% in 2022 of its total increase in net position from property taxes. These funds were designated as follows (in thousands):

	2023	2022
Designated to support community benefit programs and operating expenses	\$ 11,129	\$ 10,221
Designated to support capital expenditures	\$ 13,045	\$ 11,528
Levied for debt service	\$ 12,574	\$ 12,304

Property taxes are levied by the County of Santa Clara on the District’s behalf on January 1 and are intended to finance the District’s activities of the same calendar year. Amounts levied are based on assessed property values as of the preceding July 1. Property taxes are considered delinquent on the day following each payment due date. Property taxes are recorded as nonoperating revenue by the District when they are earned.

Grants and contributions – From time to time, the District receives grants as well as contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues.

Income taxes – The District operates under the purview of the Internal Revenue Code (the “Code”), Section 115, and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to state or federal taxes on income. CONCERN has also been granted tax-exempt status. However, income from the unrelated business activities of the Hospital and the Foundation is subject to income taxes. ECHMN is a limited liability company and is treated as a pass-through entity for federal income tax purposes. Accordingly, no recognition has been given to federal income taxes in the accompanying consolidated financial statements.

New accounting pronouncements – The GASB issued GASB Statement No. 96, *Subscription Based IT Arrangements* (“GASB No. 96”). The statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This statement defines a SBITA; establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and requires note disclosures regarding a SBITA.

The District adopted GASB No. 96 as of July 1, 2022, applied retrospectively. The District calculated and recognized subscription assets, net, of \$18.7 million and subscription liabilities of \$17.9 million as of July 1, 2022. The impact to beginning net position was not significant. See Notes 14 and Note 15.

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In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections. It defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity. This statement requires that (1) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (2) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (3) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The statement is effective for fiscal years beginning after June 15, 2023. The District is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. The Statement updates the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used, and (2) leave that has been used but not yet paid, provided the services have occurred, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or noncash means. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. The statement amends the existing requirements to disclose only the net change in the liability instead of the gross additions and deductions to the liability. This statement is effective for fiscal years beginning after December 15, 2023. The District is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

Reclassifications – Certain reclassifications of prior years’ balances have been made to conform with the current year presentations. Such reclassifications did not affect the total increase in net position or total current or long-term assets or liabilities.

Note 2 – Operating Revenues

The Hospital and ECHMN have agreements with third-party payors that provide for payments to the Hospital and ECHMN at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, fee schedules, prepaid payments per member, and per diem payments or a combination of these methods. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated settlements under reimbursement agreements with third-party payors.

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Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Inpatient services are paid at prospectively determined rates per discharge. Payments for outpatient services are based on a stipulated amount per procedure. The Hospital is reimbursed for cost reimbursable items at a tentative rate, with final settlements determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The effect of updating prior-year estimates for Medicare and other liabilities was to increase to 2023 income from operations by \$4,830,000, compared to 2022 which was a decrease to income from operations by \$5,305,000. The Hospital's cost reports have been audited by the Medicare fiscal intermediary through June 30, 2018.

Non-Designated Public Hospitals ("NDPHs"), including the Hospital, were authorized, in 2011's Assembly Bill ("AB") 113, to use intergovernmental transfers ("IGTs") to obtain federal supplemental funds for Medi-Cal inpatient fee-for-service. The IGTs are used to bring NDPHs, in the aggregate, up to their upper payment limit ("UPL"). The UPL is the federal maximum available under the Medicaid program, as calculated based on the actual costs of providing care. For the years ended June 30, 2023 and 2022, the Hospital recognized amounts under the IGT program of \$7,186,000 and \$8,283,000, respectively, which have been reported as net patient service revenue.

Medi-Cal and contracted rate payors are paid on a percentage of charges, per diem, per discharge, fee schedule, or a combination of these methods.

Laws and regulations governing the Medicare and Medi-Cal programs are complex and are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term.

Other revenues for the years ended June 30, consisted of the following:

	2023	2022
Rental income	\$ 13,786	\$ 13,794
Prime IGT	4,719	1,441
ECHMN other revenue	1,758	1,074
CONCERN & ECHMN capitated revenue	17,229	11,464
Other operating revenue	13,720	9,258
	\$ 51,212	\$ 37,031

Note 3 – Cash Deposits

At June 30, 2023 and 2022, District cash deposits had carrying amounts of \$260,818,000 and \$207,923,000, respectively, and bank balances of \$265,821,000 and \$241,055,000, respectively. All of these funds were held in cash deposits, which are collateralized with the California Government Code ("CGC"), except for \$250,000 per account that is federally insured by the Federal Deposit Insurance Corporation ("FDIC").

El Camino Healthcare District

Notes to Consolidated Financial Statements

The District participated in a cash management program provided by its primary depository institution that allows cash in District concentration accounts to be swept daily and invested overnight in reverse agreements that are not exposed to custodial credit risk because the underlying securities are held by the buyer-lender.

Note 4 – Board-Designated Funds, Funds Held By Trustee, Restricted Funds, and Investments

Board-designated funds, funds held by trustee, restricted funds, and short-term investments, collectively, as of June 30, 2023 and 2022, comprised the following (in thousands):

	2023	2022
Included in the following consolidated statements of net position captions:		
Short-term investments	\$ 148,137	\$ 153,417
Current portion of board designated and funds held by trustee	22,657	11,129
Board designated, funds held by trustee, and restricted funds, less current portion	1,325,683	1,216,807
Total carrying amount of deposits and investments	\$ 1,496,477	\$ 1,381,353

At June 30, 2023, investment balances and average maturities were as follows:

Investment Type	Fair Value (in thousands)	Investment Maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
Short-term money market	\$ 97,563	\$ 97,563	\$ -	\$ -	\$ -
Government and agencies	304,649	25,957	101,184	17,803	159,705
Corporate bonds	201,791	17,677	100,146	36,533	47,435
Domestic fixed income	16,687	2,949	5,550	4,596	3,592
	620,690	\$ 144,146	\$ 206,880	\$ 58,932	\$ 210,732
Equities	88,095				
Mutual funds	470,242				
Real estate funds	50,233				
Hedge funds	267,217				
Total	\$ 1,496,477				

El Camino Healthcare District

Notes to Consolidated Financial Statements

At June 30, 2022, investment balances and average maturities were as follows:

Investment Type	Fair Value (in thousands)	Investment Maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
Short-term money market	\$ 79,616	\$ 79,616	\$ -	\$ -	\$ -
Government and agencies	301,655	-	153,810	17,217	130,628
Corporate bonds	206,714	17,978	107,634	38,596	42,506
Domestic fixed income	36,052	-	20,289	9,884	5,879
	624,037	<u>\$ 97,594</u>	<u>\$ 281,733</u>	<u>\$ 65,697</u>	<u>\$ 179,013</u>
Equities	75,612				
Mutual funds	375,620				
Real estate funds	51,341				
Hedge funds	254,743				
Total	<u>\$ 1,381,353</u>				

Interest rate risk – Through its investment policies, the District manages its exposure to fair value losses arising from increasing interest rates by limiting duration of fixed-income securities in its portfolio to no more than 30% of the designated benchmark.

Credit risk – District investment policies require fixed income investments to have a minimum of 85% of a money manager’s assets in investment grade assets. The investment policy requires investment managers maintain an average of A- or higher ratings as issued by a nationally recognized rating organization. Additionally, the investment policy requires no more than 5% of a money manager’s portfolio at the time of purchase shall be invested in the securities of any one issuer, with the exception of a United States government agency, agency MBS, or other Sovereign issues rated AAA or Aaa.

Foreign currency risk – The District’s investment policy permits it to invest up to 30% of total investments in foreign currency denominated investments.

Alternative investments risk – The District’s alternative investments include ownership interest in a wide variety of partnership and fund structures that may be domestic or offshore. Generally, there is little or no regulation of these investments by the Securities and Exchange Commission or U.S. state attorneys general. These investments employ a wide variety of strategies including absolute return, hedge, venture capital, private equity, and other strategies. Investments in this category may employ leverage to enhance the investment return. The District’s holdings can include financial assets such as marketable securities, nonmarketable securities, derivatives, and synthetic and structured instruments; real assets; tangible and intangible assets; and other funds and partnerships. Generally, these investments do not have a ready market. Interest in these investments may not be traded without approval of the general partner or fund management.

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Notes to Consolidated Financial Statements

Alternative investments are subject to all of the risks described previously relating to equities and fixed-income instruments. In addition, alternative strategies and their underlying assets and rights are subject to a broad array of economic and market vagaries that can limit or erode value. The underlying assets may not be held by a custodian either because they cannot be, or because the entity has chosen not to hold them in this form. Valuations determined by the investment manager, who has a conflict of interest in that he or she is compensated for performance, are considered and reviewed by the District's Investment Committee and the Board of Directors. Real assets may be subject to physical damage from a variety of means, loss from natural causes, theft of assets, lawsuits involving rights, and other loss and damage including mortgage foreclosure risk. These risks may not be insured or insurable. Tangible assets are subject to loss from theft and other criminal actions and from natural causes. Intangible assets are subject to legal challenge and other possible impairment.

