

**North Sonoma County Healthcare District
d/b/a Healdsburg District Hospital**

Financial Report
December 31, 2019

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RSM US LLP

Independent Auditor's Report

Board of Directors
North Sonoma County Healthcare District

Report on the Financial Statements

We have audited the accompanying financial statements of the North Sonoma County Healthcare District d/b/a Healdsburg District Hospital (the Hospital) as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements 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 Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Sonoma County Healthcare District as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3–10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

RSM US LLP

Davenport, Iowa
June 18, 2020

**North Sonoma County Healthcare District
d/b/a Healdsburg District Hospital**

**Management's Discussion and Analysis
Year Ended December 31, 2019**

North Sonoma County Healthcare District is a special healthcare district, a political subdivision of the State of California, which owns and operates Healdsburg District Hospital (Hospital) located in Healdsburg, County of Sonoma, State of California. In 2019, the Hospital staffed 38 beds (21 acute medical/surgical beds and 17 distinct part skilled nursing beds) and provided a continuum of medical and surgical inpatient care, as well as diagnostic, therapeutic and clinical outpatient services. The Hospital staffing was an average of 280 full-time equivalent employees (FTE's) in 2019, up from 264 in 2018.

Financial Highlights

- The Hospital experienced an increase in net position in 2019, in spite of having to close during October and November due to the Kincade Fire. Our focus continued to be on building operational sustainability through the delivery of quality patient care, optimization of operating and financial systems, and intensive cash and debt management while seeking out strategic business growth opportunities.
- The Hospital spent \$1,950,000 on capital assets in 2019, allowing the Hospital to make significant upgrades in both facilities and equipment to better serve our patients.
- \$6,146,000 of the Hospital's cash and investments is restricted or designated, and \$8,295,000 is unrestricted and can be used at the Hospital's discretion.
- Current assets and current liabilities were consistent with 2018, with a strong current ratio of 2.50.
- The Hospital received \$6,020,000 from various Intergovernmental Transfers (IGT's), an increase of \$4,169,000 from the prior year.

Financial Reporting Entity

The definition of the reporting entity is based on the principal of financial accountability. A primary government entity is financially accountable for the organizations that make up that legal entity. It is also financially responsible for legally separate corporations that have the potential to provide specific financial benefits to, or impose specific financial burdens, on the primary government entity. The financial reporting entity for this report consists of the primary government entity, the North Sonoma County Healthcare District, which is comprised of Healdsburg District Hospital and North Sonoma County Healthcare Services.

Overview of Financial Statements

Management's Discussion and Analysis is designed to assist the reader in understanding the audited financial statements and provides an overview of the Hospital's financial position and significant financial and operational issues. Please read it in conjunction with the audited financial statements.

Unless otherwise noted, all discussion and analysis pertains to the Hospital's financial condition, operating results, and cash flows, as of, and for the year ended December 31, 2019.

**North Sonoma County Healthcare District
d/b/a Healdsburg District Hospital**

**Management's Discussion and Analysis
Year Ended December 31, 2019**

The financial statements and related information disclosed in the notes to the financial statements are presented in accordance with the pronouncements of the Governmental Accounting Standards Boards (GASB) and follow the guidelines of the American Institute of Certified Public Accountants (AICPA) for Health Care Organizations.

Hospital Financial Statements

The Financial Statements are designed to provide readers with a broad overview of the Hospital's finances. Hospital Districts are defined as "special purpose governments engaged only in business activities." Approximately 96% of the Hospital's operations were financed through service revenue. The Hospital also receives parcel tax revenue. Unlike some governmental entities, the Hospital's financial statements are comprehensive, reflect all financial interests and are similar to most hospitals and other business entities. The statements are prepared utilizing enterprise fund accounting on an accrual basis of accounting using the economic resources measurement focus.

The financial statements include the following:

The statement of net position, also known as a balance sheet, presents information on all of the Hospital's Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position. The balance sheet includes information about the nature of the Hospital's assets and liabilities and classifies them as current or noncurrent. It also provides the basis for evaluation of the capital structure of the Hospital, and for assessing its liquidity and financial flexibility. Over time, increases or decreases in Net Position serve as a useful indicator of whether the financial position of the Hospital is improving or deteriorating.

The statement of revenue, expenses and changes in net position presents information on the results of the Hospital's operations, its tax support and any contributions during each fiscal year. All changes in revenues and expenses are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future fiscal periods (for example, patient charges billed but not collected, earned but unused vacation leave), or result from past cash flows (for example, prepaid insurance, supplies issued from inventory). This statement measures the Hospital's operations and can be used to determine whether the Hospital has been able to recover all of its operating costs from patient services and other revenue sources.

