Reports of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information

Chinese Hospital Association and Subsidiary

December 31, 2022 and 2021

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Table of Contents

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Report of Independent Auditors

The Board of Trustees
Chinese Hospital Association and Subsidiary

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Chinese Hospital Association and its subsidiary (the "Association"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations and 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 consolidated financial position of Chinese Hospital Association and its subsidiary as of December 31, 2022 and 2021, and the changes in their net assets and their 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 Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Chinese Hospital Association and its subsidiary's ability to continue as a going concern for one year after the date that the financial statements are available to be 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 the Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis 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 accompanying supplementary schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2023 on our consideration of Chinese Hospital Association and its subsidiary's 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 Chinese Hospital Association and its subsidiary's 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 Chinese Hospital Association and its subsidiary's internal control over financial reporting and compliance.

Moss Adams LLP

San Francisco, California
May 26, 2023

Consolidated Financial Statements

Chinese Hospital Association and Subsidiary
Consolidated Balance Sheets
December 31, 2022 and 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 22,709,877	$ 22,790,036
Short-term investments	104,999	640,648
Receivables		
Patients accounts	13,332,743	11,552,499
Reinsurance, premiums, and other	9,620,029	6,689,352
Receivable from Chinese Community Health Care Association and others	-	9,982,636
Total receivables	22,952,772	28,224,487
Supplies inventory	1,890,411	1,513,898
Prepaid taxes	369,549	175,068
Prepaid expenses and other current assets	7,071,790	3,797,925
Total current assets	55,099,398	57,142,062
ASSETS WHOSE USE IS LIMITED		
Board-designated investments	-	265,050
Operating reserve investments	31,823,233	41,909,155
Held by trustee	-	5,436,193
Held by third party	3,300,079	300,079
Total assets whose use is limited	35,123,312	47,910,477
PROPERTY, PLANT, AND EQUIPMENT, NET	238,370,811	237,982,170
OPERATING LEASE RIGHT-OF-USE ASSETS	1,882,556	272,047
LONG-TERM INVESTMENTS	9,009,714	8,217,679
DEFERRED TAX ASSETS	6,422,119	5,793,465
OTHER ASSETS	1,749,667	1,889,020
Total assets	$ 347,657,577	$ 359,206,920
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 9,385,518	$ 12,487,149
Accrued payroll and related liabilities	6,776,757	5,450,553
Accrued medical claims	16,656,925	9,874,833
Premium stabilization amounts payable	10,702,455	17,486,318
Contract and other liabilities	1,175,336	1,657,362
Government contract liability	-	4,189,464
Income tax payable	-	53,946
Deferred revenue	4,688,567	4,688,413
Current portion of long-term debt	-	9,989,456
Current portion of operating lease liabilities	362,791	493,990
Total current liabilities	49,748,349	66,371,484
LONG-TERM DEBT	101,322,104	90,159,921
OPERATING LEASE LIABILITIES	2,034,967	311,938
PENSION LIABILITY	19,654,926	24,754,536
Total liabilities	172,760,346	181,597,879
NET ASSETS		
Without donor restrictions	172,140,331	176,852,141
With donor restrictions	2,756,900	756,900
Total net assets	174,897,231	177,609,041
Total liabilities and net assets	$ 347,657,577	$ 359,206,920

See accompanying notes.

Chinese Hospital Association and Subsidiary
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2022 and 2021

	2022	2021
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues, gains, and other support		
Net patient service revenues	$ 43,954,275	$ 42,974,863
Capitation revenues	17,437,945	15,603,504
Health plan premiums	124,034,209	117,418,308
Other revenues	26,025,944	21,290,982
Gain on litigation	-	5,217,350
In-kind donation	5,040,000	1,810,000
Gifts and bequests without donor restrictions	1,634,571	9,340,453
Total revenues, gains, and other support	218,126,944	213,655,460
Operating expenses		
Salaries and benefits	70,900,685	65,525,271
Supplies	20,665,415	19,112,561
Purchased services	20,837,241	20,663,544
Medical claims expense	95,097,090	81,888,527
Insurance	1,069,035	1,047,662
Medi-Cal quality assurance fee	1,811,287	3,684,847
Depreciation and amortization	10,824,522	11,107,847
Interest	8,803,004	4,911,295
Other	9,503,941	9,405,672
Total operating expenses	239,512,220	217,347,226
Loss from operations	(21,385,276)	(3,691,766)
Gain from loan forgiveness	9,750,238	2,074,800
Loss from equity method investments	(79,020)	(674,616)
Retirement plan benefit	2,641,003	1,311,615
Investment loss, net	(3,630,305)	(63,473)
Loss before income taxes	(12,703,360)	(1,043,440)
Income tax (benefit) expense	(377,081)	2,286,705
Deficit of revenues and nonoperating income over expenses	(12,326,279)	(3,330,145)
Change in unrealized gains on marketable securities	(452,145)	(170,947)
Change in pension liability	3,066,614	8,101,992
Net assets released from restrictions used for purchases of property, plant, and equipment	5,000,000	-
(Decrease) increase in net assets without donor restrictions	(4,711,810)	4,600,900
CONTRIBUTIONS WITH DONOR RESTRICTIONS	7,000,000	-
NET ASSETS RELEASED FROM DONOR RESTRICTIONS	(5,000,000)	-
(DECREASE) INCREASE IN NET ASSETS	(2,711,810)	4,600,900
NET ASSETS, beginning of year	177,609,041	173,008,141
NET ASSETS, end of year	$ 174,897,231	$ 177,609,041

See accompanying notes.

Chinese Hospital Association and Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) increase in net assets	$ (2,711,810)	$ 4,600,900
Adjustments to reconcile (decrease) increase in net assets to net cash used in operating activities:		
In-kind donation received	(5,040,000)	(1,810,000)
Depreciation and amortization	10,824,522	11,107,847
Other amortization	429,372	(9,021)
Realized and unrealized losses on marketable securities, net	4,363,209	456,083
Gain on sale of property, net	-	9,449
Loss from equity method investments	79,020	674,616
Gain from loan forgiveness	(9,585,992)	(2,074,800)
Change in operating assets and liabilities:		
Patient receivables	(1,780,244)	146,681
Reinsurance, premiums, and other	(2,870,344)	2,457,668
Receivable from CCHCA and others and supplies inventory	9,606,123	(4,284,503)
Prepaid taxes	(823,135)	4,991,242
Prepaid expenses and other current assets	(2,223,865)	2,721,364
Accounts payable and accrued expenses	5,006,665	(4,364,503)
Premium stabilization amounts payable	(6,783,863)	(8,178,379)
Risk-sharing settlements and other liabilities	-	(691,743)
Contract and other liabilities	(4,671,490)	12,190
Income tax payable	(53,946)	53,946
Deferred revenue	154	4,688,413
Pension liability	(5,099,610)	(8,901,678)
Operating lease assets and liabilities	(18,679)	422,420
Other liabilities	-	(3,975,070)
Net cash used in operating activities	(11,353,913)	(1,946,878)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(7,223,163)	(1,983,297)
Proceeds from sale of assets whose use is limited	5,987,763	2,214,939
Purchases of investments	(1,565,342)	(8,071,395)
Proceeds from maturities of investments	1,308,956	1,310,917
Net cash used in investing activities	(1,491,786)	(6,528,836)
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt principal payment	(91,836,572)	(1,595,000)
Proceeds from issuance of debt	103,000,000	2,000,000
Payments for debt issuance costs	(834,081)	-
Net cash provided by financing activities	10,329,347	405,000
NET DECREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(2,516,352)	(8,070,714)
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, beginning of year	28,526,308	36,597,022
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, end of year	$ 26,009,956	$ 28,526,308
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for:		
Income taxes	$ (500,000)	$ (129,013)
Interest	$ (8,803,004)	$ (2,589,112)
Capital purchases in account payable	$ 50,652	$ 29,280
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH		
Cash and cash equivalents	$ 22,709,877	$ 22,790,036
Restricted cash in assets limited as to use	3,300,079	5,736,272
Total cash and cash equivalents and restricted cash, end of year	$ 26,009,956	$ 28,526,308

See accompanying notes.

