Reports of Independent Auditors and Consolidated Financial Statements with Supplementary Information

Enloe Medical Center and Subsidiaries

June 30, 2023 and 2022

MOSSADAMS

Table of Contents

REPORT OF INDEPENDENT AUDITORS 1

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets 5

Consolidated Statements of Operations 7

Consolidated Statements of Changes in Net Assets 8

Consolidated Statements of Cash Flows 9

Notes to Consolidated Financial Statements 11

SUPPLEMENTARY INFORMATION

Consolidating Balance Sheets 43

Consolidating Statements of Operations 47

Schedule of Expenditures of Federal Awards 49

Notes to Schedule of Expenditures of Federal Awards 50

REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* 51

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE 53

Schedule of Findings and Questioned Costs 56

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Report of Independent Auditors

The Board of Trustees
Enloe Medical Center and Subsidiaries

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Enloe Medical Center and Subsidiaries (the "Corporation"), which comprise the consolidated balance sheets as of June 30, 2023 and 2022, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Enloe Medical Center and Subsidiaries as of June 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards ("Government Auditing Standards"),* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Enloe Medical Center and Subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Enloe Medical Center and Subsidiaries' ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements 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 consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, 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 Enloe Medical Center and Subsidiaries' 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 Enloe Medical Center and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary schedules of consolidating balance sheets as of June 30, 2023 and 2022, and consolidating statements of operations for the years ended June 30, 2023 and 2022, presented as supplementary information, are presented for the purpose 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 audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the consolidated statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2023, on our consideration of Enloe Medical center and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Enloe Medical Center and Subsidiaries' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Enloe Medical Center and Subsidiaries' internal control over financial reporting and compliance.

Moss Adams LLP

Stockton, California
September 28, 2023

Consolidated Financial Statements

Enloe Medical Center and Subsidiaries
Consolidated Balance Sheets
June 30, 2023 and 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 34,525,508	$ 51,562,439
Assets limited as to use - required for current liabilities	-	8,573,070
Patient accounts receivable, net	114,806,626	104,906,587
Other receivables	5,135,377	5,681,424
Supply inventories	11,628,122	12,042,166
Hospital quality assurance fee	86,053,626	68,731,257
Prepaid expenses and other assets	13,141,530	11,880,185
Total current assets	265,290,789	263,377,128
ASSETS LIMITED AS TO USE, net of current		
Donor-advised funds	1,314,640	1,253,420
Held by trustee	206,000,621	17,745,602
Annuity investments	12,695	12,917
Assets held in charitable remainder trusts	2,869,986	3,702,775
Pledges receivable	1,991,306	5,471,576
Benefit plan assets	208,308	323,379
Assets limited as to use, net of current	212,397,556	28,509,669
INVESTMENTS	169,741,925	156,529,025
PROPERTY AND EQUIPMENT, net	237,601,653	246,359,397
OTHER ASSETS		
Goodwill	1,460,782	1,460,782
Investments in joint venture	351,723	334,731
Other assets and receivables	22,447,835	20,463,452
Total other assets	24,260,340	22,258,965
Total assets	$ 909,292,263	$ 717,034,184

See accompanying notes.

	2023	2022
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 43,021,151	$ 39,980,419
Accrued interest payable	8,682,852	3,232,581
Accrued salaries, wages, and benefits	37,211,109	33,676,444
Accrued hospital quality assurance fee	41,453,638	30,837,760
Accrued payables and other liabilities	12,778,057	17,098,850
Contract liability	-	11,197,350
Current maturities of long-term debt	3,438,461	12,073,018
Total current liabilities	146,585,268	148,096,422
LIABILITIES UNDER TRUST AGREEMENTS	943,382	1,072,269
ACCRUED POST-RETIREMENT LIABILITIES	1,927,739	2,568,630
OTHER LONG-TERM LIABILITIES	12,469,179	12,992,824
LONG-TERM DEBT, net of current portion and issuance costs	359,421,250	188,494,310
Total liabilities	521,346,818	353,224,455
NET ASSETS		
Without donor restrictions	357,267,157	334,917,781
With donor restrictions	30,678,288	28,891,948
Total net assets	387,945,445	363,809,729
Total liabilities and net assets	$ 909,292,263	$ 717,034,184

Enloe Medical Center and Subsidiaries
Consolidated Statements of Operations
Years Ended June 30, 2023 and 2022

	2023	2022
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues, gains, losses, and other support		
Net patient service revenue	$ 834,417,587	$ 761,506,741
Other revenue	7,956,646	20,130,975
Joint venture income (loss)	16,992	(1,338)
Net assets released from restrictions	148,891	243,264
Total revenues, gains, losses, and other support	842,540,116	781,879,642
EXPENSES AND LOSSES		
Salaries, wages, and benefits	423,688,697	403,932,486
Supplies	124,579,158	103,841,503
Medical fees	113,401,312	102,680,403
Purchased services and professional fees	72,645,162	67,455,706
Depreciation and amortization	33,582,507	33,499,934
Hospital quality assurance fee	31,104,552	30,402,980
Other	33,869,557	32,474,664
Interest	9,701,484	7,047,110
Total expenses and losses	842,572,429	781,334,786
OPERATING (LOSS) INCOME	(32,313)	544,856
OTHER INCOME (LOSS)		
Contributions of cash and other financial assets	184,500	386,222
Investment return, net of investment expenses	4,431,097	6,704,701
Net unrealized gain (loss) on investments	9,278,498	(36,883,462)
Retirement benefit (loss) gain	(91,380)	71,657
Other income, net	7,370,478	167,511
Total other income (loss)	21,173,193	(29,553,371)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	$ 21,140,880	$ (29,008,515)

See accompanying notes.

Enloe Medical Center and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2023 and 2022

	2023	2022
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Excess (deficiency) of revenues over expenses	$ 21,140,880	$ (29,008,515)
Change in defined benefit pension plans	1,008,104	(25,008)
Contributions released from restrictions for property acquisitions	200,392	1,159,299
Increase (decrease) in net assets without donor restrictions	22,349,376	(27,874,224)
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions of cash and other financial assets	2,809,116	8,731,132
Contributions of non-financial assets	-	13,265,000
Investment return	30,242	(77,790)
Change in value of gift annuity funds	168	(3,153)
Change in value of charitable remainder trust agreements	(703,903)	(589,270)
Net assets released from restrictions	(349,283)	(1,402,563)
Increase in net assets with donor restrictions	1,786,340	19,923,356
CHANGE IN NET ASSETS	24,135,716	(7,950,868)
NET ASSETS, beginning of year	363,809,729	371,760,597
NET ASSETS, end of year	$ 387,945,445	$ 363,809,729

See accompanying notes.

Enloe Medical Center and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
OPERATING ACTIVITIES		
Change in net assets	$ 24,135,716	$ (7,950,868)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Loss on sale of property and equipment	3,903,601	605,945
Change in net unrealized (gain) loss on investments	(9,278,498)	36,883,462
Depreciation and amortization of property and equipment	33,582,507	33,499,934
Depreciation on nonoperating activities	307,676	307,807
Amortization of bond premiums and discounts	(498,466)	(1,854,233)
Amortization of bond issuance costs	623,554	493,750
Restricted contributions	(2,809,116)	(8,731,132)
Change in value of gift annuities and related liability	(258)	3,189
Change in value of charitable remainder trust agreements	703,903	589,270
Contributions of non-financial assets	-	(13,265,000)
Gain on defeasance of debt	(7,058,551)	-
Net changes in operating assets and liabilities:		
Patient accounts receivable, net	(9,900,039)	(586,213)
Other assets and receivables	3,017,434	(3,464,919)
Supply inventories	414,045	(2,216,381)
Prepaid expenses and other assets	(74,483)	(3,696,310)
Hospital quality assurance fee	(6,706,492)	1,470,819
Accounts payable and accrued expenses	5,772,168	12,554,347
Contract liability	(11,197,350)	(67,129,146)
Change in investment in joint ventures	(16,992)	4,450
Net cash provided by (used in) operating activities	24,920,359	(22,481,229)
INVESTING ACTIVITIES		
Purchases of investments	(14,605,064)	(12,433,236)
Proceeds from disposition of investments	10,670,752	6,304,131
Changes in:		
Donor-advised funds	(59,226)	89,837
Held by trustee	(23,803,750)	2,869,700
Charitable remainder trusts, net	(19,733)	(317,987)
Purchase of property and equipment	(30,290,157)	(18,093,829)
Proceeds from sale of property and equipment	-	1,000
Net cash used in investing activities	(58,107,178)	(21,580,384)
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	367,648,263	-
Advance refunding of long-term debt	(177,239,225)	-
Principal payments on long-term debt	(12,073,624)	(12,786,799)
Payment of debt issuance costs	(9,134,269)	(252,950)
Proceeds from restricted contributions	2,809,116	8,731,132
Net cash provided by (used in) financing activities	172,010,261	(4,308,617)
NET INCREASE (DECREASE) IN CASH AND AND CASH EQUIVALENTS AND RESTRICTED CASH	138,823,442	(48,370,230)
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, beginning of year	78,193,541	126,563,771
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, end of year	$ 217,016,983	$ 78,193,541

See accompanying notes.

	2023	2022
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH		
Cash and cash equivalents	$ 34,525,508	$ 51,562,439
Cash and cash equivalents and restricted cash in assets limited as to use	182,491,475	26,631,102
TOTAL CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, end of year	$ 217,016,983	$ 78,193,541
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 5,120,298	$ 9,462,030
Noncash investing and financing activities		
Prepaid expenses included in accounts payable	$ 1,980,134	$ 793,270
Property and equipment included in accounts payable	$ 424,365	$ 1,678,481
Contributions of non-financial assets	$ -	$ 13,265,000

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations – Enloe Medical Center, as a consolidated entity (the "Corporation"), is a nonprofit public benefit corporation located in Chico, California. The Corporation's primary activity is the operation of an acute care hospital, Enloe Medical Center (the "Medical Center"), that provides a comprehensive array of inpatient and outpatient health care services. The other consolidating entities are Enloe Health Foundation (the "Foundation"), a nonprofit public benefit corporation, whose primary function is to raise funds to carry out the tax-exempt purpose of the Corporation, and Chico Physician Practice Support Services Company d/b/a Chico Practice Management ("CPM"), a for-profit corporation, currently inactive, established to provide practice management services to physicians.