The primary purpose of the statement of cash flows is to provide information about the Hospital's cash from operating, noncapital financing, capital and related financing, and investing activities. It provides answers to questions such as the Hospital's sources of cash, what was the cash used for, and what were the changes in cash balances during the reporting period.

Following the audited financial statements, please find the notes to the financial statements, which provide additional information essential for a full understanding of the information in the financial statements. The notes also present certain required information such as the Hospital's concentration of credit risk, transactions with related organizations, capital asset and long-term debt activity.

The financial statements report historic results and provide a picture of the Hospital's financial performance and position as a point in time. While they provide an indicator of financial health, the reader will need to consider at a minimum other nonfinancial factors such as changes in the Hospital's patient or physician base, economic factors such as changes in reimbursements, the impact of federal and state legislation on healthcare delivery and financing, and planned changes in the programs or services of the Hospital in order to assess the overall health of the Hospital going forward.

**North Sonoma County Healthcare District
d/b/a Healdsburg District Hospital**

**Management's Discussion and Analysis
Year Ended December 31, 2019**

Financial and Operating Highlights

The following discussion provides a summary explanation of the financial position of the Hospital and the results of the Hospital's operations in 2019, and the changes from 2018 shown in the following tables and the Audited Financial Statements.

Condensed Statement of Net Position

	2019	2018	2017	2018 vs 2019	
				Amount	Percent
Assets					
Current assets	\$ 20,333,860	\$ 16,431,352	\$ 15,839,490	\$ 3,902,508	23.8%
Noncurrent assets and deferred outflows	15,443,365	17,176,483	11,131,063	(1,733,118)	(10.1%)
Total assets	\$ 35,777,225	\$ 33,607,835	\$ 26,970,553	\$ 2,169,390	6.5%
Liabilities and Net Position					
Accounts payable, accrued expenses and estimated third-party payor settlements	\$ 7,352,925	\$ 6,678,779	\$ 6,535,561	\$ 674,146	10.1%
Notes and capital leases payable, current	767,000	746,000	1,217,980	21,000	2.8%
Notes and capital leases payable and workers' compensation, long-term and deferred inflows	11,999,000	12,928,000	5,932,032	(929,000)	(7.2%)
Net position	15,658,300	13,255,056	13,284,980	2,403,244	18.1%
Total liabilities and net position	\$ 35,777,225	\$ 33,607,835	\$ 26,970,553	\$ 2,169,390	6.5%

Total assets and deferred outflows, and total liabilities and net position increased 6.5%.

Within current assets, increases in cash of \$819,000 and other receivables of \$3,291,000 will be used to support operations.

The decrease in noncurrent assets and deferred outflows resulted primarily from the decrease in noncurrent assets limited to use in the amount of \$1,962,000 as some of the remaining funds restricted for capital assets from the 2016 Certificates of Participation (COP) were spent in 2019.

Total current liabilities increased from 2018 by 9.4%. Long-term liabilities and deferred inflows decreased 7.2% due to the scheduled payments on the COP of \$746,000.

Net Position (Total Assets less Total Liabilities and Deferred Inflows) increased by \$2,403,000 or 18.1%. The decrease in restricted net position of \$46,000 and net investment in capital assets of \$876,000 was offset by increase in unrestricted net position of \$3,326,000.

**North Sonoma County Healthcare District
d/b/a Healdsburg District Hospital**

**Management's Discussion and Analysis
Year Ended December 31, 2019**

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2019	2018	2017	2018 vs 2019	
				Amount	Percent
Operating revenues, net	\$ 54,999,075	\$ 50,925,073	\$ 48,491,365	\$ 4,074,002	8.0%
Operating expenses	57,497,986	54,226,389	49,747,205	3,271,597	6.0%
Operating loss	(2,498,911)	(3,301,316)	(1,255,840)	802,405	(24.3%)
Nonoperating revenues, net	4,886,955	3,258,792	3,122,242	1,628,163	50.0%
Gain (loss) before capital contributions	2,388,044	(42,524)	1,866,402	2,430,568	(5,715.8%)
Capital contributions for acquisition of equipment	15,200	12,600	2,278,192	2,600	20.6%
Change in net position	2,403,244	(29,924)	4,144,594	2,433,168	(8,131.2%)
Net position, beginning of year	13,255,056	13,284,980	9,140,386	(29,924)	(0.2%)
Net position, end of year	<u>\$ 15,658,300</u>	<u>\$ 13,255,056</u>	<u>\$ 13,284,980</u>	<u>\$ 2,403,244</u>	<u>18.1%</u>

The Hospital experienced an increase in net position in 2019. Below are some of the key factors that contributed to the results.