Note 1 – Organization

Organization – Chinese Hospital Association (the "Association") comprises Chinese Hospital (the "Hospital") and a fully owned subsidiary, Chinese Community Health Plan ("CCHP"). Chinese Hospital is a nonprofit corporation, exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code, that provides a full range of medical services principally to residents in San Francisco, California. CCHP is a taxable corporation that operates and manages a healthcare service plan licensed under the Knox-Keene Health Care Service Act of 1975 (the "Act"). The Association is governed by a board of trustees comprising representatives of 16 constituent organizations, including a representative of the medical staff of the Hospital.

The Association is obligated to pay debt service on Open PACE Limited Obligation Improvement Bonds Series 2022. See Note 10 for further discussion.

Note 2 – Summary of Significant Accounting Policies

Basis of consolidation – The consolidated financial statements include the accounts of the Hospital and CCHP. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Key estimates include implicit and explicit price concessions on patient accounts receivable, accrued medical claims, pension liabilities, accruals for risk-sharing arrangements, estimated third-party payor settlements, government grant revenue, and amounts accrued related to the Patient Protection and Affordable Care Act ("PPACA") Premium Stabilization Program. Actual results could differ materially from those estimates.

Cash and cash equivalents and concentration of credit risk – Cash and cash equivalents consist primarily of cash on hand and highly liquid investments with an original maturity of three months or less when purchased. Cash equivalents are stated at cost, which approximates fair value. Financial instruments that potentially subject the Association to concentrations of credit risk include cash, investments, and assets whose use is limited. Generally, the Association places its cash in banks that are federally insured in limited amounts. However, in the normal course of business, balances often exceed the Federal Deposit Insurance Corporation's insurance limit by material amounts. The balances in excess of insurance limits at December 31, 2022 and 2021 are $20,759,790 and $20,929,349, respectively. If any of the financial institutions with whom the Association does business were to be placed into receivership with the Federal Deposit Insurance Corporation, the Association may be unable to access the cash they have on deposit with such institutions. If the Association was unable to access its cash and cash equivalents as needed, the Association's financial position and ability to operate its business could be adversely affected.

Patient accounts receivable – The Hospital's patient accounts receivable consist of amounts owed by various government agencies, insurance companies, and private patients. The Hospital manages the receivables by regularly reviewing its accounts and contracts and by providing appropriate allowances for uncollectible amounts. Significant concentrations of patient accounts receivable reside in receivables from Medicare of 18% in 2022 and 27% in 2021.

Supplies inventory – Supplies are reported at the lower of cost, determined by the first-in, first-out method or net realizable value.

Investments – Short-term and long-term investments consist principally of certificates of deposit and of debt instruments. The Association's investments are accounted for as available for sale and are carried at fair value based on quoted market values.

Assets whose use is limited – Assets whose use is limited includes amounts set aside by the board of trustees for future capital improvements and funds held for operating reserves, over which the governing board retains control and may at its discretion later use for other purposes. Assets held by a trustee and bond reserves are also included in this consolidated financial statement caption as are assets held in the name of the California Department of Managed Health Care ("DMHC") as required under the Act and a compensating balance required for a line of credit.

Assets whose use is limited consist principally of U.S. government and agency securities, U.S. Treasury notes, mutual funds, and cash and money market accounts. The majority of the assets limited as to use invested in debt securities are accounted for as available for sale and are carried at fair value based on quoted market values. Assets limited as to use invested in equity securities are carried at fair value based on quoted market values, with changes in fair value recorded within investment (loss) income. Assets held by trustee are accounted for under the fair value option. Amounts that will be used to satisfy current liabilities are classified as current assets in the accompanying consolidated balance sheets. Other-than-temporary impairment and realized gains and losses, which are recorded on the specific-identification method, unrealized gains and losses for securities accounted for under the fair value option, and interest and dividend income are included in investment (loss) income.

Property, plant, and equipment, net – Property, plant, and equipment, net are recorded at cost. Property, plant, and equipment donated for Hospital operations are recorded at fair value as additions to the appropriate net asset category at the date of receipt. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase value, change capacities, or extend useful lives are capitalized as is interest cost for significant construction projects. In 2022, $227,100 of interest expense was capitalized. In 2021, $54,388 of interest expense was capitalized.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 3 to 15 years for equipment, 3 to 5 years for software, and 15 to 40 years for buildings and improvements. In 2018, management reassigned the useful life of its hospital from 30 to 40 years. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the asset.

Long-lived assets – Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When such events or changes occur, an estimate of the future cash flows expected to result from the use of the assets and their eventual disposition is made. If the sum of such expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the assets, the Association obtains an appraisal of the fair value of assets and an impairment loss is recognized in an amount by which the assets' net book value exceeds fair value. The Association recognized no impairment losses during the years ended December 31, 2022 and 2021.

Financing costs – Deferred financing costs relate to the Open PACE Limited Obligation Improvement Bonds Series are included in long-term debt in the consolidated balance sheets. Deferred financing costs are amortized over the life of the bonds. Net deferred financing costs totaled $6,880,428 and $4,678,212 at December 31, 2022 and 2021, respectively.

Net assets – All resources that are not restricted by donors are included in net assets without donor restrictions. Resources restricted by donors for specific purposes are reported as net assets with donor restrictions. When the specific purposes are achieved, either through passage of time or the expenditure of funds for the restricted purpose, they are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets. Resources restricted by donors for additions to land, buildings, and equipment are initially reported as net assets with donor restrictions and are transferred to net assets without donor restrictions when the donor restriction is satisfied.

Donor-imposed restrictions, which stipulate that the resources be maintained permanently, are also reported as net assets with donor restrictions. Investment income from these net assets is classified as either net assets with donor restrictions or net assets without donor restrictions based on the intent of the donor.

Gifts and bequests – Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is actually received. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. Resources for which donor restrictions are met in the same period as received are recorded as revenue without donor restrictions.

On March 27, 2020, the United States Congress passed the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The CARES Act included provisions for health care providers under the Provider Relief Fund. During 2021, the Hospital received funds under the Provider Relief Fund, administered by the U.S. Department of Health & Human Services ("HHS") of $6,713,198. The Hospital 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 novel coronavirus ("COVID-19"), 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 December 31, 2022 and 2021, the Hospital has determined it met the terms and conditions of these funds and accordingly, has recognized $0 and $6,713,198, respectively, of the Provider Relief Fund payments in gifts and bequests without donor restrictions in the consolidated statements of operations and changes in net assets.

Provider fee program – The State of California has enacted legislation covering the period through December 31, 2022, that provides supplemental Medi-Cal payments to certain hospitals, which is funded by a quality assurance fee paid by participating hospitals and matching federal funds (the "Provider Fee Program"). The Centers for Medicare and Medicaid Services ("CMS") has approved a portion of this program as of December 31, 2022, which has been recognized in 2022 and 2021.