Basis of presentation – The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared on the accrual basis of accounting which recognizes income in the period earned and expenses when incurred, consistent with accounting principles generally accepted in the United States of America.

Use of estimates – The preparation of 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 in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Major items requiring estimates and assumptions include implicit and explicit price concessions for patient accounts receivable, liability for malpractice claims, liability for employee health and dental benefit programs, third-party payor settlements, useful lives of fixed assets, obligation for payment to trust beneficiaries, valuation of financial instruments, and valuation of pension and retirement obligations.

Cash and cash equivalents – The Corporation considers all liquid investments with original maturities of three months or less when acquired to be cash equivalents.

Investments and investment return, net – Investments, including those held by the bond indenture trustee and assets limited as to use, are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) are included in excess (deficiency) of revenue over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are included in excess (deficiency) of revenue over expenses and reported in the accompanying consolidated statements of operations. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. Investment manager expenses included in investment return, net of investment expenses for the years ended June 30, 2023 and 2022, were $13,012 and $13,469, respectively.

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. The investments in joint ventures are reported on the equity method of accounting. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment returns includes dividend, interest and other investment income, realized gains and losses on investments carried at fair value, and realized gains and losses on other investments.

The fair value of private equity funds is based on net asset value ("NAV") information provided by external fund managers and investment advisors. These securities, which include U.S. government obligations, U.S. Treasury securities, U.S. mortgage backed securities, and U.S. Commercial bonds, are based on valuations provided by the external investment managers, adjusted for receipts and disbursements of cash and distributions of securities if the date of valuation is prior to the Corporation's fiscal year end. Such valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of investments, and other pertinent information. The Corporation believes the carrying amounts of these financial instruments are a reasonable estimate of their fair value. For those investments that are not traded on a ready market, the estimates of their fair values may differ from the values that would have been used had a ready market for those investments existed.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the accompanying consolidated statements of operations and changes in net assets as net assets without donor restrictions or net assets with donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Assets limited as to use – Assets limited as to use include assets held by trustees (including amounts for making scheduled principle and interest payments to bond holders and bond reserve accounts), assets restricted by donors, assets held in trust for beneficiaries of annuities and charitable remainder agreements, and assets related to executive benefit plans. Amounts required to meet current liabilities of the Corporation are included in current assets.

Patient accounts receivable, net – Patient accounts receivable is recorded at amounts that reflect the consideration to which the Medical Center expects to be entitled in exchange for providing patient care. In evaluating the collectability of accounts receivable, the Medical Center regularly analyzes its past history and identifies and reviews trends for each of its major payor sources of revenue to estimate the appropriate and sufficient implicit and explicit price concessions reflected in patient accounts receivable.

For receivables associated with services provided to patients who have third-party coverage, the Medical Center analyzes contractually due amounts and provides additional implicit price concession, if necessary, based upon historical collection history for deductibles and copayments on accounts for which the third-party payor had not yet paid or for remaining payor balances.

For receivables associated with self-pay patients, which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Medical Center records a significant implicit price concession in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is reflected as a reduction in patient accounts receivable.

As of June 30, the following represents beginning and ending patient accounts receivable, net:

	2023	2022	2021
Patient accounts receivable, net	$ 114,806,626	$ 104,906,587	$ 104,320,374

Supply inventories – Inventories, which consist principally of medical and other supplies, are stated at the lower of cost determined using the first-in, first-out method, or net realizable value.

Property and equipment, net – Property and equipment acquisitions are recorded at cost and depreciated on a straight-line basis over the estimated useful life of each asset. Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in net assets without donor restrictions when the donated asset is placed in service or, in the case of construction projects, when the restriction is met. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase capacities or extend useful lives are capitalized. Fully depreciated assets are retained in property and equipment until they are disposed. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and a resulting gain or loss is recognized. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and leasehold improvements	5 to 40 years
Equipment	3 to 20 years

The Corporation capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing.

Long-lived asset impairment – The Corporation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized at the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized for the years ended June 30, 2023 and 2022.

Leases – Transactions give rise to leases when the Corporation receives substantially all of the economic benefits from and has the ability to direct the use of the specified property and equipment. The Corporation primarily has lessee activity that is classified as operating leases. Operating lease right-of-use assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. When discount rates implicit in leases cannot be readily determined, the Corporation uses the applicable incremental borrowing rate at lease commencement to perform lease classification tests and to measure lease liabilities and right-of-use assets. Lease expense for operating leases is recognized on a straight-line basis over the lease term.

Right-of-use assets represents the right to use an underlying asset for the lease term and lease liabilities represent obligations to make lease payments arising from the lease. Operating leases are included in noncurrent other assets and receivables, accrued payables and other liabilities, and other long-term liabilities in the consolidated balance sheets, and were $1,677,497, $1,099,484, and $551,458, respectively, as of June 30, 2023, and $1,677,708, $1,080,046, and $608,835, respectively, as of June 30, 2022.

The Corporation has agreements with lease and non-lease components, such as common area maintenance, and has elected to account for the lease and non-lease components as a separate lease component. The Corporation has elected not to recognize right-of-use assets and lease liabilities for leases of terms less than 12 months.

Bond issuance costs – Bond issuance costs represent expenditures incurred in connection with the issuance of long-term debt. These expenditures include bank fees and premiums as well as attorney and filing fees. These costs are amortized over the term of the respective debt using the straight-line method and are reported net of long-term debt liabilities. Amortization expense, included in interest expense, for the years ended June 30, 2023 and 2022, was $623,554 and $493,750, respectively.

Split-dollar life insurance plan – During the year ended June 30, 2016, the Medical Center adopted a loan regime, split-dollar life insurance program referred to as the CAP-EX plan. The CAP-EX arrangement includes a loan to the executive, covered under the plan, to purchase two life insurance policies: an accumulation policy for the accumulation of benefits for the participant; and an employer/lender collateral policy to repay the Medical Center for the loan, plus interest. The balance of the loan included in noncurrent other assets and receivables on the consolidated balance sheets as of June 30, 2023 and 2022, is $11,774,158 and $11,868,072, respectively.

Annuity investments and annuity payment liability – Annuity investments represent charitable gift annuities with assets measured and recognized on the consolidated balance sheets date at fair value. Annuity payment liabilities are measured and recognized on the consolidated balance sheets date at net present value of the future payment obligation under the charitable gift annuity agreement. Annuity payment liability as of June 30, 2023 and 2022, included in other long-term liabilities is $7,583 and $7,973, respectively.

Remainder trusts – The Foundation is the remainder beneficiary of various trusts established by donors (principally, charitable remainder annuity trusts and unit trusts). The Foundation is the trustee for certain of these trusts. Accordingly, trust assets are measured and recognized on the consolidated balance sheets date at fair value, and the net present value of the estimated future payment obligation to the donors is recognized as a liability under the trust agreement. For those trusts that have a trustee other than the Foundation, the net present value of the Foundation's estimated remainder interest is recorded as contribution receivable from remainder trusts.

Under both charitable remainder annuity trusts and unit trusts arrangements, contribution revenue is recognized at the creation of the trust in amounts equal to the net present value of the estimated remainder interest based on various factors, including fair value of trust assets, life expectancy of the donors, payment terms to donors, and discount rates. Subsequent changes in the measurement of trust-related assets and liabilities are recorded as changes in value of charitable remainder trust ("CRT") agreements. The underlying assets of the CRT's are carried at fair value and were $2,869,986 and $3,702,775 as of June 30, 2023 and 2022, respectively, and are included in assets held in charitable remainder trusts on the accompanying consolidated balance sheets. The underlying liabilities of CRT's are recognized at the net present value of estimated future payment obligation to the donors and were $943,382 and $1,072,269, as of June 30, 2023 and 2022, respectively, and are included in liabilities under trust agreements on the accompanying consolidated balance sheets.

Goodwill – Goodwill generally arises from acquisition related activity. Goodwill represents the excess of the purchase price over the fair value of net assets acquired when accounted for using the acquisition method of accounting. Goodwill is tested for impairment at least annually, or sooner, whenever events or circumstances indicate that the asset may be impaired. As of June 30, 2023 and 2022, the Corporation had not recorded any impairment of goodwill.

Net Assets – The Corporation classifies net assets as follows:

Without donor restrictions – Net assets that are not subject to donor imposed stipulations. This includes contributions without donor restrictions, income earned on net assets with or without donor restrictions, and amounts for which donor restrictions have become available for use by the Corporation in accordance with the intention of the donor. As of June 30, 2023 and 2022, there were no board-designated net assets without donor restrictions.

With donor restrictions – Net assets subject to donor imposed stipulations. This includes resources restricted by donors for a specific purpose or based on a time restriction, and also represent cash and investments that are subject to gift instrument restrictions that require the principal to be invested in perpetuity. These stipulations may expire with time or may be satisfied by the actions of the Corporation according to the intent of the donor. Upon satisfaction of such stipulations, the associated net assets are released from net assets with donor restrictions and recognized as net assets without donor restrictions. Net assets with donor restrictions are available primarily for healthcare services, donor-advised funds, and remainder trust agreements.

Net patient service revenue – Net patient service revenue is reported at the amount that reflects the consideration to which the Medical Center expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others, and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Medical Center bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Charity care – The Medical Center provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Therefore, the Medical Center does not pursue revenue (see Note 11).

Contributions – Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as net assets with donor restrictions. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified and reported as an increase in net assets without donor restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions. Conditional contributions are reported as liabilities until the condition is eliminated, or the contributed assets are returned to the donor.

Non-financial asset contributions – Non-financial asset contributions for the years ended June 30, 2023 and 2022, consisted of land, and amounted to $0 and $13,265,000, respectively. The contributed non-financial assets have donor-imposed restrictions and are to be used for the purpose of developing a cancer treatment center with complementary medical buildings and associated facilities for the Corporation. In valuing the contributed land, which is located in Chico, CA, the Corporation estimated the fair value on the basis of recent comparable sales prices in Chico, CA, as well as the fee simple market value of the contributed land.

Estimated malpractice costs – The Corporation purchases professional and general liability insurance coverage under a claims-made policy from a multi-employer captive insurance company to cover medical malpractice claims. An annual estimated provision is accrued for the self-insured portion of medical malpractice claims and includes an estimate of the ultimate costs of settling claims for both reported claims and claims incurred but not reported. The Medical Center records a receivable to reflect the estimated insurance recoveries, if any, associated with claims incurred. Medical malpractice claims are described more fully in Note 7.