The increase in total operating revenues, net was primarily due to an increase in net patient service revenue of \$3,890,000. Increased funding from the various Hospital IGT's accounted for the increase.

Total operating expenses increased \$3,272,000, or 6.0%, due to the following:

- The most significant expense for any hospital relates to staffing. Salaries and wages and employee benefits increased \$2,103,000, or 6.8%. In addition to an increase in FTE's of 16, we increased our payroll by the provision of market based rate increases and wage adjustments for many positions in the organization and hired an orthopedic surgeon.
- Supplies expense increased \$2,661,000, or 42.8%. The increase was primarily a result of increased surgery department costs for implants.

Nonoperating revenues consist primarily of parcel taxes in the amount of \$3,459,000 net of interest expense of \$278,000, both of which were consistent with 2018.

Other nonoperating revenues come primarily from donations and business interruption insurance recoveries related to the Kincade Fire of 2019. The Hospital recorded approximately \$1,675,000 of revenue related to business interruption insurance recoveries as a result of the Kincade Fire.

The change in net position is the sum of the operating loss, net nonoperating revenues and capital contributions. The Hospital net position increased \$2,403,000 in 2019.

**North Sonoma County Healthcare District
d/b/a Healdsburg District Hospital**

**Management's Discussion and Analysis
Year Ended December 31, 2019**

Condensed Statement of Cash Flows

	2019	2018	2017	2018 vs 2019	
				Amount	Percent
Cash flows provided by (used in) operating activities	\$ (1,417,788)	\$ 2,813,022	\$ (3,280,831)	\$ (4,230,810)	(150.4%)
Cash flows provided by noncapital financing activities	3,458,833	3,391,426	3,397,114	67,407	2.0%
Cash flows provided by (used in) capital and related financing activities	(2,962,780)	1,851,968	666,351	(4,814,748)	(260.0%)
Cash flows provided by (used in) investing activities	1,740,875	(3,511,619)	(3,727,655)	5,252,494	(149.6%)
Net change in cash and cash equivalents	819,140	4,544,797	(2,945,021)	(3,725,657)	(82.0%)
Cash and cash equivalents:					
Beginning of year	7,356,699	2,811,902	5,756,923	4,544,797	161.6%
End of year	<u>\$ 8,175,839</u>	<u>\$ 7,356,699</u>	<u>\$ 2,811,902</u>	<u>\$ 819,140</u>	11.1%
Reconciliation of operating loss to net cash provided by (used in) operating activities:					
Operating loss	\$ (2,498,911)	\$ (3,301,316)	\$ (1,255,840)	\$ 802,405	(24.3%)
Adjustments to reconcile	1,081,123	6,114,338	(2,024,991)	(5,033,215)	(82.3%)
Net cash provided by (used in) operating activities	\$ (1,417,788)	\$ 2,813,022	\$ (3,280,831)	\$ (4,230,810)	(150.4%)

Cash and cash equivalents totaled \$8,176,000 compared to \$7,357,000 in 2018. The \$1,418,000 of cash used by operating activities was largely a product of an increase in payroll and supplies cost, as well as patient and other receivables, in particular, insurance receivables of approximately \$2,447,000 as a result of the Kincade Fire. Cash flows from noncapital activities of \$3,458,000 consist exclusively of the Hospital's parcel tax. The Cash flows used in capital and related financing activities of \$2,963,000 was a result of purchases of capital assets and principal and interest payments for debt. The cash provided by investing activities was primarily from additional funds being released from restriction for capital from the unspent portions of the 2016 COP's.

Capital Assets

The Hospital's capital assets increased by \$213,000, or 2.2%, in 2019 due to asset acquisitions of \$1,950,000 (of both equipment and facility additions) in excess of depreciation of \$1,737,000. (See Note 6 in the Audited Financial Statements for information on capital assets.)

In spite of the significant investment made in 2019, continued capital investments will still be needed in the next few years to further replace aging assets, build new capacity, meet new technology needs for patient care and fund critical projects, such as the nurse call system, fire panel and a new hospital.

**North Sonoma County Healthcare District
d/b/a Healdsburg District Hospital**

**Management's Discussion and Analysis
Year Ended December 31, 2019**

Debt

During 2016, the Hospital issued the 2016 COP (tax exempt bonds) in the amount of \$12,440,000 to refund the 2008 COP in the amount of \$4,936,000 and obtain additional funding for the purposes of improvement, renovation, replacement and equipping of the Hospital. (See Note 7 in the Audited Financial Statements for details of the Hospital's debt.)