The carrying amount of deposits and investments are included in the District's consolidated statements of net position as follows (in thousands):

	Amortized	Gross Unrealized		Carrying
	Cost	Gains	Losses	
2023				
Cash and cash equivalents	\$ 97,561	\$ 3	\$ (3)	\$ 97,561
Mutual funds	347,840	133,117	(10,715)	470,242
Real estate funds	37,201	14,039	(1,007)	50,233
Hedge funds	217,564	51,595	(1,942)	267,217
Equities	74,349	17,679	(3,933)	88,095
Fixed income securities	555,971	1,098	(33,940)	523,129
	<u>\$ 1,330,486</u>	<u>\$ 217,531</u>	<u>\$ (51,540)</u>	<u>\$ 1,496,477</u>
	Amortized	Gross Unrealized		Carrying
	Cost	Gains	Losses	Value
2022				
Cash and cash equivalents	\$ 86,014	\$ 21	\$ (85)	\$ 85,950
Mutual funds	317,868	82,791	(25,039)	375,620
Real estate funds	36,512	16,371	(1,542)	51,341
Hedge funds	218,168	45,618	(9,043)	254,743
Equities	64,460	14,725	(3,573)	75,612
Fixed income securities	570,263	866	(33,042)	538,087
	<u>\$ 1,293,285</u>	<u>\$ 160,392</u>	<u>\$ (72,324)</u>	<u>\$ 1,381,353</u>

El Camino Healthcare District

Notes to Consolidated Financial Statements

Note 5 – Fair Value

Fair value is defined 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. A fair value hierarchy is also established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the consolidated statements of net position at June 30, 2023 and 2022, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Mutual funds: Shares of mutual funds are valued at the net asset value (“NAV”) of shares held by the District and are valued at the closing price reported on the active market on which the individual securities are traded.

Common stock: Common stock is valued at the closing price reported on the active market on which the individual securities are traded.

Asset-backed securities: Asset-backed securities are valued via model using various inputs such as but not limited to daily cash flow, U.S. Treasury market, floating rate indices such as LIBOR and Prime as a benchmark yield, spread over index, periodic and life caps, next coupon adjustment date, and convertibility of the bond.

Corporate bonds, foreign bonds, and municipal bonds: Valued using pricing models maximizing the use of observable inputs for similar securities which includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

U.S. government securities: Fixed income funds are valued at the NAV of shares held by the District and are valued at the closing price reported on the active market on which the individual securities are traded.

Pooled, common & collective trusts: Investments are valued using the NAV of the fund. The NAV of a pooled or collective investment fund is calculated based on a compilation of primarily observable market information. The number of units of the fund that are outstanding on the calculation date is derived from observable purchase and redemption activity in the fund.

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Notes to Consolidated Financial Statements

Hedge funds: The fair value of the investments is recorded at the investment manager's net asset values, as determined by the fund administrator and subsequently audited by an external third party. The administrator has the appropriate expertise to determine the NAV. The District assesses the NAV and takes into consideration events such as suspended redemptions, restructuring, secondary sales, and investor defaults to determine if an adjustment is necessary. Additionally, asset holdings are reviewed within investment managers' audited financial statements.

Limited Liability Company and Limited Partnership Interests: The valuation of partnership interests may require significant management judgement. The District's ownership is based upon their percentage of limited partnership interests divided by the total commitment of the fund. Specifically, inputs used to determine fair value include financial statements provided by the investment partnerships, which typically include fair market value capital account balances.

Interest rate swap: The fair value is estimated by a third party using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Beneficial interest in charitable remainder unitrusts: The beneficial interest in charitable remainder unitrusts is measured at fair value, which is estimated as the present value of the expected future cash flows from trusts.

El Camino Healthcare District

Notes to Consolidated Financial Statements

The following table presents the fair value measurements of financial instruments for the consolidated District financials, recognized in the accompanying consolidated statements of net position measured at fair value on a recurring basis and the level within the GASB No. 72 fair value hierarchy in which the fair value measurements fall at June 30 (in thousands):

Description	Level 1	Level 2	Level 3	2023
Investments by fair value level				
Asset backed securities				
Asset backed obligations	\$ -	\$ 32,751	\$ -	\$ 32,751
Mortgage backed obligations	-	37,535	-	37,535
U.S. Government Mortgage Pool	-	92,358	-	92,358
Common stock				
ADR & U.S. foreign stock	-	-	9,996	9,996
Consumer discretionary	12,867	-	-	12,867
Energy	14,553	-	-	14,553
Financial services industry	13,865	-	-	13,865
Healthcare industry	13,171	-	-	13,171
Industrials	4,259	-	-	4,259
Information Technology	12,875	-	-	12,875
Materials	4,431	-	-	4,431
Other	2,078	-	-	2,078
Corporate, municipal and foreign bonds				
Corporate bonds	-	168,661	-	168,661
Foreign corporate bonds	-	14,582	-	14,582
Private placements	33,673	-	-	33,673
Municipal taxable	-	4,150	-	4,150
Municipal - tax-exempt	92	-	-	92
Preferred stocks	1,406	-	-	1,406
Mutual funds				
Mutual funds - equity	452,290	-	-	452,290
Mutual funds - taxable	-	18,109	-	18,109
U.S. Government securities				
Government agencies	3,981	-	-	3,981
U.S. treasury notes and bonds	133,782	-	-	133,782
Limited partnership interests	-	-	46,409	46,409
Total investments by fair value level	<u>\$ 703,323</u>	<u>\$ 368,146</u>	<u>\$ 56,405</u>	<u>1,127,874</u>
Cash equivalents				<u>98,053</u>
Investments measured at NAV				
Pooled, common & collective trusts				37,407
Equity hedge funds				71,708
Credit hedge funds				36,197
Macro hedge funds				27,151
Relative value hedge funds				96,337
Fixed income limited partnership				1,750
Total investments measured at NAV				<u>270,550</u>
Total investments				<u>\$ 1,496,477</u>
Beneficial interest in charitable remainder unitrusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,015</u>	<u>\$ 4,015</u>
Interest rate swap	<u>\$ -</u>	<u>\$ (2,239)</u>	<u>\$ -</u>	<u>\$ (2,239)</u>

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Notes to Consolidated Financial Statements

Description	Level 1	Level 2	Level 3	2022
Investments by fair value level				
Asset backed securities				
Corporate backed obligations	\$ -	\$ 29,079	\$ -	\$ 29,079
Mortgage backed obligations	-	31,891	-	31,891
U.S. Government Mortgage Pool	-	69,721	-	69,721
Common stock				
ADR & U.S. foreign stock	-	6,412	-	6,412
Consumer discretionary	12,381	-	-	12,381
Consumer staples	2,235	-	-	2,235
Energy	10,127	-	-	10,127
Financial services industry	13,855	-	-	13,855
Healthcare industry	7,974	-	-	7,974
Industrials	6,548	-	-	6,548
Information Technology	7,635	-	-	7,635
Materials	5,239	-	-	5,239
Other	3,013	-	-	3,013
Corporate, municipal and foreign bonds				
Corporate bonds	-	179,806	-	179,806
Foreign corporate bonds	-	5,959	-	5,959
Private placements	36,052	-	-	36,052
Municipal taxable	-	4,301	-	4,301
Municipal - tax-exempt	192	-	-	192
Preferred stocks	1,324	-	-	1,324
Mutual funds				
Mutual funds - equity	375,619	-	-	375,619
Mutual funds - taxable	-	17,978	-	17,978
U.S. Government securities				
Government agencies	4,738	-	-	4,738
U.S. treasury notes and bonds	158,813	-	-	158,813
Limited partnership interests	-	-	46,067	46,067
Total investments by fair value level	<u>\$ 645,745</u>	<u>\$ 345,147</u>	<u>\$ 46,067</u>	<u>1,036,959</u>
Cash equivalents				<u>84,500</u>
Investments measured at NAV				
Pooled, common & collective trusts				34,918
Equity hedge funds				67,583
Credit hedge funds				34,966
Macro hedge funds				27,487
Relative value hedge funds				92,580
Fixed income limited partnership				<u>2,360</u>
Total investments measured at NAV				<u>259,894</u>
Total investments				<u>\$ 1,381,353</u>
Beneficial interest in charitable remainder unitrusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,522</u>	<u>\$ 4,522</u>
Interest rate swap	<u>\$ -</u>	<u>\$ (3,872)</u>	<u>\$ -</u>	<u>\$ (3,872)</u>

El Camino Healthcare District

Notes to Consolidated Financial Statements

The following table provides the fair value and redemption terms and restrictions for investments redeemable NAV at June 30 (in thousands):

	2023 Fair Value	2022 Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice
Pooled, common & collective trusts	\$ 37,407	\$ 34,918	\$ -	Monthly	30 days
Equity hedge funds	71,708	67,583	-	Quarterly	90 days
Credit hedge funds	36,197	34,966	-	Monthly, Quarterly	15 - 60 days
Macro hedge funds	27,151	27,487	-	Monthly, Quarterly	5 - 90 days
Relative value hedge funds	96,337	92,580	-	Quarterly, Annually	45 days
Fixed income limited partnership	1,750	2,360	-	Monthly	1 day
Total investments measured at NAV	\$ 270,550	\$ 259,894	\$ -		
Limited partnership interests	\$ 46,409	\$ 46,067	\$ 19,021	n/a	n/a

Pooled, common & collective trusts – includes investments that invest in domestic equity. Investments are valued using the NAV per share of the fund. The NAV per share is based on the value of the underlying assets owned by the fund, minus its liabilities, divided by the number of shares outstanding.

Equity hedge funds – includes investments that employ both long and short strategies primarily in common stocks. Equity hedge strategies typically have a directional bias (long or short) and trade in equities and equity related derivatives. The fair values of the investments in this type have been determined using the NAV per share of the investments. Investments representing approximately 20% of the value of the investments in this type include restrictions such as certain classes with side pocket investments which may only be redeemed upon realization of the underlying investments.

Credit hedge funds – includes investments that are comprised of distressed securities, credit long/short, emerging market debt and credit event driven. Credit hedge strategies typically have a directional bias and involve the purchase of various types of debt, equity, trade claims and fixed income securities. The fair values of the investments in this type have been determined using the NAV per share of the investments. All of the investments in this type include restrictions that do not allow for redemptions in the first year after acquisition and other imposed gates.