Self-insurance – The Corporation has elected to self-insure certain costs related to employee health and dental benefit programs. Costs resulting from noninsured losses are charged to expense when incurred. The Medical Center has purchased insurance that limits its exposure for individual claims and, as of January 1, 2021, limits its aggregate exposure to $350,000 per participant. Losses from medical and dental claims incurred but not reported during the coverage period are accrued. As of June 30, 2023 and 2022, a total of $7,955,301 and $7,565,467, respectively, was recorded in accrued salaries, wages, and benefits related to medical and dental claims. The reserve includes an estimate of the ultimate costs for both reported claims and claims incurred but not reported. As of June 30, 2023 and 2022, there were no insurance recovery receivables.

Income taxes – The Medical Center and Foundation have been recognized as exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. However, the Medical Center and Foundation are subject to income taxes on any net income that is derived from a trade or business regularly carried on and not in furtherance of the purposes for which it was granted exemption. CPM did not have taxable operations that were significant to the accompanying consolidated financial statements for 2023 and 2022. For the fiscal years ended June 30, 2023 and 2022, no income tax provision has been recorded as the net income from any unrelated trade or business, in the opinion of management, is not material to the consolidated financial statements taken as a whole.

Excess (deficiency) of revenues over expenses – The accompanying consolidated statements of operations and consolidated statements of changes in net assets include excess (deficiency) of revenues over expenses. Consistent with industry practice, changes in net assets without donor restrictions, which are excluded from excess (deficiency) of revenues over expenses, include change in defined benefit pension plans and contributions of property and equipment, including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets.

Reclassification – Certain prior year amounts have been reclassified to conform to current year presentation. There was no change in reported excess (deficiency) of revenues over expenses or net assets related to these reclassifications.

NOTE 2 – COVID-19 PANDEMIC

The Corporation, along with most other healthcare providers across the United States, has experienced operational challenges related to the COVID-19 pandemic. COVID-19 was declared a global pandemic by the World Health Organization on March 11, 2020, and on March 13, 2020, the President of the United States declared a national emergency as a result of the pandemic, which ended on May 11, 2023. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law, which aimed to direct economic assistance for American workers, families, and small businesses, and preserve jobs for American industries.

Provider Relief Funds – The CARES Act included provisions for health care under the Provider Relief Fund. During 2023 and 2022, the Medical Center received funds under the Provider Relief Fund, administered by the U.S. Department of Health & Human Services ("HHS") of approximately $0 and $11,860,000, respectively. The Medical Center was required to, and did, timely sign attestations agreeing to the terms and conditions of payment. Those terms and conditions include measures to prevent fraud and misuse. Documentation is required to ensure that these funds are used for health care related expenses or lost revenue attributable to the coronavirus, limitations of out of pocket payments from certain patients, and the acceptance of several other reporting and compliance requirements. It is noted that anti-fraud monitoring and auditing will be performed by HHS and the Office of the Inspector General. For the years ended June 30, 2023 and 2022, the Medical Center has determined it met the terms and conditions of the CARES Act, and as grant revenue under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-605, and accordingly, has recognized approximately $0 and $11,860,000, respectively, of the Provider Relief Fund in other revenue in the consolidated statements of operations. Refunding of amounts received may be required by the CARES Act if a receiving entity is unable to quantify the financial losses intended to be covered by Funding. The Medical Center continues to reconcile and analyze its health care related expenses and lost revenue based on known reporting guidance.

Contract liability – The Medical Center has received amounts under the Medicare Advanced and Accelerated Payment Program initiated by the Centers for Medicare and Medicaid Services ("CMS"). The accelerated payments represent advance payments for services to be provided and were based on a hospital's historical Medicare volume. In April 2020, the Medical Center received $88,000,000 in accelerated payments. This represents deferred revenue that will be recognized during the repayment period that begins one year from the date of receipt of payments. CMS began recoupment of these accelerated payments in April 2021, and continued to recoup the accelerated payments from billings for services rendered until fully repaid. Any accelerated payments still open after 29 months from receipt will be charged interest at 4%. As of June 30, 2023, 2022, and 2021, the Medical Center had $0, $11,197,350, and $78,326,496, respectively, in contract liability in the consolidated balance sheets.

NOTE 3 – NET PATIENT SERVICE REVENUE

Performance obligations are determined based on the nature of the services provided by the Medical Center. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Medical Center believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. The Medical Center measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Medical Center has elected to apply the optional exemption provided in FASB ASC 606-10-50-14a and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to previously are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Medical Center determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Medical Center's policy, and implicit price concessions provided to uninsured patients. The Medical Center determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Medical Center determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

For changes in credit issues not assessed at the date of service, such as a payor files for bankruptcy or a patient default on a payment plan, the Medical Center recognizes these write-offs as bad debt expense, which is presented on the accompanying consolidated statements of operations as a component of other expenses.

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. These payment arrangements include:

Medicare – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. The Medical Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare administrative contractor. As of June 30, 2023, the Medical Center's Medicare cost reports have been audited by the Medicare administrative contractor through June 30, 2018.

Medi-Cal – Prior to July 1, 2013, the State of California provided reimbursement for eligible inpatients receiving acute care services on a cost basis with a per discharge cap. Hospitals were paid an interim rate for acute care services during the year, with final settlement determined after submission and audit of annual cost reports. In addition, the Hospitals were subject to a peer group inpatient reimbursement limitation ("PIRL"), which is applied to several years at once after the cost reports have been finalized. Outpatient services are reimbursed based on fee schedules published by the State of California. As of June 30, 2023, cost reports through June 30, 2019, have been audited by the Medi-Cal fiscal intermediary.

Beginning July 1, 2013, inpatient acute care services rendered to Medi-Cal program beneficiaries are reimbursed under a diagnostic related group ("DRG") methodology. Under this methodology, similar to Medicare, services were paid at prospectively determined rates per discharge according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services rendered to Medi-Cal program beneficiaries are reimbursed based on prospectively determined fee schedules.

Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term. Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Medical Center's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. The 2023 and 2022 net patient service revenue (decreased) increased by approximately ($1,843,000) and $980,000, respectively, due to adjustments from finalization of prior-year cost reports from both Medicare and Medi-Cal.

The Medical Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Net patient service revenue by major payor groups recognized in the years ended June 30, 2023 and 2022, was:

	2023	2022
Medicare	$ 329,343,906	$ 302,913,063
Commercial	350,822,269	313,187,127
Medi-Cal	105,068,822	101,902,780
Other third-party payers	41,639,936	32,482,915
Self-pay	7,542,654	11,020,857
Net patient service revenue	$ 834,417,587	$ 761,506,741

Net patient service revenue by service line recognized in the years ended June 30, 2023 and 2022, was:

	2023	2022
Inpatient	$ 337,550,071	$ 347,359,576
Outpatient	378,409,130	304,388,750
Professional services	63,327,389	58,998,388
Hospital fee program	55,130,997	50,760,027
Net patient service revenue	$ 834,417,587	$ 761,506,741

California Hospital Fee Program – The first California Hospital Fee Program (the "Program") was signed into California state law in 2009 and became effective in late 2010. The Program provides supplemental Medi-Cal payments to California hospitals that provide a disproportionately large share of medical services to low-income patients. The Program is funded by a quality assurance fee paid by participating hospitals and by matching federal funds. Hospitals receive supplemental payments from either the California Department of Health Care Services ("DHCS"), Medi-Cal managed care plans, or a combination of both.

The program includes a Fee-for-Service component and a Managed Care component. The Centers for Medicare & Medicaid Services ("CMS") must approve each component before it becomes effective. The Program revenue represents variable consideration and is included in the transaction price to the extent that it is probable that a significant reversal will not occur in future periods. The Medical Center recognizes net patient service revenues and expenses related to each component in the Medical Center's fiscal year on a straight line basis.

Timing of Program fees to be paid by participating hospitals and supplemental payments to be paid to participating hospitals are based on the Program fee and payment schedule. Fees and payments often occur subsequent to the related program period. As a result, the Medical Center incurred a receivable for estimated payments to be received and a liability for estimated fees to be paid. As of June 30, 2023 and 2022, the Medical Center has recorded the related receivable of $86,053,626 and $68,731,257, respectively, as hospital quality assurance fee asset on the accompanying consolidated balance sheets. As of June 30, 2023 and 2022, the Medical Center has recorded the related liability of $41,453,638 and $30,837,760, respectively, as accrued hospital quality assurance fee on the accompanying consolidated balance sheets.

California Proposition 52, approved in the November 2016 general election, made the Hospital Fee Program permanent in California.

The following table presents California Hospital Fee Program revenue and expenses recognized during the years ended June 30, 2023 and 2022, by program component:

	2023	2022
Fee-for-service component		
Net patient service revenue	$ 12,205,212	$ 15,194,309
Expenses	(18,964,197)	(18,532,653)
Net expense	$ (6,758,985)	$ (3,338,344)
Managed care component		
Net patient service revenue	$ 42,925,785	$ 35,565,719
Expenses	(12,140,355)	(11,870,327)
Net benefit	$ 30,785,430	$ 23,695,392
Combined		
Net patient service revenue	$ 55,130,997	$ 50,760,028
Expenses	(31,104,552)	(30,402,980)
Net benefit	$ 24,026,445	$ 20,357,048

NOTE 4 – CONCENTRATION OF CREDIT RISK

The Medical Center grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2023 and 2022, was as follows:

	2023	2022
Commercial	61%	62%
Medicare	27%	25%
Medi-Cal	10%	10%
Other third-party payers	1%	2%
Self-pay	1%	1%
	100%	100%

NOTE 5 – INVESTMENTS AND INVESTMENT RETURN

Assets limited as to use and other investments held by the Corporation are comprised of the following at June 30, 2023 and 2022:

	2023					
	Cash and Money Market Funds	Equity Mutual Funds	Fixed Income Mutual Funds	Certificates of Deposit	Equity Securities	Total
Donor-advised funds	$ 44,701	$ 905,068	$ -	$ -	$ 364,871	$ 1,314,640
Held by trustee	182,196,871	-	23,803,750	-	-	206,000,621
Annuity investments	81	12,614	-	-	-	12,695
Assets held in charitable remainder trusts	249,822	2,579,675	40,489	-	-	2,869,986
Benefit plan assets	-	208,308	-	-	-	208,308
Investments	688,942	163,804,466	-	5,248,517	-	169,741,925
	$ 183,180,417	$ 167,510,131	$ 23,844,239	$ 5,248,517	$ 364,871	$ 380,148,175