Under the Provider Fee Program, quality assurance fees assessed to and recorded by the Hospital were $1,811,287 and $3,684,847 during the years ended December 31, 2022 and 2021, respectively. Supplemental revenues recognized by the Hospital consisted of supplemental fee-for-service revenues directly from the California Department of Health Care Services as well as managed care revenues routed through managed care plans and associated grant revenues of $1,810,577 and $3,315,802 during the years ended December 31, 2022 and 2021, respectively. Such amounts are reported as net patient service revenues in the consolidated statements of operations and changes in net assets.

Charity care – The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Medical claims expenses – External costs of services are accrued as services are rendered or hospital confinement has begun and include estimates of the cost of services rendered but not yet reported to the Association as of year-end. Since the liability is based upon estimates, the ultimate settlement of claims may be more or less than the amount included in the consolidated financial statements. The methods for making such estimates and for establishing the resulting expenses are continually reviewed and updated, and the difference between the estimated liability and the subsequent revisions, including those related to the actual settlement of claims, is recognized in the period the estimates are revised. While the ultimate amount of healthcare expenses is dependent on future developments, management believes that the liability for medical claims payable is adequate.

The Association contracts with healthcare service providers, including several hospitals and independent practice associations, to render healthcare services specified in the subscriber contracts. The Association pays providers fees based on contracted rates. Provider contracts with CCHP generally permit CCHP to withhold a portion of the amount otherwise payable to the provider. The ultimate payment to the contracted providers of some or all of the amounts withheld is dependent upon the associated contractual obligations or the results of operations for the period. Estimated withhold payments are accrued as claims are paid and are adjusted to reflect expected ultimate payments to providers and are settled annually.

The PPACA Risk Adjustment Program – The Risk Adjustment Program provides for retrospective adjustment of revenue for non-grandfathered individual and small group market plans, whether inside or outside PPACA exchanges. The Risk Adjustment Program is designed such that payments to plans with higher relative risk are funded by transfers from plans with lower relative risk.

For 2022, CCHP recorded a liability for the 2021 Risk Adjustment Program of $10,700,000 as a reduction of revenue with an associated Premium Stabilization payable. For 2021, CCHP recorded a liability for the 2021 Risk Adjustment Program of $17,500,000 as a reduction of revenue with an associated Premium Stabilization payable.

The PPACA also includes a medical loss ratio (“MLR”) provision related to requiring insurers to rebate premium to policyholders if certain minimum expense to premium thresholds are not met. CCHP met its MLR requirements and did not issue any rebates for the years ended December 31, 2022 and 2021.

Reinsurance – Reinsurance premiums are reported as medical claims expense and reinsurance recoveries are reported as a reduction of medical claims expense.

Deferred revenue – The Hospital received a state grant award as a COVID-19 vaccine provider during the year ended December 31, 2022 in the amount of $4,658,413. As the terms and conditions of this grant award were not met as of December 31, 2022, this amount is recognized within deferred revenue on the accompanying consolidated balance sheets along with other miscellaneous deferred revenue.

Government contract liability – The Hospital has received amounts under the Medicare Accelerated and Advance Payment Program initiated by CMS. The accelerated payments represent advance payments for services to be provided in the future and were based on a hospital’s historical Medicare volume. In April 2020, the Hospital received $6,470,081 in accelerated payments. This represents deferred revenue that will be recognized during the recoupment period that begins one year from the date of receipt of payments. As of December 31, 2022, the Association has recorded in the accompanying consolidated balance sheets $0 and $0 as government contract liability and other long-term liabilities, respectively, based upon the expected recoupment period. As of December 31, 2021, the Association has recorded in the accompanying consolidated balance sheets $4,189,464 and $0 as government contract liability and other long-term liabilities, respectively, based upon the expected recoupment period.

Performance indicator – Deficit of revenues and nonoperating income over expenses as reflected in the accompanying consolidated statements of operations and changes in net assets is the performance indicator. Deficit excess of revenues and nonoperating income over expenses includes all changes in net assets without donor restrictions other than changes in unrealized gains and losses on available-for-sale marketable securities, certain changes in the pension liability, and net assets released from donor restrictions used for purchases of property, plant, and equipment. Gains and losses not directly related to the major or central operations and activities of the Association are reported as nonoperating.

Income taxes – CCHP uses the asset-and-liability method of accounting for deferred income taxes in which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are recognized for deductible temporary differences. A valuation allowance is established to reduce the deferred tax asset if it is more likely than not that the related tax benefits will not be realized.

Accounting Standards Codification ("ASC") 740, *Income Taxes* ("ASC 740"), provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken in the course of preparing CCHP's tax returns to determine whether tax positions are more likely than not of being sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely than-not threshold would be recorded as tax expense in the current year.

Recently issued accounting standards – In September 2020, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* ("ASU 2020-07"). The amendments in this update improve financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets for not-for-profit entities, including additional disclosure requirements for recognized contributed services. The adoption of ASU 2020-07 is effective for the Association beginning January 1, 2022 and is required to be applied on a retrospective basis. The adoption of ASU 2020-07 resulted in a reclassification of $1,750,000 from gifts and bequests without donor restrictions to in-kind donation revenue for the year ended December 31, 2021. In-kind donation revenue for both fiscal years ended December 31, 2022 and 2021 represent contributions of land and building parcels and supplies, which were recorded at fair value based upon third party appraisals or invoices.

Reclassifications – Certain 2021 balances in the consolidated financial statements have been reclassified to conform to the 2022 presentation.

Note 3 – Revenue Recognition

Revenue from contracts with customers is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the Hospital and are recognized either over time or at a point in time. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred through a point in time in relation to total actual charges incurred. The Hospital believes that this method provides a useful depiction of the provision of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the hospitals or clinics receiving inpatient or outpatient services. The Hospital measures an inpatient performance obligation from time of admission to time of discharge and an outpatient performance obligation from the start of the outpatient service to the completion of the outpatient service. Revenue for the performance obligation satisfied at a point in time is recognized when services are provided to patients and it is not required to provide additional goods or services.

The Hospital has elected to apply the optional exemption in ASC 606-10-50-14a as all of the Hospital's performance obligations relate to contracts with a duration of less than one year. Under the exemption, the Hospital was 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. Any unsatisfied or partially unsatisfied performance obligations at the end of the year are completed in less than a year.

Net patient services revenue is reported at the amount that reflects the consideration to which the Hospital 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 include variable consideration for retroactive revenue adjustments due to settlement of ongoing future audits, reviews, and investigations.

The Hospital uses a portfolio approach to account for categories of patient contracts as collective groups rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for inpatient and outpatient revenue. The financial statement effects of using this approach are not materially different from an individual contract approach.

The Hospital determines the transaction price based on the total standard charges for goods and services provided by various elements of variable consideration, including contractual adjustments, discounts provided to uninsured patients in accordance with Hospital policy, and implicit price concessions provided to uninsured patients. The Hospital determines its estimate of contractual adjustments and discounts based on contractual agreements, discount policies, and historical experience. For uninsured and under-insured patients, the Hospital determines the transaction price associated with services rendered on the basis of charges reduced by historical collection experience for applicable portfolios.