Macro hedge funds – includes investments that invests in global macro, managed futures, commodities and currencies. Macro hedge strategies typically have a directional bias and involve the purchase of a variety of securities and/or derivatives related to major markets. Managed future strategies trade similar instruments but are typically implemented by computerized system. The fair values of the investments in this type have been determined using the NAV per share of the investments. Investments representing approximately 36% of the value of the investments in this type include restrictions such as certain classes with side pocket investments which may only be redeemed upon realization of the underlying investments.

Relative value hedge funds – includes investments that typically does not display a distinct directional bias. Relative value encompasses a range of strategies covering different asset classes. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the investments. Less than 1% of the value of the investments may include lock up, imposed gates, and other restrictions that preclude them from redeeming their share or ownership interest for an uncertain or extended period of time from the measurement date.

El Camino Healthcare District

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Fixed-income limited partnership – includes investments in a limited partnership fund of funds that invest primarily in investment grade non-U.S. dollar denominated fixed income securities. The fund may enter into swap agreements, forward settlement agreements, futures, contracts, and options on future contracts as well as purchase and sell covered put and call options. Investments are valued using the NAV per share of the fund. There is a provision in the limited partnership agreement that allows the general partner to limit redemption under certain circumstances.

Limited partnership interests – investments in closed-end, commitment based private equity real estate partnerships. The valuation of partnership interests in these funds may require significant management judgement. The District's ownership is based upon their percentage of limited partnership interests divided by the total commitment of the fund. Inputs used to determine fair value include financial statements provided by the investment partnerships, which typically include fair market value capital account balances. These investments can never be redeemed with the funds. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the fund.

The following table presents the fair value measurements of financial instruments recognized in the accompanying fiduciary statements of net position measured at fair value on a recurring basis and the level within the GASB No. 72 fair value hierarchy in which the fair value measurements fall at June 30 (in thousands):

	2023			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 5,005	\$ -	\$ -	\$ 5,005
Common stock	30,500	-	-	30,500
Corporate bonds	-	122	-	122
Mutual funds	192,389	-	-	192,389
U.S. government securities	1,747	-	-	1,747
Total assets in the fair value hierarchy	\$ 229,641	\$ 122	\$ -	229,763
Investments measured at NAV practical expedient				75,581
Total assets, at fair value				\$ 305,344
	2022			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 5,742	\$ -	\$ -	\$ 5,742
Common stock	30,285	-	-	30,285
Corporate bonds	-	3,265	-	3,265
Mutual funds	240,563	-	-	240,563
U.S. government securities	815	-	-	815
Total assets in the fair value hierarchy	\$ 277,405	\$ 3,265	\$ -	280,670
Investments measured at NAV practical expedient				82,749
Total assets, at fair value				\$ 363,419

El Camino Healthcare District

Notes to Consolidated Financial Statements

The following table provides the fair value and redemption terms and restrictions for investments redeemable NAV at June 30 (in thousands), for the fiduciary funds investments:

	Fair Value June 30, 2023	Fair Value June 30, 2022	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited Liability Company	\$ 55,363	\$ 59,573	\$ -	Monthly/Semi-Annual	90 days
Common Collective Trust	10,575	11,686	-	Daily	Daily
Partnerships	9,643	11,490	7,439	No redemptions	N/A
	<u>\$ 75,581</u>	<u>\$ 82,749</u>			

Note 6 – Capital Assets

Capital assets activity for the year ended June 30, 2023, was as follows (in thousands):

	Balance June 30, 2022	Increases	Decreases	Balance June 30, 2023
Capital assets not being depreciated				
Land	\$ 103,515	\$ 11,812	\$ -	\$ 115,327
Construction in progress	104,103	66,572	-	170,675
	<u>207,618</u>	<u>78,384</u>	<u>-</u>	<u>286,002</u>
Capital assets being depreciated				
Land improvement	21,635	-	2,035	19,600
Buildings	1,304,961	19,772	63,057	1,261,676
Capital equipment	451,677	29,350	197	480,830
	<u>1,778,273</u>	<u>49,122</u>	<u>65,289</u>	<u>1,762,106</u>
Less accumulated depreciation for				
Land improvement	13,334	910	2,035	12,209
Buildings	410,000	42,479	63,056	389,423
Capital equipment	361,227	34,889	80	396,036
	<u>784,561</u>	<u>78,278</u>	<u>65,171</u>	<u>797,668</u>
Total capital assets being depreciated, net	<u>993,712</u>	<u>(29,156)</u>	<u>118</u>	<u>964,438</u>
Total capital assets, net	<u>\$ 1,201,330</u>	<u>\$ 49,228</u>	<u>\$ 118</u>	<u>\$ 1,250,440</u>

El Camino Healthcare District
Notes to Consolidated Financial Statements

Capital assets activity for the year ended June 30, 2022, was as follows (in thousands):

	Balance June 30, 2021	Increases	Decreases	Balance June 30, 2022
Capital assets not being depreciated				
Land	\$ 94,725	\$ 8,790	\$ -	\$ 103,515
Construction in progress	69,501	34,602	-	104,103
	<u>164,226</u>	<u>43,392</u>	<u>-</u>	<u>207,618</u>
Capital assets being depreciated				
Land improvement	19,201	2,434	-	21,635
Buildings	1,300,481	35,580	31,100	1,304,961
Capital equipment	426,511	35,985	10,819	451,677
	<u>1,746,193</u>	<u>73,999</u>	<u>41,919</u>	<u>1,778,273</u>
Less accumulated depreciation for				
Land improvement	12,561	773	-	13,334
Buildings	398,063	40,714	28,777	410,000
Capital equipment	339,509	32,589	10,871	361,227
	<u>750,133</u>	<u>74,076</u>	<u>39,648</u>	<u>784,561</u>
Total capital assets being depreciated, net	<u>996,060</u>	<u>(77)</u>	<u>2,271</u>	<u>993,712</u>
Total capital assets, net	<u>\$ 1,160,286</u>	<u>\$ 43,315</u>	<u>\$ 2,271</u>	<u>\$ 1,201,330</u>

Construction contracts of approximately \$691,000,000 were approved for various projects, including the Women’s Hospital Expansion, Demolition of the “Old Main” hospital and site work as well as replacement of the Diagnostic Imaging equipment at the Mountain Views campus. At June 30, 2023, the remaining commitment on these contracts is approximately \$95,000,000.

There was no capitalized interest for the years ended June 30, 2023 and 2022, respectively.

Note 7 – Employee Benefit Plans

The Hospital sponsors a cash-balance pension plan (the “Cash Balance Plan”), which has been in effect since January 1, 1995. The Plan covers employees who are 21 years of age and have completed one year of credited service. Participants are entitled to a lump-sum distribution or monthly benefits at age 65 based on a predetermined formula that considers years of service and compensation. Effective July 1, 1999, employer benefits are calculated as 5% of a participant’s annual plan compensation, and the annual interest is an indexed rate based on the return on 10-year U.S. Treasury securities. Participants are fully vested in their account balances after five pension years.

Participant accounts – The Cash Balance Plan maintains “participant account balances” equal to a participant’s account balance established as of January 1, 1995, upon the conversion to the cash-balance formula, plus subsequent contribution credits and interest credits related to the participant’s accumulated cash balance, participant match contribution credits, and participant match interest credits.

El Camino Healthcare District

Notes to Consolidated Financial Statements

Contribution credits of 5% of eligible compensation for the year are credited to a participant's account as of the last day of the Cash Balance Plan year. Each year, interest credits related to a participant's cash balance are credited to the participant's account in an amount that is equal to a percentage of a participant's account balance at the beginning of the Cash Balance Plan year. The percentage rate used is the annual rate of return on 10-year treasury securities in effect for the third month (October) immediately preceding the first day of the applicable Cash Balance Plan year. The rates credited were 0.79% and 1.71% for the years beginning January 1, 2022 and 2021, respectively.

Employee contributions – Contributions by participants are not required or permitted by the Cash Balance Plan.

Employer contributions – The Hospital's funding policy is to contribute amounts to the Cash Balance Plan necessary to meet minimum funding requirements. The Hospital's contributions for 2023 and 2022 exceeded the minimum funding requirements of the Employee Retirement Income Security Act of 1974 ("ERISA").

Although it has not expressed any intention to do so, the Hospital has the right under the Cash Balance Plan to discontinue its contributions at any time and to terminate the Cash Balance Plan subject to the provisions set forth in ERISA.

Eligibility – Hospital employees are eligible to participate on the first day of the month succeeding the later of the date on which they complete one year of service, which is defined as working 12 months for a minimum of 1,000 hours, and they reach age 21.

Funding policy – The amount of employer contributions is determined based on actuarial valuations and recommendations as to the amounts required to fund benefits. Contributions are made by the Hospital based on the results of the actuarial recommendations. The Hospital intends to make contributions in amounts not less than the minimum required by the funding standards of ERISA and is required to keep the Cash Balance Plan qualified under Section 401(a) of the Internal Revenue Code ("IRC"). Participants are not permitted to contribute to the Cash Balance Plan.

Vesting – Participants are fully vested with their third year of service.

Pension benefits – Monthly benefit payments, based upon a formula described in the Cash Balance Plan document, commence within 30 days of the normal retirement date, early retirement date, or deferred retirement date. A participant may elect to defer retirement past the normal retirement age, which will result in benefits greater than 100%, based on a published scale. The eligibility requirement for early retirement is age 55. Early retirement benefits are calculated by multiplying the accrued benefit as of the early retirement date by a percentage defined in the Cash Balance Plan document.

Benefit terms provide for annual cost-of-living adjustments to each member's retirement allowance subsequent to the member's retirement date. The annual adjustments are 2.00% compounded annually.