	2022					
	Cash and Money Market Funds	Equity Mutual Funds	Fixed Income Mutual Funds	Certificates of Deposit	Equity Securities	Total
Donor-advised funds	$ 42,707	$ 831,801	$ -	$ -	$ 378,912	$ 1,253,420
Held by trustee	26,318,672	-	-	-	-	26,318,672
Annuity investments	171	12,746	-	-	-	12,917
Assets held in charitable remainder trusts	269,552	3,332,716	100,507	-	-	3,702,775
Benefit plan assets	-	323,379	-	-	-	323,379
Investments	578,244	150,716,566	-	5,234,215	-	156,529,025
	$ 27,209,346	$ 155,217,208	$ 100,507	$ 5,234,215	$ 378,912	$ 188,140,188

Total investment return is reflected in the accompanying consolidated statements of operations and consolidated statements of changes in net assets as follows at June 30, 2023 and 2022:

	2023	2022
Investment return, net of investment expenses	$ 4,461,339	$ 6,626,911
Net unrealized gains (losses) on investments	9,278,498	(36,883,462)
	$ 13,739,837	$ (30,256,551)

NOTE 6 – PROPERTY AND EQUIPMENT, NET

Property and equipment, net at June 30, 2023 and 2022, consist of the following:

	2023	2022
Land and land improvements	$ 45,400,268	$ 40,219,577
Buildings and building improvements	327,147,659	321,449,862
Equipment	303,190,674	293,267,417
Construction in progress	12,290,964	9,967,047
Subtotal	688,029,565	664,903,903
Less accumulated depreciation	450,427,912	418,544,506
Property and equipment, net	$ 237,601,653	$ 246,359,397

Depreciation and amortization expense amounted to $33,582,507 and $33,499,934 in 2023 and 2022, respectively.

As of June 30, 2023, the Corporation has spent $12,290,964 related to various construction and other capital projects in progress. The Corporation estimates an additional $54,198,000 will be required through fiscal 2026 to complete the projects. As of June 30, 2023, the Corporation has outstanding commitments and anticipated contractual obligations with contractors for approximately $42,258,000 related to these projects.

Total interest capitalized and incurred was as follows for the years ended June 30, 2023 and 2022:

	2023	2022
Interest capitalized	$ 291,600	$ 425,800
Interest charged to expense	9,701,484	7,047,110
Total interest incurred	$ 9,993,084	$ 7,472,910

NOTE 7 – MEDICAL MALPRACTICE CLAIMS

The Medical Center purchases medical malpractice insurance above the self-insurance limits under a claims-made policy on a fixed premium basis. The medical malpractice insurance provides coverage up to an aggregate claim limit of $20,000,000. Medical malpractice reserve estimates represent the estimated ultimate cost of all reported and unreported losses incurred through the respective consolidated balance sheet dates. The Medical Center was self-insured for the first $10,000 per occurrence through October 31, 2011. Beginning November 1, 2011, the Medical Center increased its self-insured coverage to $25,000 per occurrence and effective November 1, 2014, reduced its self-insured coverage to $10,000. The reserve for unpaid losses and loss expenses are estimated using actuarial analysis. Those estimates are subject to the effects and trends in loss severity and frequency and are continually reviewed and adjustments are recorded as experience develops or new information becomes known. Although considerable variability is inherent in medical malpractice reserve estimates, management is of the opinion that the associated liabilities for future loss and receivable for insurance recoveries represent reasonable estimates and are adequate to cover such claims based on information currently known. It is reasonably possible that the estimates could change by a material amount in the near term.

Activity in the Medical Center's accrued medical malpractice liability during 2023 and 2022 is summarized as follows at June 30, 2023 and 2022:

	2023	2022
Balance, beginning of year	$ 12,987,000	$ 17,037,000
Current year claims incurred and changes in estimates for claims incurred in prior years	7,772,030	27,167
Claims and expenses paid	(5,509,030)	(4,077,167)
Balance, end of year	$ 15,250,000	$ 12,987,000

The accrued medical malpractice liability is reported in the accompanying consolidated balance sheets as approximately $3,621,000 and $3,513,000, respectively, in accrued payables and other liabilities and approximately $11,629,000 and $9,474,000, respectively, in other long-term liabilities at June 30, 2023 and 2022. Insurance recoveries receivable is reported in the accompanying consolidated balance sheets as approximately $3,500,000 and $3,400,000, respectively, in current other receivables and approximately $7,769,000 and $6,639,000, respectively, in noncurrent other assets and receivables at June 30, 2023 and 2022.

NOTE 8 – LINE OF CREDIT

The Medical Center maintains a $30,000,000 revolving line of credit with Tri Counties Bank, which is set to mature in January 2024. Drawdowns from the credit facility bear interest at the rate which is the greater of the Wall Street Journal Prime Rate minus 1.50% or 3.50% per annum. At June 30, 2023 and 2022, the interest rate was 6.75% and 3.50%, respectively. There were no borrowings against the credit facility as of June 30, 2023 and 2022. The line of credit is secured by certain investments of the Medical Center.

NOTE 9 – LONG-TERM DEBT

Long-term debt consisted of the following at June 30, 2023 and 2022:

	2023	2022
California Statewide Communities Development Authority		
Revenue Bonds, Series 2008A (A)	$ -	$ 11,340,000
Revenue Bonds, Series 2015 (B)	-	170,740,000
Revenue Bonds, Series 2022 (C)	218,570,000	-
Revenue Bonds, Series 2022 (D)	161,815,000	-
Notes		
Equipment Purchase Note (E)	2,887,487	7,751,957
Finance lease obligations (F)	1,169,604	1,687,182
	384,442,091	191,519,139
Plus unamortized premium	-	13,257,774
Less unamortized discount	(12,628,916)	-
Less unamortized issuance cost	(8,953,464)	(4,209,585)
	362,859,711	200,567,328
Less current maturities	(3,438,461)	(12,073,018)
	$ 359,421,250	$ 188,494,310

(A) In August 2008, $68,915,000 in California Statewide Communities Development Authority Insured Revenue Bonds, Series 2008A (the “2008A Bonds”) were issued. The 2008A Bonds were issued pursuant to a bond indenture dated as of August 1, 2008 (“Bond Indenture”), between the California Statewide Communities Development Authority (“Issuer”) and U.S. Bank National Association (the “2008A Bond Trustee”). The proceeds of the 2008A Bonds were loaned by the Issuer to the Medical Center pursuant to a loan agreement dated as of August 1, 2008 (“Loan Agreement”). The Medical Center used the proceeds of the 2008A Bonds to extinguish the California Health Facilities Financing Authority Revenue Bonds, Series 1998A in November 2008. The obligations under the Loan Agreement are secured by the payments made by the Medical Center under the Master Indenture of Trust with the 2008A Bond Trustee. The payment of principal and interest of the 2008A Bonds is insured with the Office of Statewide Health Planning and Development of the State of California.

In July 2020, the Medical Center and the 2008A Bond Trustee restructured the 2008A Bonds by calling the 2008A Bonds for mandatory purchase in lieu of redemption pursuant to the provisions of Article IV of the Bond Indenture at a price equal to the par amount thereof plus accrued interest. On July 19, 2020, Bank of America, N.A. entered into a Purchase and Call Waiver Agreement (“Purchase Agreement”) with the Medical Center and the 2008A Bond Trustee to purchase the 2008A Bonds in the amount of $23,873,079, which includes $22,245,000 of principal, $1,505,000 in net bond premium, and $123,079 of bond issuance costs.

The terms of the 2008A Bond restructure required the Medical Center to redeem $1,505,000 of the outstanding bonds and provided a one-time reduction to the outstanding bonds of $1,505,000, which was recorded as a bond premium by the Medical Center. The bond premium is being amortized as a component of interest expense based on the effective interest method over the remaining life of the bonds. The 2008A Bond restructure did not substantially change the terms of the original Master Indenture, Bond Indenture, and Loan Agreement, and those terms still remain intact subsequent to the 2008A Bond restructure.

In conjunction with the issuance of the 2022B Bonds described in paragraph (D), the 2008A Bonds were legally defeased and funded to an escrow account in accordance with the Escrow Agreement included with the 2022B Bonds in the amount of $6,059,610, which is comprised of bond principal of $5,780,000, unamortized bond premium of $412,736, and funded interest of $64,882 less unamortized issuance cost of $198,008. The amount funded to the escrow account paid the outstanding principal and interest on the 2008A Bonds and redeemed the outstanding 2008A Bonds in full in November 2022.

The outstanding balance of the bonds at June 30, 2023 and 2022, is as follows:

	2023	2022
Principal amount	$ -	$ 11,340,000
Plus unamortized premium	-	596,085
Less unamortized issuance cost	-	(280,891)
	$ -	$ 11,655,194

(B) In November 2015, $173,730,000 in California Statewide Communities Development Authority Insured Refunding Revenue Bonds, Series 2015 (the “2015 Bonds”) were issued. The 2015 Bonds were issued pursuant to a bond indenture dated as of November 1, 2015 (“Bond Indenture”), between the California Statewide Communities Development Authority (“Issuer”) and U.S. Bank National Association (the “2015 Bond Trustee”). The proceeds of the 2015 Bonds were loaned by the Issuer to the Medical Center pursuant to a loan agreement dated as of November 1, 2015 (“Loan Agreement”). The Medical Center used the proceeds of the 2015 Bonds to refund the California Statewide Communities Development Authority Insured Revenue 2008B Bonds in November 2015. The obligations under the Loan Agreement are secured by the payments made by the Medical Center under the Indenture and Regulatory Agreement with the 2015 Bond Trustee. The payment of principal and interest of the 2015 Bonds is insured with the California Statewide Communities Development Authority.