Contractual agreements with third-party payors provide for payments at amounts less than the Hospital's established charges. A summary of the payment arrangements with major third-party payors is as follows:

- Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, which provide for reimbursement based on Medicare Severity Diagnosis-Related Groups ("MS-DRGs"). These rates vary according to a patient classification system that is based on clinical diagnosis, acuity, and expected use of hospital resources. The majority of Medicare outpatient services are reimbursed under prospective payment methodology, the Ambulatory Payment Classification System, or fee schedule.

- Medicaid – Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective payment system similar to Medicare, however, Medicaid utilizes All Payor Refined Diagnosis-Related Groups as opposed to Medicare's MS-DRGs. The majority of Medicaid outpatient services are reimbursed under a prospective payment methodology, the Enhanced Ambulatory Patient Groups, or fee schedule.

- Other – The Hospital has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations ("HMOs"), and preferred provider organizations. The basis for payment to the Hospital under these agreements include prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates and fee schedules.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretations. As a result of investigations by government agencies, various healthcare organizations have received request for information and notices regarding alleged noncompliance with those laws and regulations that, in some instances, have resulted in organizations entering into significant settlement agreements with the government. Compliance with such laws and regulations may also be subject to future government exclusion from related programs. There can be no assurance that regulatory or government authorities will not challenge the Hospital's compliance with these laws and regulations, and it is not possible to determine the impact, if any, that such claims or penalties would have upon the Hospital. In addition, the contracts with commercial payors also provide for retroactive audit and review of claims.

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 current 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 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 or as years are settled and no longer subject to such audits, reviews, and investigations. The estimated amounts due to or from Medicare and Medicaid programs are reviewed and adjusted periodically based on all relevant information as it becomes available. Differences between final settlements and amounts accrued in previous years are reported as adjustments to the current year's net revenue. Adjustments arising from a change in transaction price were not significant for both 2022 and 2021.

Generally, patients who are covered by third-party payors are responsible for related deductibles and co-insurance, which vary in amount. The Hospital also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Hospital estimates the transaction price for patients with deductibles and co-insurance from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charges by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in estimates of implicit price concessions, discounts, and contractual adjustments for prior years were not significant for 2022 and 2021.

Consistent with the Hospital's mission, care is provided to patients regardless of their ability to pay. The Hospital has determined that it has provided implicit price concessions to uninsured patients and patients with other uninsured balances. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amount the Hospital expects to receive based on its collection history with those patients. Patients who meet the criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity are not reported as revenue.

Patient accounts receivable – Patient accounts receivables comprise the following components as of December 31:

	2022	2021	2020
Patient receivables	$ 12,954,184	$ 10,443,291	$ 9,960,559
Contract assets	378,559	1,109,208	1,738,621
Total	$ 13,332,743	$ 11,552,499	$ 11,699,180

Contract assets are related to in-house patients who were provided services during the reporting period but were not discharged as of the reporting date and for which the Hospital does not have the right to bill.

Net patient service revenues disaggregated by payor – Net patient service revenues disaggregated by payor is presented based on the estimated transaction price between the primary patient classifications of insurance coverage:

	December 31	
	2022	2021
Medicare (including managed Medicare)	$ 30,125,305	$ 29,714,388
Medi-Cal (including managed Medi-Cal)	4,142,646	7,564,624
Commercial and managed care	7,430,010	4,250,290
Self-pay and other fee for service	2,256,314	1,445,561
Total	$ 43,954,275	$ 42,974,863

Net patient service revenues disaggregated by lines of service – Net patient service revenues disaggregated by line of service is presented based on an allocation of the transaction price between lines of service:

	December 31	
	2022	2021
Inpatient services	$ 18,835,381	$ 15,543,029
Outpatient services, including emergency services	19,545,262	23,487,310
Clinic services	5,573,632	2,714,203
All other	-	1,230,321
Total	$ 43,954,275	$ 42,974,863

Capitation revenues – The Hospital recognizes revenue based on the estimated transaction price it expects to collect as a result of satisfying its performance obligations. Capitation revenues consist primarily of amounts received to provide medical services under contracts with various HMOs. Capitation revenues under HMO contracts are prepaid monthly based on the number of enrollees electing physicians affiliated with one of the Hospital's medical group entities as their primary healthcare provider, regardless of the level of actual medical services utilized. Capitation revenues are reported as revenue in the month in which enrollees are entitled to receive services. In 2022, two HMOs accounted for 79% and 11% of capitation revenues. In 2021, two HMOs accounted for 81% and 8% of capitation revenues.

Health plan premiums – Health plan premiums are recognized as revenue during the period in which CCHP is obligated to provide services to the subscriber. Subscriber premiums billed and collected in advance are reported as contract liabilities. The balance of contract liabilities was $1,531,850 as of January 1, 2022, and was recognized as revenue in the consolidated statement of operations and changes in net assets during 2022. The balance of contract liabilities was $1,141,970 as of December 31, 2022. The balance of contract liabilities was $1,345,869 as of January 1, 2021, and was recognized as revenue in the consolidated statement of operations and changes in net assets during 2021. The balance of contract liabilities was $1,531,850 as of December 31, 2021.

The consideration received for services may include variable components. Variable consideration is included in the transaction price to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Significant variable consideration related to health plan premiums include Risk Adjustment, as described in The PPACA Risk Adjustment Program note.

CCHP is paid for senior subscriber premiums based on the health status of each Medicare member enrolled in the senior program. CCHP submits member diagnostic data to Medicare each year that provides the basis upon which the health status of each Medicare member is calculated. These payments are subject to retrospective adjustment. Ultimate amounts received may differ from the amounts recorded.

CCHP participates in the Medicare Part D Prescription Drug Program (“Part D”). CCHP estimates settlements for differences between the low-income cost-sharing subsidy and reinsurance subsidy payments received by CCHP and the ultimate amounts estimated due from CMS during the year. The other component of the settlement is for the risk-sharing provisions under the program, which are calculated based on costs incurred with respect to predefined risk corridor thresholds. Ultimate amounts received may differ from the amounts recorded.

Significant variable consideration related to senior subscriber premiums paid by CMS and Part D include adjustments related to annual settlements from CMS, changes in member risk scores, member demographics, and data reconciliations. Compliance with laws and regulations can be subject to future government review and interpretation as well as significant further regulatory action, including fines, penalties, and exclusion from the Medicare programs.

Health plan premiums disaggregated by payor type is presented based on transaction price of the primary patient classifications of insurance coverage:

	December 31	
	2022	**2021**
Commercial	$ 46,503,671	$ 52,843,581
Medicare	77,530,538	64,574,727
Total	$ 124,034,209	$ 117,418,308

Note 4 – Investments

Investments in debt securities held by CCHP are classified as available for sale and are carried at fair value as Level 2 within the fair value hierarchy. Investments consist of the following:

	December 31,	
	2022	2021
Certificates of deposit	$ 104,999	$ 104,999
Debt securities issued by states or subdivisions held by CCHP	9,009,714	8,753,328
Total investments	9,114,713	8,858,327
Less: amounts classified as short-term	(104,999)	(640,648)
Total long-term investments	$ 9,009,714	$ 8,217,679

Note 5 – Assets Whose Use Is Limited

Assets whose use is limited are carried at fair value and consist of the following:

	December 31,	
	2022	2021
Cash and money market funds	$ 3,300,079	$ 6,084,826
U.S. Treasury notes	-	2,300,703
U.S. Government and federal agency obligations	-	1,779,120
Mutual funds	31,823,233	37,745,828
Total	$ 35,123,312	$ 47,910,477

Investment loss, net comprised the following:

	December 31,	
	2022	2021
Interest and dividend income	$ 1,174,760	$ 1,000,157
Net unrealized losses on trading securities	(4,805,065)	(1,569,806)
Net realized gains from sale of securities	-	506,176
Total	$ (3,630,305)	$ (63,473)

In accordance with the State of California's Department of Managed Health Care and the Act, all plans licensed under the Act must maintain a deposit of at least $300,000 for payment of member claims in the event of insolvency. As of December 31, 2022, CCHP has a line of credit with a financial institution (see Note 11) that requires a compensating balance of $3,000,000 to be maintained. The compensating balance is restricted cash and is not available for general use by CCHP.