On termination of service, a participant may elect to receive either a lump-sum amount equal to the value of the participant's account balance or annuity payments based upon formulas described in the Cash Balance Plan document.

El Camino Healthcare District

Notes to Consolidated Financial Statements

Death benefits – The Cash Balance Plan provides death benefits in the form of a qualified pre-retirement survivor annuity for life equal to the annuity that would have been payable to the spouse if the participant had retired on the day preceding the participant’s death. At the option of the beneficiary, the benefit may be paid in a lump-sum.

Basis of accounting – The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) as applied to governmental units, using the accrual method of accounting. The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Use of estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein; disclosure of contingent assets and liabilities; and the actuarial present value of accumulated Cash Balance Plan benefits, at the date of the financial statements. Actual results could differ from those estimates.

Investment valuation – The Cash Balance Plan’s investments are stated at fair value, as certified by the Cash Balance Plan’s custodian, based generally on quoted market prices.

Fair value is the price that would be received to sell an asset or paid to transfer a liability (the “exit price”) in an orderly transaction between market participants at the measurement date. See Note 6 for discussion of fair value measurements.

Income recognition – Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. The net appreciation or depreciation in fair value of investments consists of both the realized gains or losses and unrealized appreciation (depreciation) of those investments.

Benefits paid to participants – Benefit payments to participants are recorded upon distribution.

Administrative expenses – Administrative fees, such as custodian, actuarial, and certain other administrative expenses, may be paid by the Cash Balance Plan or the Hospital.

The Hospital’s net pension asset was measured as of June 30, 2023 and 2022, as determined by an actuarial valuation as of December 31, 2022 and 2021, rolled forward to June 30, 2023 and 2022, respectively.

El Camino Healthcare District
Notes to Consolidated Financial Statements

Certain retired and terminated employees and certain participants covered by a collective bargaining agreement continue to participate under provisions of a defined-benefit retirement plan in effect prior to January 1, 1995. Participant data for the Plan, as of the measurement date January 1 for the indicated years is as follows:

	<u>2023</u>	<u>2022</u>
Active	3,292	2,946
Retirees and beneficiaries	651	619
Vested terminated	<u>1,115</u>	<u>1,059</u>
Total participants	<u><u>5,058</u></u>	<u><u>4,624</u></u>

Components of pension cost and deferred outflows and inflows of resources as calculated under the requirements of GASB No. 68 are as follows (in thousands):

	<u>2023</u>	<u>2022</u>
Service cost	\$ 10,460	\$ 10,784
Interest	13,789	13,737
Differences between expected and actual experience	2,100	(6,571)
Changes of assumptions	(7,429)	(2,263)
Benefit payments	<u>(14,208)</u>	<u>(14,774)</u>
Net change in total pension liability	4,712	913
Total pension liability beginning of fiscal year	<u>226,356</u>	<u>225,443</u>
Total pension liability end of fiscal year	<u><u>\$ 231,068</u></u>	<u><u>\$ 226,356</u></u>
	<u>2023</u>	<u>2022</u>
Deferred outflows of resources as of June 30:		
Difference between expected and actual experience	\$ 2,036	\$ 588
Difference between projected and actual investment earnings	<u>35,303</u>	<u>-</u>
Total	<u><u>\$ 37,339</u></u>	<u><u>\$ 588</u></u>
Deferred inflows of resources as of June 30:		
Difference between expected and actual experience	\$ (6,016)	\$ (7,759)
Changes in assumptions	(8,877)	(4,295)
Difference between projected and actual investment earnings	<u>-</u>	<u>(34,021)</u>
Total	<u><u>\$ (14,893)</u></u>	<u><u>\$ (46,075)</u></u>
Contributions between the measurement date and fiscal year end recognized as a deferred outflows of resources	<u><u>\$ 7,000</u></u>	<u><u>\$ 3,000</u></u>

El Camino Healthcare District
Notes to Consolidated Financial Statements

Amounts reported as deferred outflows and inflows of resources to pensions will be recognized in pension expense are as follows (in thousands):

2024	\$ (1,869)
2025	4,447
2026	9,794
2027	12,666
2028	(2,070)
Thereafter	<u>(522)</u>
	<u>\$ 22,446</u>

The following table summarizes changes in pension liability for fiscal years ended June 30, 2023 and 2022, with a measurement date of December 31, 2022 and 2021, respectively, (in thousands):

	<u>2023</u>	<u>2022</u>
Contributions	\$ 10,000	\$ 8,500
Net investment (loss) income	(53,124)	33,174
Benefit payments, including refunds of member contributions	<u>(14,208)</u>	<u>(14,774)</u>
Net change in Plan fiduciary net position	(57,332)	26,900
Plan fiduciary net position beginning of fiscal year	<u>363,505</u>	<u>336,605</u>
Plan fiduciary net position end of fiscal year	<u>306,173</u>	<u>363,505</u>
Plan's net pension asset end of the fiscal year	<u>\$ (75,105)</u>	<u>\$ (137,149)</u>
Covered payroll	\$ 427,689	\$ 389,552
Net pension asset as a percentage of covered payroll	-17.56%	-35.21%
Contributions	\$ 7,000	\$ 3,000

EI Camino Healthcare District Notes to Consolidated Financial Statements

The following table summarizes the actuarial assumptions used to determine net pension asset and plan fiduciary net position as of June 30, 2023 and 2022:

	January 1, 2023 and 2022 for reporting date June 30, 2023 and 2022, respectively. Actuarially determined contribution rates are calculated as of January 1.
Valuation Date	
Actuarial Cost Method	Entry Age Normal Method as a level percent of pay in accordance with GASB.
Asset Valuation Method	Market Value
Actuarial Assumptions	
Projected Salary Increases	2% for reporting date June 30, 2023 and 2022.
Mortality	Based on the Pri-2012 Total Employee and Retiree Mortality Tables (base year 2012) and projected with Mortality Improvement Scale MP-2021, except for current and future beneficiaries of deceased participants. For current and future beneficiaries of deceased participants, mortality is based on the Pri-2012 Contingent Survivor Mortality Tables and projected with Mortality Improvement Scale MP-2021.
Discount Rate	6.7% and 6.0% for reporting date June 30, 2023 and 2022, respectively.

Sensitivity of net pension asset (in thousands):

	1% Decrease 5.7%	Current Discount Rate 6.7%	1% Increase 7.7%
Net pension asset as of June 30, 2023	\$ 53,648	\$ 75,105	\$ 93,690
	5.0%	6.0%	7.0%
Net pension asset as of June 30, 2022	\$ 115,891	\$ 137,149	\$ 155,615

The following table summarizes target asset class for the plan fiduciary net position as of June 30, 2023 and 2022:

Asset Class	Neutral	Asset Rebalancing Range	Expected Long- Term Real Rate of Return
Domestic Equities	32%	27% - 37%	7.80%
International Equities	18%	15% - 21%	8.00%
Alternatives	20%	17% - 23%	6.50%
Broad Fixed Income	25%	20% - 30%	4.40%
Cash	5%	0% - 8%	3.20%
Total	100%		6.70%

El Camino Healthcare District

Notes to Consolidated Financial Statements

Eligible employees of the Hospital may also elect to participate in a separate deferred compensation plan (the 403(b) plan) pursuant to Section 403(b) of the Code. The Hospital acts as the administrator and sponsor, and the 403(b) plan's assets are held by trustees designated by the Hospital's management. Employees are eligible to participate upon employment, and participants are immediately vested in their elective contributions plus actual earnings thereon. The Hospital will match employee contributions to the 403(b) plan, subject to a maximum of 4% of each participant's annual plan compensation. Participants are eligible for employer match in the second plan year in which they work at least 1,000 hours, and they must be on the payroll at the end of the plan year (December 31). Employer matching contributions under the 403(b) plan are made to the cash-balance pension plan and earn interest as defined by that plan. Employer matching contributions to the 403(b) plan of \$15,765,000 and \$14,698,000 in 2023 and 2022, respectively, are included in benefits expense. Participants are immediately vested in the employer contributions included in the cash-balance pension plan.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the consolidated financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Note 8 – Post-Retirement Medical Benefits

The Hospital provides healthcare benefits and life insurance for retired employees who meet eligibility requirements as outlined in the plan document, as approved by the board of directors of the Hospital. All employees who attain age 55 with a minimum of 20 years of enrollment in the Hospital's healthcare program and are enrolled in one of the plans upon retirement, and who were hired prior to July 1, 1994, are eligible. Under the plan, employees are credited with employment history accumulated under a prior Hospital plan.

Benefits are funded by the Hospital on a pay-as-you go basis. If a participant terminates from the Hospital after 20 years of enrollment but before reaching age 62, he or she can choose to contribute to the plan between ages 55 and 61 to retain the plan's benefits. At age 62, eligible retirees are given an annual credit based on years of service to pay for health benefits.