In conjunction with the issuance of the 2022B Bonds described in paragraph (D), the 2015 Bonds were legally defeased and funded to an escrow account in accordance with the Escrow Agreement included with the 2022B Bonds in the amount of $172,886,433, and per the Escrow Agreement, the 2015 Bonds will be called in November 2022 in the amount of $179,944,984. The Medical Center recorded a gain on defeasance in the amount of $7,058,551, included in other income, net on the consolidated statements of operations, which is comprised of funded interest of $1,641,936 and unamortized issuance costs of $3,531,390 less unamortized premium of $12,231,877. The amount funded to the escrow account paid the outstanding principal and interest on the 2015 Bonds and redeemed the outstanding 2015 Bonds in full in November 2022.

The outstanding balance of the bonds at June 30, 2023 and 2022, is as follows:

	2023	2022
Principal amount	$ -	$ 170,740,000
Plus unamortized premium	-	12,661,689
Less unamortized issuance cost	-	(3,644,149)
	$ -	$ 179,757,540

(C) In November 2022, $218,570,000 in California Statewide Communities Development Authority Insured Revenue Bonds, Series 2022A (the "2022A Bonds") were issued. The 2022A Bonds were issued pursuant to a bond indenture dated as of November 1, 2022 ("Bond Indenture"), between the California Statewide Communities Development Authority ("Issuer") and U.S. Bank National Association (the "2022A Bond Trustee"). The proceeds of the 2022A Bonds were loaned by the Issuer to the Medical Center Pursuant to a loan agreement dated as of November 1, 2022 ("Loan Agreement"). The Medical Center is to use the proceeds of the 2022A Bonds for various capital projects. The obligations under the Loan Agreement are secured by the payments made by the Medical Center under the Master Indenture of Trust with the 2022A Bond Trustee. The payment of principal and interest of the 2022A Bonds are insured with the Assured Guaranty Municipal Corporation ("AGM") of the State of New York.

The Medical Center granted a security interest to the Bond Trustee for all of the assets and gross revenue of the Medical Center to secure the required payments and the performance by the Medical Center of their obligations under the Master Indenture. Under the terms of the Master Indenture, the Bond Indenture, and the Loan Agreement, the Medical Center is subject to various financial covenants, including maintaining a certain debt service coverage ratio and days' cash on hand level. At June 30 2023, management believes the Medical Center is in compliance with all debt covenants.

Interest for the 2022A Bonds is payable semiannually at rates ranging from 5.00% to 5.38%. Principal maturities for the serial bonds of $545,000 are due annually beginning on August 15, 2032. Principal maturities for the term bonds, aggregating $218,025,000, range from $365,000 to $25,370,000 and are due annually beginning on August 15, 2024 through 2057.

The 2022A Bonds were issued, net of bond issuance costs of approximately $5,662,000, and at a discount of approximately $12,744,000. The bond discount is being amortized as a component of interest expense based on the effective interest method over the life of the bonds. The outstanding balance of the bonds at June 30, 2023, is as follows:

	2023
Principal amount	$ 218,570,000
Less unamortized discount	(12,628,916)
Less unamortized issuance cost	(5,558,613)
	$ 200,382,471

(D) In November 2022, $161,815,000 in California Statewide Communities Development Authority Insured Revenue Bonds, Series 2022B (the "2022B Bonds") were issued. The 2022B Bonds were issued pursuant to a bond indenture dated as of November 1, 2022 ("Bond Indenture"), between the California Statewide Communities Development Authority ("Issuer") and U.S. Bank National Association (the "2022B Bond Trustee"). The proceeds of the 2022B Bonds were loaned by the Issuer to the Medical Center Pursuant the Loan Agreement. The Medical Center used the proceeds of the 2022B Bonds to extinguish the California Statewide Communities Development Authority Insured Revenue Bonds, Series 2008A and Series 2015 in November 2022. The obligations under the Loan Agreement are secured by the payments made by the Medical Center under the Master Indenture of Trust with the 2022B Bond Trustee. The payment of principal and interest of the 2022B Bonds are insured with the Assured Guaranty Municipal Corporation ("AGM") of the State of New York.

The Medical Center granted a security interest to the Bond Trustee for all of the assets and gross revenue of the Medical Center to secure the required payments and the performance by the Medical Center of their obligations under the Master Indenture. Under the terms of the Master Indenture, the Bond Indenture, and the Loan Agreement, the Medical Center is subject to various financial covenants, including maintaining a certain debt service coverage ratio and days' cash on hand level. At June 30 2023, management believes the Medical Center is in compliance with all debt covenants.

Interest for the 2022B Bonds is payable semiannually at a rate of 7.14%. The term bond of $161,815,000 matures August 15, 2047. Principal maturities for the term bonds, aggregating $161,815,000, range from $2,515,000 to $13,615,000 and are due annually beginning on August 15, 2024 through 2047.

The 2022A Bonds were issued, net of bond issuance costs of approximately $3,472,000. The outstanding balance of the bonds at June 30, 2023, is as follows:

	2023
Principal amount	$ 161,815,000
Less unamortized issuance cost	(3,382,396)
	$ 158,432,604

(E) In February 2017, the California Statewide Communities Development Authority (the “CSCDA”) issued the $28,000,000 501(c)(3) Equipment Purchase Program Note, Series 2017 (the “Series 2017”). Under terms of the loan agreement between the CSCDA, as issuer, and Banc of America Public Capital Corp, as lender, the proceeds of the Series 2017 were loaned to the Medical Center, as borrower, pursuant to a loan agreement dated February 2017. The intended use of the loan proceeds is to fund the acquisition and installation of Epic’s Inpatient Clinical System and suite of Ambulatory Applications (“Epic”). The obligations under the loan agreement are secured by the underlying Epic system.

Prepayment under the terms of the loan agreement is not permitted during the first 24 months of the 84-month term. Thereafter, a prepayment premium shall be payable equal to 1.5% of the principal amount outstanding if prepaid in months 25 through 60 of the term; and 1% of the principal amount outstanding if prepaid in the final 24 months of the term. The loan agreement provides for a fixed interest rate of 2.20% over the 84-month term.

Under the terms of the loan agreement, the Medical Center is subject to various restrictive covenants, including maintaining a certain debt service coverage ratio, current ratio, days' cash on hand ratio, and minimum liquidity. At June 30, 2023, management believes the Medical Center is in compliance with all debt covenants. The outstanding balance of the note at June 30, 2023 and 2022, is as follows:

	2023	2022
Principal amount	$ 2,887,487	$ 7,751,957
Less unamortized issuance cost	(12,455)	(31,595)
	$ 2,875,032	$ 7,720,362

(F) Various finance lease obligations entered into between February 2018 and October 2020, at a rate of interest from 1.5% to 3.0%, due through October 2025; collateralized by leased equipment.

Aggregate annual maturities and sinking fund requirements of long-term debt at June 30, 2023, are:

	Long-Term Debt	Finance Lease Obligations
2024	$ 2,887,487	$ 550,974
2025	2,880,000	437,469
2026	3,210,000	195,982
2027	3,440,000	-
2028	3,685,000	-
Thereafter	367,170,000	-
	$ 383,272,487	1,184,425
Less amounts representing interest		14,821
Present value of future minimum lease payments		1,169,604
Less current maturities		550,974
Noncurrent portion		$ 618,630

NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are to be used as of June 30, 2023 and 2022, for the following purposes:

	2023	2022
Health care services:		
Capital-related services	$ 10,389,985	$ 8,566,884
Program expenses	3,209,298	2,553,542
Land	13,265,000	13,265,000
Donor-advised funds	1,314,680	1,303,460
Remainder trust agreements	1,926,604	2,630,507
General endowment	407,787	407,787
Other	164,934	164,768
	$ 30,678,288	$ 28,891,948

Net assets with donor restrictions related to endowments as of June 30, 2023 and 2022, were $407,787. This amount represents the original amount donated to the general endowment, which is held in perpetuity. The net assets of the endowment are invested and income is used for general purposes.

During 2023 and 2022, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes of the funds, in the amounts of $349,283 and $1,402,563, respectively.

NOTE 11 – CHARITY CARE

In support of its mission, the Medical Center voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent under its charity care policy. Since the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue.

The Medical Center's estimated cost to provide charity care, based upon cost as determined by the Medical Center's cost-to-charge ratio, for the years ended June 30, 2023 and 2022, was approximately $2,541,000 and $3,248,000, respectively.

In addition, the Medical Center provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts that are less than established charges for the services provided to the recipients and many times the payments are less than the cost of rendering the services provided.

NOTE 12 – FUNCTIONAL EXPENSES

The consolidated financial statements report certain expense categories that are attributable to more than one healthcare service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function including depreciation and amortization and interest are allocated to a function based on a units-of-service basis.

Expenses by function and nature consist of the following for the year ended June 30, 2023:

	Healthcare Services	General and Administrative	Total Expenses
Salaries, wages, and benefits	$ 343,514,477	$ 80,174,220	$ 423,688,697
Supplies	120,872,244	3,706,914	124,579,158
Medical fees	112,279,608	1,121,704	113,401,312
Purchased services and professional fees	26,469,462	46,175,700	72,645,162
Depreciation and amortization	8,293,819	25,288,688	33,582,507
Hospital quality assurance fee	-	31,104,552	31,104,552
Other	5,917,886	27,951,671	33,869,557
Interest	9,690,509	10,975	9,701,484
	$ 627,038,005	$ 215,534,424	$ 842,572,429

Expenses by function and nature consist of the following for the year ended June 30, 2022:

	Healthcare Services	General and Administrative	Total Expenses
Salaries, wages, and benefits	$ 328,123,088	$ 75,809,398	$ 403,932,486
Supplies	99,246,899	4,594,604	103,841,503
Medical fees	102,294,663	385,740	102,680,403
Purchased services and professional fees	22,888,087	44,567,619	67,455,706
Depreciation and amortization	7,619,881	25,880,053	33,499,934
Hospital quality assurance fee	-	30,402,980	30,402,980
Other	3,625,002	28,849,662	32,474,664
Interest	7,047,110	-	7,047,110
	$ 570,844,730	$ 210,490,056	$ 781,334,786

NOTE 13 – RELATED-PARTY TRANSACTIONS

Certain Trustees of the Medical Center are owners of professional service organizations that provide services to the Medical Center. During the years ended June 30, 2023 and 2022, expenses included in purchased services and professional fees in the accompanying consolidated statements of operations totaling $15,819,112 and $15,894,132, respectively, were recognized. The balance of accounts payable to related parties as of June 30, 2023 and 2022, was $1,274,432 and $1,231,769, respectively, and included in accounts payable in the accompanying consolidated balance sheets.