Note 6 – Fair Value Measurement

ASC Topic 820, *Fair Value Measurement*, established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted in active markets for identical assets or liabilities that the Association has the ability to access at the measurement date).
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are inputs that are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement entirely falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

The following table presents the fair value of financial assets as of December 31, 2022:

	Fair Value Measurements		
	Level 1	Level 2	Total
Assets whose use is limited:			
Cash and money market mutual funds	$ 3,300,079	$ -	$ 3,300,079
Mutual funds	31,823,233	-	31,823,233
Total	$ 35,123,312	$ -	$ 35,123,312

The following table presents the fair value of financial assets as of December 31, 2021:

	Fair Value Measurements		
	Level 1	Level 2	Total
Assets whose use is limited:			
Cash and money market mutual funds	$ 6,084,826	$ -	$ 6,084,826
U.S. Treasury notes	-	2,300,703	2,300,703
U.S. Government and federal agency obligations	-	1,779,120	1,779,120
Mutual funds	37,745,828	-	37,745,828
Total	$ 43,830,654	$ 4,079,823	$ 47,910,477

Note 7 – Liquidity and Availability of Resources

As part of liquidity management, the Association's policy is to reduce costs and increase revenue to limit use of liquid resources and long-term reserves.

At December 31, 2022 and 2021, the Association's financial resources are as follows:

	2022	2021
Cash and cash equivalents	$ 22,709,877	$ 22,790,036
Short-term investments	104,999	640,648
Patient accounts receivable	13,332,743	11,552,499
Reinsurance, premiums, and other receivables	9,620,029	6,689,352
Board-designated investments	-	265,050
Operating reserve investments	31,823,233	41,909,155
Long-term investments	9,009,714	8,217,679
Total financial assets	86,600,595	92,064,419
Less: amounts expected to be redeemed in greater than one year	(9,009,714)	(8,217,679)
Total financial assets available to meet general expenditures within one year	$ 77,590,881	$ 83,846,740

Note 8 – Property, Plant, and Equipment, Net

A summary of property, plant, and equipment, net at December 31, 2022 and 2021 is as follows:

	2022	2021
Land	$ 8,497,597	$ 5,904,093
Buildings and improvements	276,635,158	279,567,062
Equipment	38,161,918	42,681,530
Software	9,123,305	8,722,067
	332,417,978	336,874,752
Less: accumulated depreciation	(101,963,702)	(100,685,015)
Construction in progress	7,916,535	1,792,433
	$ 238,370,811	$ 237,982,170

Note 9 – Accrued Medical Claims

For the years ended December 31, 2022 and 2021, activity in the accrued medical claims liability is as follows:

	2022	2021
Accrued medical claims liability at beginning of year	$ 9,874,833	$ 17,124,262
Claims incurred related to:		
Current year	53,496,037	53,686,609
Prior year	(2,325,624)	(841,573)
Total incurred	51,170,413	52,845,036
Claims paid related to:		
Current year	31,299,297	44,187,121
Prior year	13,089,024	15,907,344
Total paid	44,388,321	60,094,465
Accrued medical claims liability at end of year	$ 16,656,925	$ 9,874,833

Non-pharmacy medical expenses incurred for CCHP senior members of $7,986,291 and $21,081,392 in 2022 and 2021, respectively, are recorded directly to medical claims expense and do not flow through claims payable as amounts are paid on a capitated basis in the month they are incurred. Medical claims expenses also include reinsurance premiums, reinsurance recoveries, cost-sharing subsidies recognized, and Part D settlements, which do not flow through claims payable.

The federal government has made advance payments related to cost-sharing subsidies. The estimated excess amounts received as of December 31, 2022 and 2021 was $294,000 and $885,000, respectively.

Note 10 – Debt

Debt consists of the following at December 31:

	2022	2021
The California Health Facilities Financing Authority, Insured Revenue Bonds Series 2012, interest ranging from 3% to 5% through 2042	$ -	$ 56,365,000
The California Statewide Communities Development Authority PACE Financing at 6.30% through 2049	-	36,000,000
The California Statewide Communities Development Authority Open PACE Limited Obligation Improvement Bonds Series 2022-NR1 at 4.0% through September 2, 2051	65,424,986	-
The California Statewide Communities Development Authority Open PACE Limited Obligation Improvement Bonds Series 2022-NR2 at 3.4% through September 2, 2051	37,575,014	-
Small Business Administration Loan	149,359	150,000
Paycheck Protection Program Loans	-	9,585,992
Unamortized bond premium	-	2,726,597
Unamortized deferred financing costs	(1,827,255)	(4,678,212)
Total	$ 101,322,104	$ 100,149,377

Scheduled principal repayments on total debt are as follows:

Years Ending December 31,	
2023	$ -
2024	-
2025	-
2026	-
2027	-
Thereafter	103,149,359
	$ 103,149,359

The Association is obligated to pay debt service on the Open PACE Limited Obligation Improvement Bonds Series 2022.

On October 8, 2019, the Association entered into a loan agreement for the loan with a principal amount of $36.0 million, which resulted in net proceeds of $30.5 million with prepaid interest of $4.4 million and closing costs of $1.1 million. The loan was issued by California Statewide Communities Development Authority Open PACE Limited Obligation Improvement Bonds, Commercial PACE Direct Series 2019-NR-4. The amount is scheduled to be repaid over a period of thirty years with an interest rate of 6.3%. On January 26, 2022, the Association extinguished its existing Series 2012 Bonds and PACE Financing by entering into a new PACE Financing agreement with a $37,575,014 tax-exempt component that has an interest rate of 3.40% and a $65,424,986 taxable component that has an interest rate of 4.00%. Payments will be interest-only until the year ending December 31, 2035, during which principal payments will begin. The maturity date of the new PACE Financing agreement is September 2, 2051.

On April 15, 2020, CCHP obtained a promissory note through the Paycheck Protection Program of the U.S. Small Business Administration ("SBA"). The note was through East West Bank in the amount of $2,074,800 and matures on April 15, 2022. On August 27, 2021, the SBA granted full forgiveness of the Plan's promissory note. As a result, the Plan was released from being the primary obligor and the promissory note is considered paid in full, along with any accrued interest. The outstanding balance has been derecognized as long-term debt at December 31, 2021 and recognized as a gain from loan forgiveness during the year ended December 31, 2021 in the consolidated statements of operations and changes in net assets. On April 23, 2020, the Hospital obtained a promissory note through the Paycheck Protection Program of the SBA. The note was through U.S. Bank in the amount of $7,585,992 and matures on April 23, 2022. On March 17, 2021, the Hospital obtained a promissory note through the Paycheck Protection Program Round 2 of the SBA. The note was through U.S. Bank in the amount of $2,000,000 and matures on March 17, 2026. The Hospital is required to pay the loans in one payment constituting all outstanding principal plus all accrued unpaid interest on the maturity date. The loans bear an interest of 1.0% per annum. It is the Association's policy to account for these loans in accordance with ASC 740, *Debt*, with interest accrued and expensed over the term of the loan, or until forgiveness is granted releasing the Hospital from being the primary obligors. On January 26, 2022, the SBA granted full forgiveness of the Association's Round 1 promissory note of $7,585,992, along with any accrued interest. On August 22, 2022, the SBA granted full forgiveness of the Association's Round 2 promissory note of $2,000,000, along with any accrued interest. The outstanding balance has been derecognized as long-term debt at December 31, 2022 and recognized as a gain from loan forgiveness during the year ended December 31, 2022 in the consolidated statements of operations and changes in net assets.