El Camino Healthcare District
Notes to Consolidated Financial Statements

Employees covered – At June 30, the following employees were covered by the Hospital:

	2023	2022
Active	208	208
Inactive plan members or beneficiaries currently receiving benefits	341	341
Total participants	549	549

Components of post-retirement medical benefits expense and deferred inflows and outflows of resources as calculated under the requirements of GASB No. 75 are as follows (in thousands) as of June 30:

	2023	2022
Service cost	\$ 230	\$ 226
Interest	643	809
Differences between expected and actual experience	(272)	(1,029)
Changes of assumptions	(3,289)	393
Current period recognition of prior years' deferred inflows and outflows of resources	(331)	(108)
Total post-retirement medical benefits expense	\$ (3,019)	\$ 291

	2023	2022
Deferred outflows of resources as of June 30:		
Changes in benefit terms	\$ -	\$ -
Difference between expected and actual experience	-	-
Changes in assumptions	-	204
Total	\$ -	\$ 204

Deferred inflows of resources as of June 30:		
Changes in benefit terms	\$ -	\$ -
Difference between expected and actual experience	(142)	(535)
Changes in assumptions	(1,710)	-
Total	\$ (1,852)	\$ (535)

El Camino Healthcare District
Notes to Consolidated Financial Statements

Amounts reported as deferred outflows and inflows of resources to post-retirement medical benefits will be recognized in post-retirement medical benefits expense are as follows (in thousands):

2024	\$	(1,852)
2025		-
2026		-
2027		-
2028		-
Thereafter		-
		-
		\$ (1,852)

The following table summarizes changes in post-retirement medical benefits liability for fiscal year ended June 30, 2023 and 2022, with a measurement date of July 1, 2022 and 2021, respectively (in thousands):

	2023	2022
Service cost	\$ 230	\$ 226
Interest	643	809
Differences between expected and actual experience	(414)	(1,565)
Changes in assumptions or other input	(4,999)	599
Benefit payments	(1,001)	(943)
Net changes	(5,541)	(874)
Net post-retirement medical benefits liability at beginning of year	29,783	30,657
Net post-retirement medical benefits liability at end of year	\$ 24,242	\$ 29,783

The following table summarizes the actuarial assumptions used to determine net post-retirement medical benefits as of June 30, 2023 and 2022:

Valuation Date	June 30, 2021; measurement date of June 30, 2022
Actuarial Cost Method	Entry Age Normal, level percent of pay
Asset Valuation Method	Not applicable
Actuarial Assumptions	
Projected Salary Increases	4.00%
Mortality	Mortality Tables projected generationally using projection scale MP-2021.
Discount Rate	4.09%
Healthcare cost trend rates:	7% for 2022, graded to 4.5% for years 2032 for ages pre-65; and 5.5% for 2022, graded to 4.50% for year 2032 for ages post-65.

El Camino Healthcare District
Notes to Consolidated Financial Statements

Sensitivity of post-retirement medical benefits liability (in thousands) due to change in discount rates as of June 30:

	2023		
	1% Decrease 3.09%	Current Discount Rate 4.09%	1% Increase 5.09%
	Net post-retirement medical benefits liability	\$ 26,779	\$ 24,242

	2022		
	1% Decrease 1.18%	Current Discount Rate 2.18%	1% Increase 3.18%
	Net post-retirement medical benefits liability	\$ 33,378	\$ 29,783

Sensitivity of post-retirement medical benefits liability (in thousands) due to change in healthcare cost trend:

	1% Decrease	Current Trend rate	1% Increase
June 30, 2023	\$ 23,928	\$ 24,242	\$ 24,606
June 30, 2022	\$ 29,378	\$ 29,783	\$ 30,259

Note 9 – Insurance Plans

The Hospital purchases professional, general, automobile, and directors and officers liability insurance from BETA Healthcare Group (“BHG”), and also purchases all-risk property insurance (including limited flood), fiduciary, crime, cyber, and excess workers’ compensation coverage needs from Alliant Insurance Services (“Alliant”). The Hospital’s coverage is under a claims-made policy with limits of \$30 million per occurrence, \$40 million in the annual aggregate, and with a self-insured retention level of \$500,000 per claim.

There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted from services provided to patients. The Hospital has actuarial estimates performed annually on its self-insurance plans of professional liability and workers’ compensation benefits. Estimated liabilities (which have not been discounted) have been actuarially determined at an expected 75% confidence level and include an estimate of incurred, but not reported, claims. The balances are included in salaries and wages payable, workers’ compensation, and other long-term liabilities in the accompanying consolidated statements of net position.

El Camino Healthcare District
Notes to Consolidated Financial Statements

Note 10 – Bonds Payable

Bonds payable consists of the following obligations (in thousands):

	June 30,	
	2023	2022
El Camino Hospital District		
2006 General Obligation Bonds		
Principal	\$ 32,335	\$ 32,335
2017 General Obligation Bonds		
Principal	73,145	78,905
Unamortized premium	168	182
El Camino Hospital Revenue Bonds		
Series 2009		
Principal	50,000	50,000
Series 2015A		
Principal	126,880	131,380
Unamortized premium	5,779	6,849
Series 2017A		
Principal	272,330	277,735
Unamortized premium	7,976	9,453
Total long-term debt	568,613	586,839
Less current maturities	13,693	15,665
Maturities due after one year	\$ 554,920	\$ 571,174

	2023			Balance at June 30, 2023
	Balance at June 30, 2022	Increases	Decreases	
General obligation bonds	\$ 111,423	\$ -	\$ 5,775	\$ 105,648
Revenue bonds	475,416	-	12,451	462,965
	\$ 586,839	\$ -	\$ 18,226	\$ 568,613
	2022			Balance at June 30, 2022
	Balance at June 30, 2021	Increases	Decreases	
General obligation bonds	\$ 116,651	\$ -	\$ 5,228	\$ 111,423
Revenue bonds	487,738	-	12,322	475,416
	\$ 604,389	\$ -	\$ 17,550	\$ 586,839

El Camino Healthcare District

Notes to Consolidated Financial Statements

2006 General Obligation Bonds – Upon voter approval, in November 2003, the District issued in 2006, \$148,000,000 principal amount of 2006 General Obligation Bonds, which consists of \$115,665,000 of Current Interest Bonds. Interest on the Current Interest Bonds is payable semiannually at rates ranging from 4% to 5% and principal maturities ranging from \$2,065,000 in 2016 to \$18,050,000 in 2036 are due annually on August 1. Interest at rates ranging from 4.38% to 4.48% and principal of the Capital Appreciation Bonds are payable only at maturity. In March 2017, the District advanced refunded a portion of the 2006 General Obligation Bonds, through the issuance of the 2017 General Obligation Refunding Bonds.

The Current Interest Bonds maturing on or after August 1, 2017, may be redeemed prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after February 1, 2017, at a redemption price equal to the principal amount of the Current Interest Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

2017 General Obligation Bonds – Upon voter approval, in March 2017, the District advanced refunded a portion of the 2006 General Obligation Bonds, through the issuance of the \$99,035,000 2017 General Obligation Refunding Bonds, which consists of \$115,665,000 of Current Interest Bonds, and \$32,335,000 of Capital Appreciation Bonds. Interest on the 2017 General Obligation Refunding Bonds is payable semiannually at rates ranging from 2% to 5% and principal maturities ranging from \$3,570,000 in 2017 to \$17,480,000 in 2036 are due annually on August 1. This refinancing resulted in a reduction of future interest payments with a present value of approximately \$7,000,000.

Both the 2006 and 2017 G.O. Bonds are general obligations of the District payable from ad valorem taxes. Payment of principal, interest and maturity value of the Bonds, when due, is insured by a municipal bond insurance policy.

Revenue Bonds, Series 2009 – In April 2009, the Hospital issued \$50,000,000 of Santa Clara County Financing Authority Insured Revenue Bonds, Series 2009A, to fund completion of the Hospital replacement construction project. Interest on the bonds is payable on the business day immediately following the applicable remarketing period. Principal maturities on the bonds range from \$100,000 in 2025 to \$10,920,000 in 2044, and are due annually on February 1.

The 2009 Series Revenue bond agreement contains various restrictive covenants which include, among other things, minimum debt service coverage, maintenance of minimum liquidity, and requirement to maintain certain financial ratios.

The bonds are secured by a pledge of gross revenues to an Indenture of Trust (“Indenture”) dated March 16, 2007. The Indenture contains certain covenants that, among other things, require the District to deposit all gross revenues of the Hospital as soon as practicable upon receipt. The Indenture also requires the Hospital to maintain a long-term debt service coverage ratio of 1.15 to 1.00. Failure to comply with the restrictive covenants of the Indenture could result in all of the unpaid principal and accrued interest of the bonds becoming due immediately, at the option of the trustee.

El Camino Healthcare District

Notes to Consolidated Financial Statements

Revenue Bonds, Series 2015A – In May 2015, the Hospital advance refunded its Series 2007 Santa Clara County Financing Authority Insured Revenue Bonds (“Series 2007”) through the issuance of the \$160,455,000 of Santa Clara County Financing Authority Insured Revenue Bonds (“Series 2015A”). The issuance of the Series 2015A is to (i) finance and refinance certain capital expenditures owned by the Hospital (the Project – \$40,300,000), (ii) advance refund (\$120,100,000) the Santa Clara County Financing Authority Insured Revenue Bonds of the Hospital Series 2007A, 2007B, and 2007C, and (iii) pay costs incurred in the connection of the issuance of the Bonds.

Revenue Bonds, Series 2017A – In February 2017, the Hospital issued \$292,435,000 of California Health Facilities Financing Authority Revenue Bonds (“Series 2017”) to finance certain capital expenditures at facilities owned or operated by the Hospital, to finance a portion of the interest payable of the Series 2017 through January 31, 2019, and to pay costs incurred in connection with the issuance of the Series 2017. The Series 2017 consists of \$130,660,000 Serial Bonds and \$161,775,000 Term Bonds. Principal maturities for the Serial Bonds range from \$4,665,000 in 2020 to \$10,565,000 in 2037, and are due annually on February 1. Principal maturities for the Term Bonds range from \$60,710,000 in 2042 to \$101,065,000 in 2047, and are due annually on February 1.

Letter of credit – In March 2009, in connection with the issuance of the 2009 Series Revenue bonds, the Hospital obtained an irrevocable Letter of Credit issued by a bank for \$50,000,000. This Letter of Credit expires in September of 2025 and requires the Hospital to maintain a long-term debt service coverage ratio of 1.20 to 1.00.