NOTE 14 – PENSION PLANS

Defined contribution plans – In 1998, the Medical Center adopted a defined contribution pension plan covering substantially all employees. Under the provisions of the plan, a matching contribution equal to 50% of an employee's salary deferred to a related plan up to a maximum deferral of 6% of compensation is required. The plan allows for discretionary contributions up to the maximum allowed by law. Pension expense for the defined contribution pension plan was approximately $15,562,000 and $14,641,000 for the years ended June 30, 2023 and 2022, respectively.

The Medical Center has a retirement savings plan that was adopted in 1998. The plan provides for employee elective deferrals up to the maximum allowed by law.

Defined benefit and postemployment medical benefit plans – The Medical Center has a noncontributory defined benefit pension plan ("Pension Benefits") covering all employees through October 1, 1998. The Medical Center's funding policy is to make the annual contribution that is required by applicable regulations. An amendment was adopted, which froze participation and benefits under this plan effective October 1, 1998, with the exception of certain older, long-service employees. Benefits provided under this plan are based on years of service and the employee's compensation. The Medical Center does not intend to contribute to the Pension Benefit plan year 2023. Contributions will be made based on statutory requirements and the funded status of the plan.

The Medical Center used a June 30, measurement date for the plan. Information about the plans' funded status and pension cost is as follows at June 30, 2023 and 2022:

	2023	2022
Change in benefit obligation		
Beginning of year	$ 19,672,625	$ 24,899,539
Service cost	212,000	186,000
Interest cost	805,499	597,306
Actuarial gain	(807,244)	(4,108,728)
Benefits paid	(922,734)	(854,601)
Expenses paid	(371,033)	(211,833)
Settlements	(1,196,854)	(835,058)
End of year	17,392,259	19,672,625
Change in fair value of plan assets		
Beginning of year	17,103,995	22,753,714
Actual return of plan assets	939,493	(3,810,214)
Employer contributions	-	306,366
Benefits paid	(922,734)	(854,601)
Expenses paid	(371,033)	(211,833)
Settlements	(1,285,201)	(1,079,437)
End of year	15,464,520	17,103,995
Funded status	$ (1,927,739)	$ (2,568,630)

The accumulated benefit obligation for the defined benefit pension plan was $17,392,259 and $19,672,625 at June 30, 2023 and 2022, respectively. As of June 30, 2023, the projected benefit obligation experienced a net gain of $807,244 primarily due to the increase in the discount rate used to determine the projected benefit obligation from 4.75% in 2022 to 5.50% in 2023. As of June 30, 2022, the projected benefit obligation experienced a net gain of $4,108,728 primarily due to the increase in the discount rate used to determine the projected benefit obligation from 2.75% in 2021 to 4.75% in 2022.

Liabilities recognized in the accompanying consolidated balance sheets is as follows at June 30, 2023 and 2022:

	2023	2022
Accrued post-retirement liabilities	$ (1,927,739)	$ (2,568,630)

Amounts recognized in net assets without donor restrictions not yet recognized as components of net periodic benefit cost consist of the following at June 30, 2023 and 2022:

	2023	2022
Net loss	$ 1,838,928	$ 3,176,711
Prior service cost	-	-
	$ 1,838,928	$ 3,176,711

The components of net periodic benefit costs recognized is as follows at June 30, 2023 and 2022:

	2023	2022
Employer service costs	$ 212,000	$ 186,000
Interest costs	805,499	597,306
Expected return on assets	(717,953)	(777,675)
Net prior service cost	-	-
Net loss amortization	261,459	111,968
Cost of settlements	135,887	174,321
Net periodic benefit cost	$ 696,892	$ 291,920

Other significant balances and costs is as follows at June 30, 2023 and 2022:

	2023	2022
Benefits paid	$ (922,734)	$ (854,601)
Benefit costs	$ 561,005	$ 117,599
Settlement cost	$ 135,887	$ 174,321

The following amounts have been recognized in the accompanying consolidated statements of changes in net assets as change in defined benefit pension plan for the years ended June 30, 2023 and 2022:

	2023	2022
Amounts arising during the		
period net (gain) loss	$ (1,028,784)	$ 479,161
settlement (gain) loss	$ (47,540)	$ 70,058
Amounts reclassified as		
components of net periodic		
benefit cost of the period		
Net loss	$ (261,459)	$ (111,968)
Net prior service cost	$ -	$ -

The estimated net loss and prior service cost for Pension Benefits that will be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year are $261,459 and $111,968, respectively.

Significant assumptions include:

	2023	2022
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	5.50%	4.75%
Rate of compensation increase	0.00%	0.00%
Weighted-average assumptions used to determine benefit costs:		
Discount rate	4.75%	2.75%
Expected return on plan assets	5.00%	4.00%
Rate of compensation increase	0.00%	0.00%

The long-term rate of return reflects the average rate of earnings expected on the funds invested to provide for benefits in the future. In estimating this rate, appropriate consideration was given to the returns currently being earned by plan assets and the rates of return expected to be available for reinvestment. The present and expected asset mix was taken into account. The long-term rate is expected to be less volatile than the actual rate of return on assets, since the expected rate not only considers current returns but also reinvestment rates in the future.

The following payments, which reflect expected future service, as appropriate, are expected to be paid as of June 30, 2023:

2024	$ 1,497,001
2025	$ 1,579,367
2026	$ 1,390,117
2027	$ 1,422,599
2028	$ 1,242,519
2029-2033	$ 5,227,731

Plan assets are held by a bank-administered trust fund, which invests the plan assets in accordance with the provisions of the plan agreement. The broad-based investment goals of the plan are to: 1) at a minimum, preserve the inflation-adjusted value of the pension assets after administrative costs and benefit payments; 2) prudently invest assets in a high-quality, diversified manner; 3) achieve the optimal return possible within the specified risk parameters; 4) achieve the actuarial earnings assumptions; and 5) adhere to the established guidelines.

At June 30, 2023 and 2022, plan assets of Pension Benefits by category are as follows:

	2023	2022
Mutual funds	36%	24%
Investments measured at NAV practical expedient	64%	76%
	100%	100%

Pension plan assets – Following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis and held in a separate trust and not recognized in the accompanying consolidated balance sheets, as well as the general classification of pension plan assets pursuant to the valuation hierarchy (see Note 15).

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include money market funds and equity mutual funds.

The fair values of the Medical Center's pension plan assets at June 30, by asset class are as follows:

	2023			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 156,152	$ -	$ -	$ 156,152
Equity mutual funds	5,421,971	-	-	5,421,971
	$ 5,578,123	$ -	$ -	5,578,123
Investments measured at NAV practical expedient				9,886,397
Total investments at fair value				$ 15,464,520

	2022			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 60,068	$ -	$ -	$ 60,068
Equity mutual funds	4,022,237	-	-	4,022,237
	$ 4,082,305	$ -	$ -	4,082,305
Investments measured at NAV practical expedient				13,021,690
Total investments at fair value				$ 17,103,995

The following table provides the fair value and redemption terms and restrictions for investments redeemable at net asset value per share (or its equivalent) June 30, 2023 and 2022:

Fund Type	2023 Fair Value	2022 Fair Value	Redemption Frequency	Redemption Notice Period	Redemption Availability
LGIMA U.S. Credit CIT Fund	$ 4,922,708	$ 6,564,933	Daily	5 business days	Within 5 business days after trade date
LGIMA Long Duration US Credit CIT Fund	$ 4,963,689	$ 6,456,757	Daily	5 business days	Within 5 business days after trade date

There are no unfunded commitments as of June 30, 2023 and 2022.

LGIMA U.S. Credit CIT Fund – These funds invest in U.S. dollar denominated investment grade debt obligation, U.S. government obligations, U.S. dollar investment mortgage backed securities, credit default swaps, and interest rate futures and swaps. The units are derived from the investment in the fund from a market value perspective divided by the daily NAV price to create units of ownership percentage. Withdrawal from the fund may be suspended by the fund manager partner during extraordinary circumstances, including inability to measure fair value of the fund's net assets due to unusual market conditions.

LGIMA Long Duration U.S. Credit CIT Fund – These funds invest in U.S. dollar denominated investment grade debt obligation, U.S. government obligations, U.S. dollar investment mortgage backed securities, credit default swaps, and interest rate futures and swaps. The units are derived from the investment in the fund from a market value perspective divided by the daily NAV price to create units of ownership percentage. Withdrawal from the fund may be suspended by the fund manager partner during extraordinary circumstances, including inability to measure fair value of the fund's net assets due to unusual market conditions.

NOTE 15 – DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of 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 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 supported by little or no market activity and significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets or for which the fair value is disclosed in the notes to the consolidated financial statements, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended June 30, 2023 and 2022.

Cash and cash equivalents – The carrying amount approximates fair value.

Investments – Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of investments with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced prepayments, defaults, cumulative loss projections, and cash flows. Such investments are classified in Level 2 of the valuation hierarchy.

Beneficial interest in trusts – Beneficial interest in trusts represents the net present value of the Corporation's irrevocable interest in the income generated from various trusts held by third-party trustees. The assets of the trusts have been donor restricted for investment. The beneficial interest in trusts is included in assets held in charitable remainder trusts in the consolidated balance sheet. Such investments are invested in publicly traded equity mutual funds, fixed income mutual funds, and equity securities and are classified in Level 3 of the valuation hierarchy.