Operating Statistics

The table below presents the Hospital's key patient activity levels in 2017, 2018 and 2019.

	2019	2018	2017	2018 vs 2019	
				Amount	Percent
Inpatient statistics:					
Acute care admissions	566	478	569	88	18.4%
ICU admissions	120	169	105	(49)	(29.0%)
Skilled care (SWG) admissions	87	65	62	22	33.8%
Subacute care admissions	24	5	13	19	380.0%
Total admissions	797	717	749	80	11.2%
Acute care patient days	1,463	1,666	2,096	(203)	(12.2%)
ICU patient days	479	779	459	(300)	(38.5%)
Skilled care (SWG) patient days	546	515	297	31	6.0%
Subacute care patient days	5,454	5,483	4,963	(29)	(0.5%)
Total patient days	7,942	8,443	7,815	(501)	(5.9%)
Acute/skilled % of occupancy	32.46%	38.62%	35.89%	(6.16%)	
Acute/skilled average daily census	6.8	8.1	7.8	(1.3)	(15.9%)
Acute/skilled average length of stay (days)	3.2	4.2	4.4	(0.9)	(22.6%)
Subacute % of occupancy	87.90%	88.36%	79.98%	(0.47%)	
Subacute average daily census (patients)	14.9	15.0	13.6	(0.1)	(0.5%)
Outpatient statistics:					
Surgeries	3,952	2,630	919	1,322	50.3%
Total emergency room visits	8,097	8,576	9,104	(479)	(5.6%)
Healdsburg primary care	7,640	8,706	8,063	(1,066)	(12.2%)
Total outpatient visits	43,257	46,494	44,689	(3,237)	(7.0%)

- Despite an 11.2% increase in admissions, total patient days decreased 5.9%.
- For the second consecutive year, the Hospital saw a significant increase in surgeries, primarily in the area of pain management.
- There was a significant decrease in primary care and overall outpatient visits from 2018 to 2019.

**North Sonoma County Healthcare District
d/b/a Healdsburg District Hospital**

**Management's Discussion and Analysis
Year Ended December 31, 2019**

Economic Factors and Outlook

Over the next several years, the Hospital will face a constantly shifting landscape in the healthcare industry. The Hospital is in the process of evaluating strategic relationships and partnerships that could be beneficial to the Hospital, including signing a Memorandum of Understanding with Providence/St. Joseph's Health System (PSJH) to explore the potential of leasing the Hospital's operations to PSJH. If Providence/St. Joseph's Health System takes over operations in 2021, the North Sonoma County Healthcare District would no longer be providing health care services. The Hospital would continue to have financial transactions associated with collections on patient accounts receivable for services previously provided, parcel taxes and intergovernmental transfers, nonoperating revenue, debt service and any retroactive adjustments related to patient service revenue for any services provided prior to the transaction date.

Currently, the Hospital receives over 75% of its patient revenues from Medicare and Medicaid. This renders the Hospital vulnerable to any changes in Medicare and Medicaid reimbursement. The State of California budget shortfall may be made up in part in reductions of Medi-Cal/Partnership Health Plan. Changes proposed in the California State legislature appear to have significant adverse impact on the revenue stream. The Hospital also receives a significant amount of funding through various supplemental reimbursement and payment programs to subsidize our Medicare and Medicaid heavy payor mix, in addition to the 2% of patient revenues that are received from uninsured patients. The Hospital continues to focus on ensuring the maximization of supplemental funding. Changes in the political landscape at the Federal or State level could place these supplemental payment programs in jeopardy of being reduced, modified or even eliminated. Proposed legislation most certainly reduces one or more of the nonoperating revenue streams. Federal expenditures during the COVID-19 pandemic may result in reductions in Federal Healthcare Spending in 2020 and beyond.

In Sonoma County, each of the past six years has seen growth in the percentage of Medicare beneficiaries enrolling in Medicare managed care programs (Medicare Advantage Plans). Despite the growth in Medicare Advantage enrollees in Sonoma County, the Hospital has not realized the full benefit of this growth. A competitor has approximately 83% of the market share of Medicare Advantage enrollees in Sonoma County.

Internally, the Hospital's Subacute unit continues to perform very well. The average daily census is consistently 16–17 patients, with an occupancy rate between 90% or above. Occupancy during much of 2019 approximated 100% with all 17 beds filled. For 2020, 16 beds have been consistently occupied. Four additional beds have been requested from the State of California. The subacute unit provides a consistent and strong revenue stream for the Hospital. This has been the best source of patient revenue for the past several years. However, changes in state legislation appear to put this revenue stream in jeopardy, as stated above.