Management believes all financial debt covenants were met for the years ended June 30, 2023 and 2022.

Debt service requirements for bonds payable are as follows (in thousands):

Year Ending June 30,	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2024	\$ 3,293	\$ 6,343	\$ 10,400	\$ 18,935
2025	3,398	6,788	10,920	18,415
2026	3,411	7,144	11,460	17,874
2027	3,552	7,709	12,035	17,306
2028	3,598	8,172	12,630	16,714
2029-2033	40,273	40,821	73,045	73,914
2034-2038	47,955	3,595	81,180	55,471
2039-2043	-	-	112,900	33,847
2044-2048	-	-	124,640	12,564
	<u>\$ 105,480</u>	<u>\$ 80,572</u>	<u>\$ 449,210</u>	<u>\$ 265,040</u>

El Camino Healthcare District

Notes to Consolidated Financial Statements

Interest rate swap – On March 7, 2007, the Hospital entered into three interest rate swap agreements in connection with the issuance of the Series 2007 Revenue Bonds. The intention of the swap is to create debt with a synthetic, fixed interest rate on the variable-rate Revenue Bonds. The swaps were effective March 23, 2007, with a termination date of February 1, 2041, and notional amounts of \$50 million each; these terms match the terms of the underlying Series 2007 Revenue Bonds. Under each swap transaction, the Hospital pays a fixed rate of interest of 3.204% and the counterparty pays a variable rate of interest equal to the sum of (i) 56% of USD-LIBOR-BBA plus (ii) 0.23%. In March 2008, the Hospital Board directed management to terminate the floating to fixed interest rate swap when economically prudent in connection with the refunding of their Series 2007 Revenue Bonds. In December 2009, two of the three swaps were terminated. The fair value of the remaining swap is a liability of \$2,239,000 at June 30, 2023, and \$3,872,000 at June 30, 2022, included in other long-term obligations in the consolidated statements of net position.

Risks associated with the swap agreement – From the Hospital’s perspective, the following risks are generally associated with swap agreements:

Credit risk – The counterparty becomes insolvent or is otherwise not able to perform its financial obligations. In the event the counterparty becomes insolvent or their credit rating falls below BBB-/Baa2, the Hospital has the right to terminate the swap. Upon exercise of early termination, the amounts due from or to the counterparty will be determined by the market pricing of the swap at the time of termination.

Termination risk – The Hospital or counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If, at the time of the termination, the swap has a negative fair value, the Hospital would be liable to the counterparty for that payment.

Note 11 – Restricted Net Position

Restricted net position consists of donor-restricted contributions and grants and cash restricted for regulatory requirements, which are to be used as follows (in thousands):

	2023	2022
Charity and other	\$ 33,278	\$ 27,438
Endowments	11,193	8,511
Restricted by donor for specific uses	44,471	35,949
Restricted by Department of Managed Health Care	150	650
Total restricted net position	\$ 44,621	\$ 36,599

Permanently restricted contributions (“endowments”) remain intact, with the earnings on such funds providing an ongoing source of revenue to be used primarily for education.

El Camino Healthcare District

Notes to Consolidated Financial Statements

Note 12 – Charitable Remainder Unitrusts

The Foundation is the beneficiary of several irrevocable charitable remainder unitrusts in which the gift assets are held by trustees and administered for the benefit of the Foundation and other beneficiaries. The assets are held under trust agreements with an outside trustee. The donors maintain the right to income earned on the assets during their lifetime and, in some cases, during the lifetime of their survivors.

Pursuant to GASB No. 81, the Foundation recognizes an asset and a deferred inflow of resources when it becomes aware of the agreements and has sufficient information to measure the beneficial interest, in accordance with the asset recognition criteria in GASB No. 81. The beneficial interest asset is measured at fair value, which is estimated as the present value of the expected future cash flows from trusts. The applicable federal discount rate for June 2023 and June 2022 of 2.5% and 0.25% per annum, respectively, and The Standard Ordinary Mortality Rate Table were used to arrive at the present value. Change in the fair value of the beneficial interest asset is recognized as an increase or decrease in the related deferred inflow of resources. As the remainder interest beneficiary, the Foundation recognizes revenue for the beneficial interest at the termination of the agreement, as stipulated in the agreements.

Note 13 – Leases

The District is a lessee for noncancellable lease of office space and equipment with lease terms through 2039. There are no residual value guarantees included in the measurement of District's lease liability nor recognized as an expense for the years ended June 30, 2023 and 2022. The District does not have any commitments that were incurred at the commencement of the leases. The District is subject to variable equipment usage payments that are expensed when incurred. There were no amounts recognized as variable lease payments as lease expense on the statement of changes of net position for the years ended June 30, 2023 and 2022. No termination penalties were incurred during the fiscal year.

El Camino Healthcare District
Notes to Consolidated Financial Statements

The District has the following right to use activities as of June 30:

2023	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Right of use assets	\$ 41,943	\$ -	\$ 14,741	\$ 27,202
Less accumulated amortization	<u>12,702</u>	<u>3,014</u>	<u>3,591</u>	<u>12,125</u>
Right to use assets, net	<u>\$ 29,241</u>	<u>\$ (3,014)</u>	<u>\$ 11,150</u>	<u>\$ 15,077</u>
2022	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Right of use assets	\$ 37,400	\$ 4,543	\$ -	\$ 41,943
Less accumulated amortization	<u>6,907</u>	<u>5,795</u>	<u>-</u>	<u>12,702</u>
Right to use assets, net	<u>\$ 30,493</u>	<u>\$ (1,252)</u>	<u>\$ -</u>	<u>\$ 29,241</u>

For the years ended June 30, 2023 and 2022, the District recognized \$3,014,000 and \$5,795,000, respectively, in amortization expense included in depreciation and amortization expense on the consolidated statements of activities and changes in net position.

The future principal and interest lease payments as of June 30, 2023, were as follows:

Year Ending June 30	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Total</u>
2024	\$ 2,714	\$ 619	\$ 3,333
2025	2,653	503	3,156
2026	1,839	405	2,244
2027	1,371	344	1,715
2028	690	298	988
Thereafter	<u>6,797</u>	<u>1,764</u>	<u>8,561</u>
	<u>\$ 16,064</u>	<u>\$ 3,933</u>	<u>\$ 19,997</u>

The District evaluated the right to use assets for impairment and determined there was no impairment for the years ended June 30, 2023 and 2022.

El Camino Healthcare District
Notes to Consolidated Financial Statements

The District is also a lessor for noncancellable leases of office space with lease terms through 2033. For the years ended June 30, 2023 and 2022, the District recognized \$10,347,000 and \$9,665,000 in lease revenue released from the deferred inflows of resources related to the office lease included in other revenue on the statements of changes in net position. No inflows of resources were recognized in the year related to termination penalties or residual value guarantees during fiscal years ended June 30, 2023 and 2022.

Note 14 – Subscription Based Information Technology Arrangements

The District has the following subscription asset activities as of June 30:

2023	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Subscription assets	\$ 22,693	\$ -	\$ -	\$ 22,693
Less accumulated amortization	<u>4,002</u>	<u>5,186</u>	<u>-</u>	<u>9,188</u>
Subscription assets, net	<u>\$ 18,691</u>	<u>\$ (5,186)</u>	<u>\$ -</u>	<u>\$ 13,505</u>
2022	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Subscription assets	\$ 9,567	\$ 13,126	\$ -	\$ 22,693
Less accumulated amortization	<u>-</u>	<u>4,002</u>	<u>-</u>	<u>4,002</u>
Subscription assets, net	<u>\$ 9,567</u>	<u>\$ 9,124</u>	<u>\$ -</u>	<u>\$ 18,691</u>

For the years ended June 30, 2023 and 2022, the District recognized \$5,186,000 and \$4,002,000, respectively, in amortization expense included in depreciation and amortization expense on the consolidated statements of activities and changes in net position.

El Camino Healthcare District
Notes to Consolidated Financial Statements

The future subscription payments as of June 30, 2023, were as follows:

Year Ending June 30	Principal Payments	Interest Payments	Total
2024	\$ 3,164	\$ 530	\$ 3,694
2025	3,408	411	3,819
2026	4,354	301	4,655
2027	1,835	123	1,958
2028	1,329	54	1,383
Thereafter	-	-	-
	\$ 14,090	\$ 1,419	\$ 15,509

The District evaluated the subscription assets for impairment and determined there was no impairment for the years ended June 30, 2023 and 2022.