Fair value of financial instruments – The following tables present the estimated fair values of the Corporation's financial instruments and the level within the fair value hierarchy in which the fair measurements are reported at June 30, 2023 and 2022:

	2023			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments				
Money market funds	$ 688,942	$ -	$ -	$ 688,942
Equity mutual funds	163,804,466	-	-	163,804,466
	$ 164,493,408	$ -	$ -	164,493,408
Certificates of deposit				5,248,517
Total investments				$ 169,741,925
Assets limited as to use, at fair value				
Money market funds	$ 182,494,696	$ -	$ -	$ 182,494,696
Equity mutual funds	2,172,837	-	-	2,172,837
Fixed income mutual funds	23,844,239	-	-	23,844,239
Equity securities	364,871	-	-	364,871
Beneficial interest in trust	-	-	1,926,604	1,926,604
	$ 208,876,643	$ -	$ 1,926,604	210,803,247
Pledge receivable measured at presented value				1,991,306
Charitable remainder trust present value adjustment				(396,997)
Total assets limited as to use				$ 212,397,556

	2022			
	Level 1	Level 2	Level 3	Total
Investments				
Money market funds	$ 578,244	$ -	$ -	$ 578,244
Equity mutual funds	150,716,566	-	-	150,716,566
	$ 151,294,810	$ -	$ -	151,294,810
Certificates of deposit				5,234,215
Total investments				$ 156,529,025
Assets limited as to use, at fair value				
Money market funds	$ 26,637,929	$ -	$ -	$ 26,637,929
Equity mutual funds	2,250,442	-	-	2,250,442
Fixed income mutual funds	100,507	-	-	100,507
Equity securities	378,912	-	-	378,912
Beneficial interest in trust	-	-	2,630,507	2,630,507
	$ 29,367,790	$ -	$ 2,630,507	31,998,297
Pledge receivable measured at presented value				5,471,576
Charitable remainder trust present value adjustment				(387,134)
Total assets limited as to use				$ 37,082,739

There were no significant transfers between Levels 1, 2, and 3 in the current fiscal year.

NOTE 16 – SIGNIFICANT ESTIMATES AND CONCENTRATIONS

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Concentrations of credit risk – Financial instruments that potentially expose the Corporation to concentrations of credit risk consist principally of cash and cash equivalents on deposit with financial institutions, the balances of which frequently exceed federally insured limits. If any of the financial institutions with whom the Corporation does business were to be placed into receivership with the Federal Deposit Insurance Corporation, the Corporation may be unable to access the cash they have on deposit with such institutions. If the Corporation was unable to access its cash and cash equivalents as needed, the Corporation's financial position and ability to operate its business could be adversely affected.

Allowance for net patient service revenue adjustments – Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 3.

Malpractice claims – Estimates related to the accrual for medical malpractice claims are described in Notes 1 and 7.

Admitting physicians – The Corporation is served by two physician groups, Chico Hospitalist Group and Chico Emergency Physicians Medical Group, consisting of 27 admitting physicians whose patients comprise approximately 17% of the Medical Center's net patient service revenue.

Investments – The Corporation invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the investment amounts reported in the accompanying consolidated balance sheets.

Labor agreements – At June 30, 2023 and 2022, approximately 53% of the Corporation's employees were covered by collective bargaining agreements. Approximately 1,000 employees are members of the Service Employees International Union – United Healthcare West ("SEIU"). On May 27, 2021, the Corporation and the SEIU concluded negotiations and entered into a three-year contract, covering the period of July 1, 2021 through June 30, 2024. Approximately 993 of the Corporation's registered nurses are represented by the California Nurses Association ("CNA"). The Corporation's current three-year contract with the CNA covers the period of May 27, 2021 through January 6, 2024.

Pension and retiree benefit obligations – The Corporation has a noncontributory defined benefit pension and postemployment medical benefit plan whereby it agrees to provide certain postretirement benefits to eligible employees. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date based on the projected unit credit cost method. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

Health care industry – The health care industry is subject to voluminous and complex laws and regulations of federal, state, and local governments. 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. These laws and regulations include, but are not necessarily limited to matters such as: licensure, accreditation, government health care program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws and false claims prohibitions, and in the case of tax-exempt hospitals, the requirements of tax-exemption. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, anti-kickback and anti-referral statutes, and regulations by health care providers. The Corporation operates an ethics and compliance program reporting to the Audit and Compliance Committee, and a Board of Trustees Committee, which reviews compliance with government health care program requirements and in an event, investigates allegations of noncompliance received from internal and external sources.

Litigation – In the normal course of business, the Corporation is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Corporation's self-insurance program (see Notes 1 and 7) or by commercial insurance, for example, allegations regarding employment practices or performance of contracts. The Corporation evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term. In the opinion of management, the Corporation has substantial meritorious defenses to pending or threatened litigation and, based upon current facts and circumstances, the resolution of these matters is not expected to have a material adverse effect on the financial position of the Corporation.

Management believes that the Corporation is in compliance with government law and regulations related to fraud and abuse and other applicable areas. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

NOTE 18 – LIQUIDITY AND FUNDS AVAILABLE

As of June 30, 2023 and 2022, the Corporation has working capital of approximately $118,706,000 and $115,281,000, respectively. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of June 30, 2023 and 2022, respectively, comprise the following:

	2023	2022
Cash and cash equivalents	$ 34,525,508	$ 51,562,439
Patient accounts receivable, net	114,806,626	104,906,587
Other receivables	5,135,377	5,681,424
	154,467,511	162,150,450
Less: contract liability	-	(11,197,350)
	$ 154,467,511	$ 150,953,100

The Corporation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 19 – SUBSEQUENT EVENTS

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

The Corporation has evaluated subsequent events through September 28, 2023, which is the date the consolidated financial statements are issued.

Supplementary Information

Enloe Medical Center and Subsidiaries
Consolidating Balance Sheets
June 30, 2023

ASSETS	Enloe Medical Center	Enloe Health Foundation	Eliminations	Consolidated
CURRENT ASSETS				
Cash and cash equivalents	$ 17,740,774	$ 16,784,734	$ -	$ 34,525,508
Due from affiliates	83,445	-	(83,445)	-
Patient accounts receivable, net	114,806,626	-	-	114,806,626
Other receivables	5,125,935	9,442	-	5,135,377
Supply inventories	11,628,122	-	-	11,628,122
Hospital quality assurance fee	86,053,626	-	-	86,053,626
Prepaid expenses and other assets	13,141,530	-	-	13,141,530
Total current assets	248,580,058	16,794,176	(83,445)	265,290,789
ASSETS LIMITED AS TO USE, net of current				
Donor-advised funds	-	1,314,640	-	1,314,640
Held by trustee	206,000,621	-	-	206,000,621
Annuity investments	12,695	-	-	12,695
Assets held in charitable remainder trusts	-	2,869,986	-	2,869,986
Pledges receivable	-	1,991,306	-	1,991,306
Benefit plan assets	208,308	-	-	208,308
Assets limited as to use, net of current	206,221,624	6,175,932	-	212,397,556
INVESTMENTS	168,600,110	1,141,815	-	169,741,925
PROPERTY AND EQUIPMENT, net	237,587,725	13,928	-	237,601,653
OTHER ASSETS				
Goodwill	1,460,782	-	-	1,460,782
Investments in joint venture	352,723	-	(1,000)	351,723
Beneficial interest in the Foundation	23,004,910	-	(23,004,910)	-
Other assets and receivables	22,447,835	-	-	22,447,835
Total other assets	47,266,250	-	(23,005,910)	24,260,340
Total assets	$ 908,255,767	$ 24,125,851	$ (23,089,355)	$ 909,292,263

Enloe Medical Center and Subsidiaries
Consolidating Balance Sheets (Continued)
June 30, 2023

LIABILITIES AND NET ASSETS	Enloe Medical Center	Enloe Health Foundation	Eliminations	Consolidated
CURRENT LIABILITIES				
Accounts payable	$ 43,020,538	$ 613	$ -	$ 43,021,151
Accrued interest payable	8,682,852	-	-	8,682,852
Accrued salaries, wages, and benefits	37,211,109	-	-	37,211,109
Due to affiliates	-	83,445	(83,445)	-
Accrued hospital quality assurance fee	41,453,638	-	-	41,453,638
Accrued payables and other liabilities	12,684,557	93,500	-	12,778,057
Current maturities of long-term debt	3,438,461	-	-	3,438,461
Total current liabilities	146,491,155	177,558	(83,445)	146,585,268
LIABILITIES UNDER TRUST AGREEMENTS	-	943,382	-	943,382
ACCRUED POST-RETIREMENT LIABILITIES	1,927,739	-	-	1,927,739
OTHER LONG-TERM LIABILITIES	12,469,179	-	-	12,469,179
LONG-TERM DEBT, net of current portion and issuance costs	359,421,250	-	-	359,421,250
Total liabilities	520,309,323	1,120,940	(83,445)	521,346,818
NET ASSETS				
Without donor restrictions	357,675,943	5,756,556	(6,165,342)	357,267,157
With donor restrictions	30,270,501	17,248,355	(16,840,568)	30,678,288
Total net assets	387,946,444	23,004,911	(23,005,910)	387,945,445
Total liabilities and net assets	$ 908,255,767	$ 24,125,851	$ (23,089,355)	$ 909,292,263

Enloe Medical Center and Subsidiaries
Consolidating Balance Sheets (Continued)
June 30, 2022

ASSETS	Enloe Medical Center	Enloe Health Foundation	Eliminations	Consolidated
CURRENT ASSETS				
Cash and cash equivalents	$ 39,747,932	$ 11,814,507	$ -	$ 51,562,439
Assets limited as to use - required for current liabilities	8,573,070	-	-	8,573,070
Due from affiliates	366,157	-	(366,157)	-
Patient accounts receivable, net	104,906,587	-	-	104,906,587
Other receivables	5,671,982	9,442	-	5,681,424
Supply inventories	12,042,166	-	-	12,042,166
Hospital quality assurance fee	68,731,257	-	-	68,731,257
Prepaid expenses and other assets	11,880,185	-	-	11,880,185
Total current assets	251,919,336	11,823,949	(366,157)	263,377,128
ASSETS LIMITED AS TO USE, net of current				
Donor-advised funds	-	1,253,420	-	1,253,420
Held by trustee	17,745,602	-	-	17,745,602
Annuity investments	12,917	-	-	12,917
Assets held in charitable remainder trusts	-	3,702,775	-	3,702,775
Pledges receivable	-	5,471,576	-	5,471,576
Benefit plan assets	323,379	-	-	323,379
Assets limited as to use, net of current	18,081,898	10,427,771	-	28,509,669
INVESTMENTS	155,486,810	1,042,215	-	156,529,025
PROPERTY AND EQUIPMENT, net	246,343,621	15,776	-	246,359,397
OTHER ASSETS				
Goodwill	1,460,782	-	-	1,460,782
Investments in joint venture	335,731	-	(1,000)	334,731
Beneficial interest in the Foundation	21,770,628	-	(21,770,628)	-
Other assets and receivables	20,463,452	-	-	20,463,452
Total other assets	44,030,593	-	(21,771,628)	22,258,965
Total assets	$ 715,862,258	$ 23,309,711	$ (22,137,785)	$ 717,034,184