Note 11 – Line of Credit

CCHP obtained a new revolving line of credit for $3,000,000 on February 2, 2022. The interest rate at December 31, 2022 was 1.095%. At December 31, 2022, there was no outstanding amounts on the line of credit. The line of credit is secured by an assignment of a deposit account with the lender.

Note 12 – Income Taxes

For the years ended December 31, 2022 and 2021, the provision (benefit) for income taxes consists of the following:

	2022	2021
Current:		
Federal	$ 173,186	$ 513,145
State	78,387	416,406
	251,573	929,551
Deferred:		
Federal	(431,760)	911,965
State	(196,894)	445,189
	(628,654)	1,357,154
	$ (377,081)	$ 2,286,705

Expected income tax expense, based on the U.S. statutory income tax rate, differs from the reported amount of income taxes primarily as a result of the recording of a valuation allowance against deferred tax assets, state taxes, and tax-exempt interest income.

CCHP measures deferred tax assets and liabilities using enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid. Accordingly, CCHP's deferred tax assets and liabilities were re-measured in 2019 to reflect a reasonable estimate of the reduction in the U.S. corporate income tax rate from 35% to 21%.

The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities at December 31, 2022 and 2021 are as follows:

	2022	2021
Deferred tax assets:		
Accrued PPACA liabilities	$ 2,443,454	$ 4,824,079
Others	241,766	254,739
Net operating loss	3,336,972	233,581
Fixed assets	399,927	503,177
Lease Liability	39,362	-
Total deferred tax assets	6,461,481	5,815,576
Deferred tax liabilities:		
Loss from equity method investments	-	(22,111)
Right of use asset	(39,362)	-
Total deferred tax liabilities	(39,362)	(22,111)
Deferred tax assets, net	$ 6,422,119	$ 5,793,465

As of December 31, 2022 and 2021, CCHP has $11,100,000 and $0 in federal net operating losses ("NOL"), respectively. CCHP has state net operating losses of $14,100,000 and $3,340,000 as of December 31, 2022 and 2021, respectively, which begin expiring in 2039, if not utilized.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits NOL carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. As a result, in 2021, CCHP received a cash benefit of approximately $3,000,000 related to the carryback of its 2018 and 2019 federal losses.

Note 13 – Charity Care

The Hospital provides care without charge or at amounts less than their established rates to patients who meet certain criteria under their charity care policies. In addition to uncompensated care, the Hospital also provides services that benefit the poor and others in the community they serve.

Information for the Hospital for the years ended December 31, 2022 and 2021 is summarized below:

	2022	2021
Cost of charity care provided	$ 923,749	$ 1,047,372
Unpaid cost of Medi-Cal services	490,587	2,906,179
Unpaid cost of Medicare services	30,792,388	27,727,006
Nonbilled services, net cost	9,095	4,607
Negative margin services and other, net cost	660,219	419,158
Unsponsored community benefit costs	$ 32,876,038	$ 32,104,322

The amounts shown above are net of an aggregate of approximately $55,016,580 and $20,223,361 of direct offsetting revenue for the years ended December 31, 2022 and 2021, respectively.

The cost of charity care provided is based on the aggregate relationship of costs to charges. The unpaid costs of Medi-Cal and Medicare services are the costs of treating Medi-Cal and Medicare patients in excess of government payments, respectively. Education and research programs include the unpaid cost of training student volunteers. Nonbilled services mainly include the cost of prescription drugs provided to seniors and the cost to provide vaccines for which neither the patient nor the insurance provider is billed or for which a nominal fee has been assessed. Negative margin services include programs for which net patient service revenue is less than the cost incurred to provide the service to meet a need in the community.

Note 14 – Retirement Plans

The Association has a defined-benefit pension plan (the "Pension Plan") covering certain of its employees. Pension Plan benefits are based on years of service and the employee's compensation in all years of employment. The Association's funding policy is to contribute annually at least the minimum amount that is required in order to maintain the Pension Plan's qualified status. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

The measurement date used to determine the Pension Plan obligation is December 31.

The following table sets forth the Pension Plan's benefit obligation, fair value of plan assets, and funded status:

	December 31,	
	2022	**2021**
Funded status of the Pension Plan at December 31:		
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 105,510,011	$ 107,970,432
Service cost	2,792,007	2,952,172
Interest cost	2,855,090	2,550,274
Net actuarial gain	(29,194,135)	(4,521,030)
Benefits paid	(3,456,886)	(3,360,323)
Expenses paid	(84,202)	(81,514)
Benefit obligation at end of year	78,421,885	105,510,011
Accumulated benefit obligation at end of year	73,276,855	96,395,765
Change in plan assets:		
Fair value of plan assets at beginning of year	80,755,475	74,314,218
Actual return on plan assets	(20,631,428)	7,442,851
Contributions	2,184,000	2,440,243
Benefits paid	(3,456,886)	(3,360,323)
Expenses paid	(84,202)	(81,514)
Fair value of plan assets at end of year	58,766,959	80,755,475
Funded status	$ (19,654,926)	$ (24,754,536)
Amounts recognized in the consolidated balance sheets as pension liability	$ (19,654,926)	$ (24,754,536)
Amounts recognized in net assets:		
Net actuarial loss	$ 15,557,146	$ 18,623,760
Prior service cost	-	-
Total	$ 15,557,146	$ 18,623,760

For the year ended December 31, 2022, there was a $29,194,135 gain related to changes in the benefit obligation, primarily due to an increase in the discount rate. For the year ended December 31, 2021, there was a $4,521,030 gain related to changes in the benefit obligation, primarily due to an increase in the discount rate.

The components of the Association's net periodic benefit cost associated with the Pension Plan are as follows. The service cost is included in salaries and benefits and the remaining cost is included in retirement benefit loss in the accompanying consolidated statements of operations and changes in net assets:

	December 31,	
	2022	2021
Service cost	$ 2,792,007	$ 2,952,172
Interest cost	2,855,090	2,550,274
Expected return on plan assets	(6,411,880)	(5,904,007)
Recognized actuarial loss	915,787	2,042,118
Total	$ 151,004	$ 1,640,557

	December 31,	
	2022	2021
Amounts recognized as changes in net assets consist of:		
Net gain	$ (2,150,827)	$ (6,059,874)
Amortization of net loss	(915,787)	(2,042,118)
Total	$ (3,066,614)	$ (8,101,992)
Total recognized in net periodic benefit costs and other changes in net assets	$ (2,915,610)	$ (6,461,435)

The weighted average assumptions used by the Pension Plan are as follows:

	Year Ended December 31	
	2022	2021
Weighted average discount rates used to determine benefit obligations	5.00%	2.75%
Weighted average discount rates used to determine net periodic benefit cost	2.75%	2.35%
Rates of compensation increase	5.00%	5.00%
Expected long-term rates of return on plan assets	8.00%	8.00%

The expected rate of return on plan assets is determined based on historical returns, both for the Pension Plan and for small- to medium-sized defined-benefit pension funds with similar asset allocations. The weighted average asset allocations at year-end, by asset category are as follows:

	Year Ended December 31	
	2022	2021
Cash and cash equivalents	1.1%	1.9%
Domestic equity securities	36.1%	38.6%
Fixed income fund securities	35.5%	29.3%
Foreign debt and equity securities	26.4%	29.0%
MetLife stock	0.9%	1.2%
Total	100.0%	100.0%

The accounts invested in a diversified portfolio of assets intended to minimize risk of poor returns while maximizing expected portfolio returns. To achieve the long-term rate of return, plan assets are invested in a mixture of financial instruments, including domestic and international equities, fixed income securities, real estate investment trusts, MetLife stock, and money market instruments. The target asset allocation is 60% equity and 40% fixed income. The value of the Pension Plan's assets depends on the values of the units of the various separate accounts. Pooled separate accounts are valued by the trustee based upon valuations of similar assets with comparable inputs, maturity, and rates of return. Equity securities are valued based upon quoted market prices.