El Camino Healthcare District

Notes to Consolidated Financial Statements

Note 15 – Restatement

The adoption of GASB 96 resulted in adjustments to the prior period financial statements as follows at June 30, 2022:

	<u>As previously</u>		
	<u>presented</u>	<u>Adjustment</u>	<u>As restated</u>
Statement of net position			
Assets and deferred outflows:			
Subscription assets, net of amortization	\$ -	\$ 18,691	\$ 18,691
Liabilities, deferred inflows, and net position:			
Subscription liabilities, current portion	\$ -	\$ 3,795	\$ 3,795
Subscription liabilities, net of current portion	\$ -	\$ 14,090	\$ 14,090
Other long-term obligations	\$ 6,700	\$ 806	\$ 7,506
Net position, end of year	\$ 2,360,946	\$ -	\$ 2,360,946
Statements of revenues, expenses and changes in net position:			
Depreciation and amortization expense	\$ 79,871	\$ 4,002	\$ 83,873
Professional fees and purchased services	\$ 177,570	\$ (4,002)	\$ 173,568
Income from operations	\$ 208,810	\$ -	\$ 208,810
Total nonoperating revenues, net	\$ (150,309)	\$ -	\$ (150,309)
Increase in net position	\$ 58,501	\$ -	\$ 58,501
Statements of cash flows:			
Cash flows from operating activities			
Cash payments to suppliers	\$ (467,603)	\$ 4,414	\$ (463,189)
Net cash provided by operating activities	\$ 144,860	\$ 4,414	\$ 149,274
Cash flows from financing activities			
Payments on subscription liabilities	\$ -	\$ (4,414)	\$ (4,414)
Net cash used in capital and related financing activities	\$ (111,932)	\$ (4,414)	\$ (116,346)
Net increase in cash and cash equivalents	\$ 46,008	\$ -	\$ 46,008

Note 16 – Related-Party Transactions

The Hospital pays vendor-related expenses on behalf of the Foundation and is reimbursed for these costs incurred. The Hospital also pays employee-related expenses, which are reimbursed by the Foundation. The Foundation's employees also participate in the cash-balance pension plan, sponsored by the Hospital. Full footnote disclosures relating to the cash-balance pension plan is included in the consolidated financial statements. The Hospital performs certain administrative functions on behalf of the Foundation for which no amounts are charged to the Foundation. As of June 30, 2023 and 2022, the Foundation has a payable to the Hospital in the amount of \$299,000 and \$498,000, respectively. During the fiscal years 2023 and 2022, the Foundation paid the Hospital \$3,062,000 and \$2,830,000 for such expenses, respectively, which included amounts for operations, but also disbursements from Donor Restricted Funds in support of Hospital operations and capital acquisitions.

El Camino Healthcare District

Notes to Consolidated Financial Statements

In June 2012, the Hospital Board approved the funding of the Foundation's salaries, wages, benefits, and rent for a maximum of \$1,783,000 annually on an ongoing basis. All related-party transactions are eliminated upon consolidation.

As of June 30, 2023 and 2022, CONCERN has a payable to the Hospital in the amount of \$2,949,000 and \$2,604,000, respectively. During the fiscal years ended June 30, 2023 and 2022, CONCERN paid the Hospital \$6,681,000 and \$6,667,000 for its expenses, respectively. All related party transactions are eliminated upon consolidation.

As of June 30, 2023 and 2022, ECHMN has a payable to the Hospital of \$8,610,000 and \$7,775,000, respectively. During fiscal years ended June 30, 2023 and 2022, ECHMN paid the Hospital \$29,023,000 and \$27,757,000 for its expenses, respectively. All related-party transactions are eliminated upon consolidation.

Note 17 – Commitments and Contingencies

Litigation – The District is a defendant in various legal proceedings arising out of the normal conduct of its business. In the opinion of management and its legal representatives, the District has valid and substantial defenses, and settlements or awards arising from legal proceedings, if any, will not exceed existing insurance coverage, nor will they have a material adverse effect on the financial position, results of operations, or liquidity of the District.

Regulatory environment – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. The District is subject to routine surveys and reviews by federal, state and local regulatory authorities. The District has also received inquiries from healthcare regulatory authorities regarding its compliance with laws and regulations. Although the District management is not aware of any violations of laws and regulations, it has received corrective action requests as a result of completed and ongoing surveys from applicable regulatory authorities. Management continually works in a timely manner to implement operational changes and procedures to address all corrective action requests from regulatory authorities. Breaches of these laws and regulations and noncompliance with survey corrective action requests could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Hospital Seismic Safety Act – In the 2010 fiscal year, the Mountain View campus completed its three-year construction of the Hospital Replacement Project with the opening of its new five story, 450,000-square-foot, state-of-the-art hospital facility on November 15, 2009. This completion made the Mountain View hospital campus in compliance with the State of California's Senate Bill ("SB") 1953 in meeting all requirements of the Hospital Seismic Safety Act of 1994.

El Camino Healthcare District

Notes to Consolidated Financial Statements

At the Los Gatos campus, where most of the buildings were constructed in the 1960s, the campus has been going through a seismic compliance review. During 2015, all required seismic upgrades were made to the Los Gatos site for seismic compliance up to 2030.

Collective bargaining agreement – Approximately 79.2% of the Hospital's employees are covered by collective bargaining agreements. These employees are members of three unions.

Note 18 – Subsequent Events

Subsequent events are events or transactions that occur after the consolidated statement of net position date but before the consolidated financial statements are available to be issued. The District recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the consolidated statement of net position date, including the estimates inherent in the process of preparing the consolidated financial statements. The District's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the consolidated statement of net position date but arose after the consolidated statement of net position date and before consolidated financial statements are issued.

In September 2023, the Hospital extended its irrevocable Letter of Credit related to the Series 2009 Series Revenue Bonds, with expiration date in September 2025.

Supplementary Information

El Camino Healthcare District
Consolidating Statement of Net Position
June 30, 2023
(In Thousands)

	El Camino Healthcare District	El Camino Hospital	El Camino Hospital Foundation	CONCERN	Silicon Valley Medical Network	Eliminations	El Camino Healthcare District and Affiliates
ASSETS AND DEFERRED OUTFLOWS							
Current assets							
Cash and cash equivalents	\$ 30,278	\$ 201,782	\$ 7,981	\$ 3,495	\$ 17,282	\$ -	\$ 260,818
Short-term investments	-	133,033	2,417	12,687	-	-	148,137
Current portion of board-designated funds	22,657	-	-	-	-	-	22,657
Patient accounts receivable, net of allowances for doubtful accounts of \$99,691	-	214,246	-	-	3,736	-	217,982
Current portion of lease receivables	-	12,578	-	-	-	(2,765)	9,813
Prepaid expenses and other current assets	121	61,500	256	740	6,452	(12,870)	56,199
Total current assets	53,056	623,139	10,654	16,922	27,470	(15,635)	715,606
Non-current cash and investments							
Board-designated funds	7,628	1,222,598	55,051	-	-	-	1,285,277
Restricted funds	-	-	-	150	-	-	150
Funds held by trustee	40,256	-	-	-	-	-	40,256
	47,884	1,222,598	55,051	150	-	-	1,325,683
Capital assets							
Nondepreciable	10,649	275,353	-	-	-	-	286,002
Depreciable, net	-	952,188	-	1,244	11,006	-	964,438
Total capital assets	10,649	1,227,541	-	1,244	11,006	-	1,250,440
Right of use assets, net of amortization	-	9,939	-	-	20,946	(15,808)	15,077
Subscription assets, net of amortization	-	13,505	-	-	-	-	13,505
Lease receivables, net of current portion	-	46,153	-	-	-	(14,054)	32,099
Pledges receivable, net of current portion	-	-	2,592	-	-	-	2,592
Prepaid pension asset	-	75,105	-	-	-	-	75,105
Investments in healthcare affiliates	-	33,262	-	-	-	-	33,262
Beneficial interest in charitable remainder unitrusts	-	-	4,015	-	-	-	4,015
Total assets	111,589	3,251,242	72,312	18,316	59,422	(45,497)	3,467,384
Deferred outflows of resources							
Loss on defeasance of bonds payable	-	10,560	-	-	-	-	10,560
Deferred outflows of resources	-	7,638	-	-	-	-	7,638
Deferred outflows - actuarial	-	37,339	-	-	-	-	37,339
Total deferred outflows of resources	-	55,537	-	-	-	-	55,537
Total assets and deferred outflows of resources	\$ 111,589	\$ 3,306,779	\$ 72,312	\$ 18,316	\$ 59,422	\$ (45,497)	\$ 3,522,921

El Camino Healthcare District
Consolidating Statement of Net Position (continued)
June 30, 2023
(In Thousands)

	El Camino Healthcare District	El Camino Hospital	El Camino Hospital Foundation	CONCERN	Silicon Valley Medical Network	Eliminations	El Camino Healthcare District and Affiliates
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION							
Current liabilities							
Accounts payable and accrued expenses	\$ 281	\$ 48,192	\$ 765	\$ 2,961	\$ 11,406	\$ (12,870)	\$ 50,735
Salaries, wages, and related liabilities	-	59,090	-	342	1,075	-	60,507
Other current liabilities	4,726	17,194	299	358	3,484	-	26,061
Estimated third-party payor settlements	-	11,295	-	-	-	-	11,295
Current portion of operating lease liabilities	-	1,161	-	-	4,318	(2,765)	2,714
Current portion of subscription liabilities	-	3,164	-	-	-	-	3,164
Current portion of bonds payable	3,293	10,400	-	-	-	-	13,693
Total current liabilities	8,300	150,496	1,064	3,661	20,283	(15,635)	168,169
Bonds payable, net of current portion	102,354	452,566	-	-	-	-	554,920
Operating lease liabilities, net of current portion	-	9,212	-	-	18,192	(14,054)	13,350
Subscription liabilities, net of current portion	-	10,926	-	-	-	-	10,926
Other long-term obligations	-	2,239	-	-	-	-	2,239
Workers' compensation, net of current portion	-	13,498	-	-	-	-	13,498
Post-retirement medical benefits	-	24,242	-	-	-	-	24,242
Total liabilities	110,654	663,179	1,064	3,661	38,475	(29,689)	787,344
Deferred inflows of resources							
Deferred inflows of resources	-	-	4,015	-	-	-	4,015
Deferred inflows of resources - leases	-	58,731	-	-	-	(15,808)	42,923
Deferred inflows of resources - actuarial	-	16,745	-	-	-	-	16,745
Total deferred inflows of resources	-	75,476	4,015	-	-	(15,808)	63,683
Net position							
Invested in capital assets, net of related debt	(54,742)	763,556	-	1,244	9,442	1,011	720,511
Restricted - expendable	-	-	33,278	-	-	-	33,278
Restricted - nonexpendable	-	-	11,193	150	-	-	11,343
Unrestricted	55,677	1,804,568	22,762	13,261	11,505	(1,011)	1,906,762
Total net position	935	2,568,124	67,233	14,655	20,947	-	2,671,894
Total liabilities, deferred inflows of resources, and net position	\$ 111,589	\$ 3,306,779	\$ 72,312	\$ 18,316	\$ 59,422	\$ (45,497)	\$ 3,522,921