Enloe Medical Center and Subsidiaries
Consolidating Balance Sheets (Continued)
June 30, 2022

LIABILITIES AND NET ASSETS	Enloe Medical Center	Enloe Health Foundation	Eliminations	Consolidated
CURRENT LIABILITIES				
Accounts payable	$ 39,976,164	$ 4,255	$ -	$ 39,980,419
Accrued interest payable	3,232,581	-	-	3,232,581
Accrued salaries, wages, and benefits	33,676,444	-	-	33,676,444
Due to affiliates	-	366,157	(366,157)	-
Accrued hospital quality assurance fee	30,837,760	-	-	30,837,760
Accrued payables and other liabilities	17,002,452	96,398	-	17,098,850
Contract liability	11,197,350	-	-	11,197,350
Current maturities of long-term debt	12,073,018	-	-	12,073,018
Total current liabilities	147,995,769	466,810	(366,157)	148,096,422
LIABILITIES UNDER TRUST AGREEMENTS	-	1,072,269	-	1,072,269
ACCRUED POST-RETIREMENT LIABILITIES	2,568,630	-	-	2,568,630
OTHER LONG-TERM LIABILITIES	12,992,824	-	-	12,992,824
LONG-TERM DEBT, net of current portion and issuance costs	188,494,310	-	-	188,494,310
Total liabilities	352,051,533	1,539,079	(366,157)	353,224,455
NET ASSETS				
Without donor restrictions	335,326,567	6,308,449	(6,717,235)	334,917,781
With donor restrictions	28,484,158	15,462,183	(15,054,393)	28,891,948
Total net assets	363,810,725	21,770,632	(21,771,628)	363,809,729
Total liabilities and net assets	$ 715,862,258	$ 23,309,711	$ (22,137,785)	$ 717,034,184

Enloe Medical Center and Subsidiaries
Consolidating Statements of Operations
Year Ended June 30, 2023

	Enloe Medical Center	Enloe Health Foundation	Eliminations	Consolidated
NET ASSETS WITHOUT DONOR RESTRICTIONS				
Revenues, gains, and other support				
Net patient service revenue	$ 834,417,587	$ -	$ -	$ 834,417,587
Other revenue	7,902,685	880,062	(826,101)	7,956,646
Joint venture income	16,992	-	-	16,992
Net assets released from restrictions	-	349,283	(200,392)	148,891
Total revenues, gains, and other support	842,337,264	1,229,345	(1,026,493)	842,540,116
EXPENSES AND LOSSES				
Salaries, wages, and benefits	423,265,024	423,673	-	423,688,697
Supplies	124,532,732	46,426	-	124,579,158
Medical fees	113,401,312	-	-	113,401,312
Purchased services and professional fees	72,566,702	78,460	-	72,645,162
Depreciation and amortization	33,580,659	1,848	-	33,582,507
Hospital quality assurance fee	31,104,552	-	-	31,104,552
Other	33,744,645	125,856	(944)	33,869,557
Interest	9,701,484	-	-	9,701,484
Management fees	676,266	-	(676,266)	-
Total expenses and losses	842,573,376	676,263	(677,210)	842,572,429
OPERATING (LOSS) INCOME	(236,112)	553,082	(349,283)	(32,313)
OTHER INCOME (LOSS)				
Distributions to Enloe Medical Center	-	(349,283)	349,283	-
Contributions of cash and other financial assets	-	184,500	-	184,500
Investment return, net of investment expenses	4,268,917	162,180	-	4,431,097
Net unrealized gain (loss) on investments	9,309,807	(31,309)	-	9,278,498
Retirement benefit loss	(91,380)	-	-	(91,380)
Other income, net	7,370,478	-	-	7,370,478
Beneficial interest	519,170	-	(519,170)	-
Total other income (loss)	21,376,992	(33,912)	(169,887)	21,173,193
EXCESS OF REVENUES OVER EXPENSES	$ 21,140,880	$ 519,170	$ (519,170)	$ 21,140,880

Enloe Medical Center and Subsidiaries
Consolidating Statements of Operations (Continued)
Year Ended June 30, 2022

	Enloe Medical Center	Enloe Health Foundation	Eliminations	Consolidated
NET ASSETS WITHOUT DONOR RESTRICTIONS				
Revenues, gains, losses, and other support				
Net patient service revenue	$ 761,506,741	$ -	$ -	$ 761,506,741
Other revenue	19,950,775	1,081,241	(901,041)	20,130,975
Joint venture loss	(1,338)	-	-	(1,338)
Net assets released from restrictions	-	1,402,563	(1,159,299)	243,264
Total revenues, gains, losses and other support	781,456,178	2,483,804	(2,060,340)	781,879,642
EXPENSES AND LOSSES				
Salaries, wages, and benefits	403,483,975	448,511	-	403,932,486
Supplies	103,828,805	12,698	-	103,841,503
Medical fees	102,680,403	-	-	102,680,403
Purchased services and professional fees	67,353,728	101,978	-	67,455,706
Depreciation and amortization	33,497,119	2,815	-	33,499,934
Hospital quality assurance fee	30,402,980	-	-	30,402,980
Other	32,429,585	68,749	(23,670)	32,474,664
Interest	7,047,110	-	-	7,047,110
Management fees	634,109	-	(634,109)	-
Total expenses and losses	781,357,814	634,751	(657,779)	781,334,786
OPERATING INCOME	98,364	1,849,053	(1,402,561)	544,856
OTHER INCOME (LOSS)				
Distributions to Enloe Medical Center	-	(1,402,563)	1,402,563	-
Contributions of cash and other financial assets	-	386,222	-	386,222
Investment return, net of investment expenses	6,681,831	22,870	-	6,704,701
Net unrealized loss on investments	(36,834,023)	(49,439)	-	(36,883,462)
Retirement benefit gain	71,657	-	-	71,657
Other income, net	167,511	-	-	167,511
Beneficial interest	806,143	-	(806,143)	-
Total other loss	(29,106,881)	(1,042,910)	596,420	(29,553,371)
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	$ (29,008,517)	$ 806,143	$ (806,141)	$ (29,008,515)

Enloe Medical Center and Subsidiaries
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Grantor/Cluster-Program Title	Award Period	Federal Assistance Listing Number	Pass-through / Award Number	Federal Expenditures
U.S. Department of Health and Human Services				
COVID-19: Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	1/1/2020-12/31/2022	93.498	N/A	$ 11,860,136
COVID-19: HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund	2/4/2020-12/31/2022	93.461	N/A	19,921
Total U.S. Department of Health and Human Services				11,880,057
U.S. Department of Homeland Security				
Pass-through awards from				
California Governor's Office of Emergency Services Disaster Grants - Public Assistance (Presidentially Declared Disasters)	3/13/2020-8/31/2020	97.036	PA-09-CA-4482-PW-01417	1,276,979
Total U.S. Department of Homeland Security				1,276,979
Total Expenditures of Federal Awards				$ 13,157,036

See accompanying notes to schedule of expenditures of federal awards.

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Enloe Medical Center and Subsidiaries (the "Corporation"), under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Corporation, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of the Corporation. The Schedule includes expenditures of federal awards from Enloe Medical Center (Taxpayer Identification Number 94-1603784).

In accordance with guidance from the U.S. Department of Health and Human Services ("DHHS"), the Corporation included the Reporting Period 4 expenditures for Provider Relief Fund and American Rescue Plan Rural Distribution Assistance Listing No. 93.498 of $11,860,136 in the Schedule for the year ended June 30, 2023, to align with DHHS reporting guidelines. In accordance with U.S. GAAP, the total amount of $11,860,136 of Provider Relief Fund assistance received by the Corporation was recognized as revenue during the year ended June 30, 2022, and is included in beginning net assets as of July 1, 2022.

The Schedule includes $1,276,979 of expenditures for U.S. Department of Homeland Security Disaster Grants – Public Assistance (Presidentially Declared Disasters) Assistance Listing No. 97.036. These awards were approved during the year ended June 30, 2023, and relate to expenditures that were incurred during the years ended June 30, 2021 and 2020.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – INDIRECT COST RATE

The Corporation has elected not to use the 10-percent de minimis indirect cost rate as allowed under Uniform Guidance.

NOTE 4 – SUBRECIPIENT AWARDS

The Corporation did not provide any federal awards to subrecipients during the year ended June 30, 2023.

MOSSADAMS

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Enloe Medical Center and Subsidiaries

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Enloe Medical Center and Subsidiaries, which comprise the consolidated balance sheet as of June 30, 2023, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 28, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Enloe Medical Center and Subsidiaries' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Enloe Medical Center and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of Enloe Medical Center and Subsidiaries' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Enloe Medical Center and Subsidiaries' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Stockton, California
September 28, 2023

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Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Trustees
Enloe Medical Center and Subsidiaries

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Enloe Medical Center and Subsidiaries compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Enloe Medical Center and Subsidiaries' major federal programs for the year ended June 30, 2023. Enloe Medical Center and Subsidiaries' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Enloe Medical Center and Subsidiaries complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States *("Government Auditing Standards")*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Enloe Medical Center and Subsidiaries and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Enloe Medical Center and Subsidiaries' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Enloe Medical Center and Subsidiaries' federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Enloe Medical Center and Subsidiaries' compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Enloe Medical Center and Subsidiaries' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards,* and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, 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 Enloe Medical Center and Subsidiaries' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of Enloe Medical Center and Subsidiaries' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Enloe Medical Center and Subsidiaries' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of Enloe Medical Center and Subsidiaries as of and for the year ended June 30, 2023, and have issued our report thereon dated September 28, 2023, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Moss Adams LLP

Stockton, California
March 29, 2024

Section I - Summary of Auditor's Results

Consolidated Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☐ Yes ☒ No

Identification of The Major Federal Program and Type of Auditor's Report Issued on Compliance for Each Major Federal Program:

Federal Assistance Listing Number	*Name of Major Federal Program or Cluster*	*Type of Auditor's Report Issued on Compliance for Each Major Federal Program*
93.498	*COVID-19: Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution*	*Unmodified*
97.036	*COVID-19: Disaster Grants – Public Assistance (Presidentially Declared Disaster*	*Unmodified*

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

Section II - Financial Statement Findings

None reported.

Section III - Federal Award Findings and Questioned Costs

None reported.

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