The following table presents the Pension Plan's assets measured at fair value:

	Fair Value Measurements at December 31, 2022		
	Level 1	Level 2	Total
Cash and cash equivalents	$ 102,270	$ -	$ 102,270
MetLife and other stock	516,632	-	516,632
Diversified growth fund	-	58,148,057	58,148,057
	$ 618,902	$ 58,148,057	$ 58,766,959

	Fair Value Measurements at December 31, 2021		
	Level 1	Level 2	Total
Cash and cash equivalents	$ (908,159)	$ -	$ (908,159)
MetLife stock	1,035,424	-	1,035,424
Diversified growth fund	-	80,628,210	80,628,210
	$ 127,265	$ 80,628,210	$ 80,755,475

The Association contributed $2.2 million and $2.4 million to the Pension Plan during the years ended December 31, 2022 and 2021, respectively. The Association intends to make at least the minimum required contribution of $0 during the year ending December 31, 2023.

The following pension benefit payments reflect expected future service. Payments expected to be paid over the next 10 years are as follows:

Years Ending December 31,	Benefits Payments
2023	$ 3,768,337
2024	3,874,633
2025	4,076,107
2026	4,264,693
2027	4,445,041
2028-2032	25,335,956

CCHP makes a contribution into each qualified CCHP employee's 401(k) account on an annual basis. The contribution is set at 5% of the qualified compensation of each active employee and totaled $428,000 and $469,000 in 2022 and 2021, respectively. For employees not participating in the defined-benefit pension plan, the Hospital also makes employee contributions into a 401(a) plan on an annual basis. The contribution is set at 5% of the qualified compensation of each active employee and totaled $809,771 and $748,424 in 2022 and 2021, respectively.

Note 15 – Reinsurance Agreements

The Hospital – The Hospital has entered into a stop-loss agreement with an insurance company to limit its risk of catastrophic loss on patients for which the Hospital receives a capitation payment. Under the terms of this agreement, the insurance company will reimburse the Hospital for claims of an enrolled commercial or Medicare individual in excess of $400,000 per case for both 2022 and 2021, and an enrolled Medicaid individual in excess of $300,000 per case for both 2022 and 2021. In both years, this is limited to a maximum of $1,000,000 per contract, as accumulated on an incurred basis. The Hospital has also entered into a stop-loss agreement with an HMO to limit its risk of catastrophic loss on patients for which the Hospital receives a capitation payment from that HMO. Under the terms of this agreement, the HMO will reimburse the Hospital for claims of an enrolled Medicaid individual in excess of $375,000 for facility claims for both 2022 and 2021.

Reinsurance premiums totaled $693,025 and $675,985 in 2022 and 2021, respectively. Reinsurance recoveries aggregated to $60,371 and $9,174 in 2022 and 2021, respectively.

CCHP – CCHP has entered into a reinsurance agreement with an insurance company to limit its risk of catastrophic loss. Under the terms of this agreement, the insurance company will reimburse CCHP for claims of an enrolled individual in excess of $375,000 per contract year for off-exchange claims, in excess of $350,000 per contract year for on-exchange claims, and in excess of $70,000 per contract year for Medicare claims, limited to a maximum of $2,000,000 per individual per contract year, as accumulated on an incurred basis. Reinsurance premiums totaled $1,577,000 and $1,675,000 in 2022 and 2021, respectively. Reinsurance recoveries (expense) aggregated to $2,451,000 and ($888,000) in 2022 and 2021, respectively, and are included as a reduction (increase) in medical expenses.

Note 16 – Functional Classification of Expenses

Expenses related to providing general healthcare services to residents within the Hospital's geographic location. Expenses based on actual cost by service line (for the Hospital only) are as follows for the years ended December 31:

	2022					
	Acute	Ambulatory	Medical Services	Fundraising	General and admin	Total
Salaries and benefits	$ 10,854,947	$ 5,659,977	$ 18,371,372	$ 165,797	$ 21,969,473	$ 57,021,566
Supplies	201,575	903,249	17,328,107	54,438	2,050,393	20,537,762
Purchased services	42,450	2,755,271	10,890,099	297,438	7,333,854	21,319,112
Medical claims expense	-	-	26,903,815	-	-	26,903,815
Insurance	-	-	-	-	827,654	827,654
Medi-Cal quality assurance fee	47	-	193	-	1,811,047	1,811,287
Depreciation and amortization	1,468,770	1,958,360	6,133,875	-	160,153	9,721,158
Interest	-	-	-	-	8,803,004	8,803,004
Other	12,708	85,729	601,624	220,134	3,783,937	4,704,132
Subtotal	12,580,497	11,362,586	80,229,085	737,807	46,739,515	151,649,490
Retirement plan benefit	-	-	-	-	(2,641,003)	(2,641,003)
Total	$ 12,580,497	$ 11,362,586	$ 80,229,085	$ 737,807	$ 44,098,512	$ 149,008,487

	2021					
	Acute	Ambulatory	Medical Services	Fundraising	General and admin	Total
Salaries and benefits	$ 8,948,614	$ 5,184,114	$ 17,260,984	$ 265,840	$ 20,775,339	$ 52,434,891
Supplies	193,505	1,511,540	16,505,175	40,359	766,193	19,016,772
Purchased services	2,663,449	112,384	8,042,976	38,851	8,164,219	19,021,879
Medical claims expense	-	-	21,445,074	-	-	21,445,074
Insurance	-	-	-	-	689,490	689,490
Medi-Cal quality assurance fee	-	-	-	-	3,684,847	3,684,847
Depreciation and amortization	1,486,704	1,982,272	6,208,771	-	162,108	9,839,855
Interest	-	-	-	-	4,911,295	4,911,295
Other	8,017	90,158	583,063	170,707	3,336,225	4,188,170
Subtotal	13,300,289	8,880,468	70,046,043	515,757	42,489,716	135,232,273
Retirement plan benefit	-	-	-	-	(1,311,615)	(1,311,615)
Total	$ 13,300,289	$ 8,880,468	$ 70,046,043	$ 515,757	$ 41,178,101	$ 133,920,658

Note 17 – Commitments and Contingencies

Contingencies – The Association is involved in litigation and other routine labor matters, tax examinations, and regulatory examinations arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters should be resolved without a material adverse effect on the Association's consolidated financial position or results of operations.