El Camino Healthcare District
Consolidating Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2023
(In Thousands)

	El Camino Healthcare District	El Camino Hospital	El Camino Hospital Foundation	CONCERN	Silicon Valley Medical Network	Eliminations	El Camino Healthcare District and Affiliates
Operating revenues							
Net patient service revenue (net of provision for bad debts of \$15,361)	\$ -	\$ 1,339,219	\$ -	\$ -	\$ 38,831	\$ -	\$ 1,378,050
Other revenue	108	35,136	-	9,841	16,313	(10,186)	51,212
Total operating revenues	<u>108</u>	<u>1,374,355</u>	<u>-</u>	<u>9,841</u>	<u>55,144</u>	<u>(10,186)</u>	<u>1,429,262</u>
Operating expenses							
Salaries, wages and benefits	5	703,695	2,146	2,362	23,328	-	731,536
Professional fees and purchased services	658	140,332	559	4,164	50,565	(5,316)	190,962
Supplies	-	194,374	42	-	3,747	-	198,163
Depreciation and amortization	5	81,140	-	252	5,707	-	87,104
Rent and utilities	-	22,549	134	6	4,021	(2,232)	24,478
Other	-	21,481	161	476	1,712	(1,713)	22,117
Total operating expenses	<u>668</u>	<u>1,163,571</u>	<u>3,042</u>	<u>7,260</u>	<u>89,080</u>	<u>(9,261)</u>	<u>1,254,360</u>
(Loss) income from operations	<u>(560)</u>	<u>210,784</u>	<u>(3,042)</u>	<u>2,581</u>	<u>(33,936)</u>	<u>(925)</u>	<u>174,902</u>
Nonoperating revenues (expenses):							
Investment (losses) income, net	(276)	110,218	2,458	(171)	-	-	112,229
Property tax revenue							
Designated to support community benefit programs and operating expenses	11,129	-	-	-	-	-	11,129
Designated to support capital expenditures	13,045	-	-	-	-	-	13,045
Levied for debt service	12,574	-	-	-	-	-	12,574
Bond interest expense, net	(5,171)	(17,626)	-	-	-	-	(22,797)
Intergovernmental transfer expense	(2,178)	-	-	-	-	-	(2,178)
Restricted gifts, grants and bequests, and other, net of contributions to related parties	-	-	10,533	-	-	(1,783)	8,750
Unrealized gain on interest rate swap	-	1,328	-	-	-	-	1,328
Community benefit expense	(7,346)	(3,180)	-	(1,692)	-	925	(11,293)
Provider Relief Fund revenue	-	11,301	-	-	-	-	11,301
Other, net	(20)	970	(27)	45	(793)	1,783	1,958
Total nonoperating revenues (expenses)	<u>21,757</u>	<u>103,011</u>	<u>12,964</u>	<u>(1,818)</u>	<u>(793)</u>	<u>925</u>	<u>136,046</u>
Excess (deficit) of revenues over expenses before capital transfers	21,197	313,795	9,922	763	(34,729)	-	310,948
Capital transfers	2,105	(43,090)	-	(454)	41,439	-	-
Increase in net position	23,302	270,705	9,922	309	6,710	-	310,948
Total net (deficit) position, beginning of year	<u>(22,367)</u>	<u>2,297,419</u>	<u>57,311</u>	<u>14,346</u>	<u>14,237</u>	<u>-</u>	<u>2,360,946</u>
Total net position, end of year	<u>\$ 935</u>	<u>\$ 2,568,124</u>	<u>\$ 67,233</u>	<u>\$ 14,655</u>	<u>\$ 20,947</u>	<u>\$ -</u>	<u>\$ 2,671,894</u>

EI Camino Healthcare District
Supplemental Pension and Post-Retirement Benefit Information
For the Years Ended June 30, 2023 and 2022

Supplemental pension information – The following tables summarize changes in net pension asset (in thousands):

	<u>2023</u>	<u>2022</u>
Service cost	\$ 10,460	\$ 10,784
Interest	13,789	13,737
Differences between expected and actual experience	2,100	(6,571)
Changes of assumptions	(7,429)	(2,263)
Benefit payments	<u>(14,208)</u>	<u>(14,774)</u>
Net change in total pension liability	4,712	913
Total pension liability beginning of fiscal year	<u>226,356</u>	<u>225,443</u>
Total pension liability end of fiscal year	<u>\$ 231,068</u>	<u>\$ 226,356</u>
	<u>2023</u>	<u>2022</u>
Contributions	\$ 10,000	\$ 8,500
Net investment (loss) income	(53,124)	33,174
Benefit payments, including refunds of member contributions	<u>(14,208)</u>	<u>(14,774)</u>
Net change in Plan fiduciary net position	(57,332)	26,900
Plan fiduciary net position beginning of fiscal year	<u>363,505</u>	<u>336,605</u>
Plan fiduciary net position end of fiscal year	<u>306,173</u>	<u>363,505</u>
Plan's net pension asset end of the fiscal year	<u>\$ (75,105)</u>	<u>\$ (137,149)</u>
Covered payroll	\$ 427,689	\$ 389,552
Net pension asset as a percentage of covered payroll	-17.56%	-35.21%
Contributions	\$ 7,000	\$ 3,000

EI Camino Healthcare District
Supplemental Pension and Post-Retirement Benefit Information (Continued)
For the Years Ended June 30, 2023 and 2022

The following table summarizes the contribution status of the Hospital's cash-balance pension plan (in thousands) over the last 10 years:

	FY2023	FY2022	FY2021	FY2020	FY2019
Actuarially determined contribution	TBD	\$ -	\$ -	\$ 7,801	\$ 10,888
Contributions related to actuarially determined contribution	TBD	\$ 10,000	\$ 8,500	\$ 10,300	\$ 12,900
Contribution deficiency (excess)	TBD	(10,000)	(8,500)	(2,499)	(2,012)
Covered payroll	\$ 427,689	\$ 389,552	\$ 359,322	\$ 335,696	\$ 315,317
Contribution as % of covered payroll	TBD	2.57%	2.37%	3.07%	4.09%
Contributions made during the fiscal year	\$ 14,000	\$ 4,500	\$ 14,000	\$ 9,800	\$ 12,800
	FY2018	FY2017	FY2016	FY2015	FY2014
Actuarially determined contribution	\$ 10,155	\$ 8,445	\$ 2,736	\$ -	\$ 8,463
Contributions related to actuarially determined contribution	\$ 11,600	\$ 10,900	\$ 10,500	\$ 10,800	\$ 14,400
Contribution deficiency (excess)	(1,445)	(2,455)	(7,764)	(10,800)	(5,937)
Covered payroll	\$ 297,737	\$ 283,435	\$ 283,776	\$ 266,844	\$ 242,343
Contribution as % of covered payroll	3.90%	3.85%	3.70%	4.05%	5.94%
Contributions made during the fiscal year	\$ 10,400	\$ 10,900	\$ 9,900	\$ 14,400	\$ 12,600

Actuarially determined contributions are calculated as of January 1 and are based on the IRS minimum funding requirement. The contributions related to the actuarially determined contributions are amounts made for the plan year January 1 to December 31. Contributions made during the fiscal year are contribution amounts made during July 1 and June 30.

Supplemental post-retirement benefit information – As of June 30, 2023 and 2022, post-retirement medical benefits plan's fiduciary net position as a percentage of the total OPEB liability is 0% for both years.

The 2023 and 2022 covered payroll for the active population eligible to participate in the post-retirement medical benefits plan is \$29,920,100 for both 2023 and 2022. The net post-retirement medical benefits liability for the fiscal year ended June 30, 2023 and 2022, is \$22,242,400 and \$29,783,200, respectively. The net post-retirement medical benefits liability as a percentage of covered-employee payroll, as of the same time period, was 81.02% and 99.54%, respectively.

El Camino Healthcare District
Supplemental Schedule of Community Benefit (unaudited)
For the Years Ended June 30, 2023 and 2022

The District and the Hospital maintain records to identify and monitor the level of direct community benefit it provides. These records include the charges foregone for providing the patient care furnished under its charity care policy. For the years ended June 30, 2023 and 2022, the estimated costs of providing community benefit in excess of reimbursement from governmental programs were as follows (in thousands):

	2023	2022
Unpaid costs of Medi-Cal & Indigent programs	\$ 69,496	\$ 54,255
Other community-based programs		
Psychiatric	13,376	12,459
Clinical trial	278	273
Ambulatory care	16,933	12,732
Psychiatric outpatient	3,874	3,516
Total other community-based programs	34,461	28,980
Total community benefits	\$ 103,957	\$ 83,235

In furtherance of its purpose to benefit the community, the Hospital provides numerous other services to the community for which charges are not generated and revenues have not been accounted for in the accompanying consolidated financial statements. These services include providing access to healthcare through interpreters, referral and transport services, healthcare screening, community support groups and health educational programs, and certain home care and hospice programs. The estimated costs of Medicare programs in excess of reimbursement from Medicare were \$117,070,000 and \$112,217,000 for the years ended June 30, 2023 and 2022, respectively.

The Hospital also provides services to the community through the operations of the El Camino Hospital Auxiliary, Inc. (the "Auxiliary"). Services provided by volunteers of the Auxiliary, free of charge to the community, include assistance and counseling to patients and visitors, provision of scholarship awards to qualifying paramedical students, and daily personal contact with members of the community who are living alone.