CCHP entered into litigation with Chinese Community Health Care Association ("CCHCA") in 2015 over amounts owed by CCHCA for the 2014 and 2015 risk pool final settlements. In February 2017, CCHP reached a tentative agreement with CCHCA. CCHCA paid CCHP $1,000,000 as a settlement and an additional $2,600,000 as a temporary measure as negotiations proceeded. In February 2022, CCHP and CCHCA reached a final agreement and CCHCA paid CCHP $8,959,084 as the settlement. This amount is recognized within receivable from Chinese Community Health Care Association and others in the consolidated balance sheet as of December 31, 2021, and resulted in a $5,217,350 gain on litigation recognized in the accompanying consolidated statement of operations and changes in net assets for the year ended December 31, 2021.

Professional liability insurance – The Hospital maintains its basic professional liability insurance coverage through a claims-made policy. The Hospital has accrued a liability for claims from unknown incidents that may be asserted as a result of services provided to patients while covered under the claims-made policy. In management's opinion, accrued malpractice losses provide an adequate reserve for loss contingencies as of December 31, 2022 and 2021.

CCHP maintains professional liability insurance on an occurrence basis. CCHP intends to maintain its current coverage for the foreseeable future.

Knox-Keene Act requirements – The Act requires all health plans subject to the provisions of the Act to maintain a minimum level of tangible net equity ("TNE") defined by the Act as the excess of total assets over total liabilities, excluding subordinated liabilities, certain receivables from affiliates, and intangibles. At December 31, 2022 and 2021, the minimum TNE required of CCHP was $4,116,881 and $4,517,811, respectively. CCHP met the minimum TNE requirements based on information available upon issuance of the CCHP financial statements. CCHP continues to meet the minimum TNE requirements as of its latest quarterly regulatory filing.

COVID-19 pandemic – In March 2020, the World Health Organization declared COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. The related adverse public health developments, including orders to shelter-in-place, travel restrictions, and mandated business closures, have adversely affected workforces, organizations, economies, and financial markets globally, leading to increased market volatility and disruptions in normal business operations, including the Association's operations.

The Association's management has been closely monitoring the impact of COVID-19 on the Association's operations, including the impact on their investment portfolio. The duration and intensity of the pandemic is uncertain but may negatively impact operations and the investment portfolio.

Note 18 – Related-Party Transactions

The Association contracts with Jade Health Care Medical Group ("Jade"), a California corporation, to provide medical services to its members or patients through capitation agreements or fee for service agreements beginning in November 2016. A representative of the management team has been chosen by CCHP's Board of Trustees to represent a 49% equity stake in Jade. On April 19, 2022, Jade was purchased through a stock acquisition agreement, in which all outstanding stock was acquired by a third-party. CCHP's medical expenses paid to Jade were $3,100,000 in 2022 and $10,000,000 in 2021.

Jade contracted with CCHP to provide third-party administrator services beginning in November 2016. Administrative service fee revenue was $1,130,100 in 2022 and $2,359,555 in 2021.

CCHP has loaned a total of $2,000,000 to Jade pursuant to two promissory notes and subordination agreements at interest rates ranging from 3.57% to 3.73%. As of December 31, 2019, Jade has repaid to CCHP the first promissory note balance of $1,000,000. On March 1, 2019, Jade and CCHP signed an amendment to extend the maturity date of the second promissory note to July 31, 2021. On August 29, 2020, CCHP Board of Trustees approved an extension of the maturity date to December 31, 2021 for the second promissory note. On September 29, 2021, CCHP Board of Trustees approved an extension of the maturity date. Under the signed subordination agreement no. 3, the maturity date of the second promissory note was extended from December 31, 2021 to January 1, 2024. Per the amendment, principal and interest are due on the maturity date. As part of the sale of Jade, the outstanding promissory note receivable balance at December 31, 2021 of $1,000,000 was repaid.

In 2022 and 2021, Jade operated at a loss and CCHP recognized loss from equity method investments of $79,000 and $675,000, respectively.

Note 19 – Subsequent Events

Subsequent events are events or transactions that occur after the consolidated balance sheet date but before consolidated financial statements are available to be issued. The Association 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 Association’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 consolidated financial statements are available to be issued.

On April 5, 2023, the Hospital received a $5,000,000 state grant award to be used for renovation of the 1979 outpatient building in order for the Hospital to add 30 new subacute beds.

The Association has evaluated subsequent events from the consolidated balance sheet date through May 26, 2023, the date at which the consolidated financial statements were available to be issued, and determined that there are no additional items to be disclosed.

Supplementary Information

Chinese Hospital Association
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2022

Federal Grantor/Pass - Through Grantor/Program or Cluster Title	Award Period	Federal Assistance Listing Number	Pass-Through Entity Identifying 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 - 6/30/2022	93.498	N/A	$ 6,713,198
COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund	2/4/2020 - 4/5/2022	93.461	N/A	108,800
Total Expenditures of Federal Awards				$ 6,821,998

See accompanying notes to schedule of expenditures of federal awards.

Chinese Hospital Association
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 Chinese Hospital Association (the "Association"), under programs of the federal government for the year ended December 31, 2022. The information in the Schedule is presented in accordance with the requirements of the Office of Management and Budget ("OMB") Title 2 U.S. *Code of Federal Regulations* ("CFR") 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 Association, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of the Association. In accordance with guidance from the U.S. Department of Health and Human Services ("DHHS"), the Association included the Reporting Periods 3 and 4 expenditures for Provider Relief Fund Assistance Listing No. 93.498 of $6,713,198 in the Schedule for the year ended December 31, 2022, to align with DHHS reporting guidelines for Chinese Hospital Association (Taxpayer Identification Number 94-0382780). In accordance with U.S. GAAP, the total amount of $6,713,198 of Provider Relief Fund assistance received by the Association was recognized as revenue during the year ended December 31, 2021, and is included in beginning net assets as of and for the year ended December 31, 2022.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the schedule of expenditures of federal awards 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. The Association has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 – Subrecipients

The Association did not provide federal awards to subrecipients during the year ended December 31, 2022.

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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
Chinese Hospital Association and Subsidiary

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 Chinese Hospital Association and its subsidiary, which comprise the consolidated balance sheet as of December 31, 2022, and the related consolidated statements of operations and 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 May 26, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Chinese Hospital Association and its subsidiary's 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Chinese Hospital Association and its subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of Chinese Hospital Association and its subsidiary's 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 Chinese Hospital Association and its subsidiary's 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

San Francisco, California
May 26, 2023

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Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance

The Board of Trustees
Chinese Hospital Association

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Chinese Hospital Association's (the "Association") 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 the Association's major federal program for the year ended December 31, 2022. Chinese Hospital Association's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Association complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2022.

Basis for Opinion on the 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 the Association 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 the Association's 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 the Association's 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 the Association's 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 the Association's compliance with the requirements of the 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 the Association's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Association's 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 the Association's 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.

Moss Adams LLP

San Francisco, California
May 26, 2023

Chinese Hospital Association
Schedule of Findings and Questioned Costs
Year Ended December 31, 2022

Section I - Summary of Auditor's Results

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 Major Federal Program and Type of Auditor's Report Issued on Compliance for Major Federal Program

Federal Assistance Listing Number	*Name of Federal Program or Cluster*	*Type of Auditor's Report Issued on Compliance for Major Federal Program*
93.498	*COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution*	*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

No findings noted.

Section III - Federal Award Findings and Questioned Costs

No findings noted.

Chinese Hospital Association
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2022

There were no prior audit findings reported.


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