The Hospital continues to analyze service lines to identify opportunities for growth in profitable services, look for ways to improve reimbursement and manage costs in unprofitable service lines, and evaluate opportunities for potentially new service lines. With the passage of California Assembly Bill 2024 (AB 2024), which allows Critical Access Hospitals to directly employ physicians, the Hospital has hired five physicians in the areas of general surgery, internal medicine, podiatry, cardiology and vascular Surgery (specializing in wound care). The Hospital suffered significant losses within its clinics and Surgery department during 2019. It remains to be seen whether these losses can continue to be absorbed, as cash flow has become a significant concern.

**North Sonoma County Healthcare District
d/b/a Healdsburg District Hospital**

**Management's Discussion and Analysis
Year Ended December 31, 2019**

In 2018, the Hospital made a significant investment in capital to upgrade both facilities and equipment to better serve our patients, which has continued into 2019. This was possible due to drawing down the remaining funds from our 2016 COP's. As of June 2020, \$700,000 was remaining to make further capital purchases. This is not sufficient to purchase the items necessary for the subacute expansion. Approximately \$10,000,000 is outstanding on the debt which term runs through 2031. The opportunity for debt financing would only be available through tax revenue support, and the climate does not appear favorable for the citizens to vote in favor of increased taxes. Capital investment would be available from PSJH, if the transfer of operations becomes a reality. Additionally, the rental payments from PSJH will be suspended for the first three years as an offset.

In addition to the significant, routine capital improvements required to maintain facilities, equipment, electronic health records and technology, the Hospital will be required in the next few years to address the State of California's Seismic Mandate, which is due in 2030. The subacute unit is exempt from this requirement. PSJH has not offered to underwrite this expense under the current lease arrangement. Alternatively, building a new hospital would only be financed on the strength of tax revenue, which in turn requires voter approval. While the Hospital is not required to comply with the mandate until 2030, the sheer size, scope and costs of complying dictate that this needs to be addressed within the next few years. Six years has generally been considered the timeframe necessary to comply.

Finally, if the strategic partnership does not become a reality, the Hospital may find a way to survive on its own. With the consecutive years of operating losses, that will present a challenge. Given the willingness to change the operating style, we can continue our vision of enhancing the health and wellness of our community through a culture of exceptional care, collaboration, and excellence.

Financial Information Contact

This report provides a general overview of the Hospital's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Chief Financial Officer at 1375 University Ave., Healdsburg, California 95448.

Richard Baland
Chief Financial Officer

**North Sonoma County Healthcare District
d/b/a Healdsburg District Hospital**

**Statements of Net Position
December 31, 2019 and 2018**

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,175,839	\$ 7,356,699
Assets limited as to use, current portion	929,000	695,026
Patient accounts receivable, net of allowances	5,157,609	5,700,970
Other receivables	3,313,104	21,665
District tax receivables	1,541,000	1,585,000
Inventories	810,562	790,413
Prepaid expenses and other assets	406,746	281,579
Total current assets	20,333,860	16,431,352
Assets limited as to use	5,216,728	7,178,736
Capital assets:		
Nondepreciable	1,075,609	1,120,670
Depreciable, net	9,022,411	8,763,895
	10,098,020	9,884,565
Investments and other assets	128,617	113,182
Total assets	\$ 35,777,225	\$ 33,607,835

See notes to financial statements.

	2019	2018
Liabilities, Deferred Inflows and Net Position		
Current liabilities:		
Current maturities of long-term debt	\$ 767,000	\$ 746,000
Accounts payable and other accrued expenses	3,664,458	3,872,679
Accrued payroll and related liabilities	2,943,467	2,374,208
Estimated third-party payor settlements	745,000	431,892
Total current liabilities	8,119,925	7,424,779
Long-term debt, net of current maturities	9,671,000	10,438,000
Estimated workers' compensation liability, net of current portion	787,000	905,000
Total liabilities	18,577,925	18,767,779
Deferred inflows of resources, deferred inflows related to district tax revenues	1,541,000	1,585,000
Total liabilities and deferred inflows	20,118,925	20,352,779
Commitments and contingencies (Note 10)		
Net position:		
Net investment in capital assets	3,307,571	4,183,993
Restricted for:		
Debt service, under trust agreements	516,172	515,833
Other purposes	266,005	312,410
Unrestricted	11,568,552	8,242,820
Total net position	15,658,300	13,255,056
Total liabilities, deferred inflows and net position	\$ 35,777,225	\$ 33,607,835

**North Sonoma County Healthcare District
d/b/a Healdsburg District Hospital**

**Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2019 and 2018**

	2019	2018
Operating revenues:		
Net patient service revenue, before provision for bad debt	\$ 56,404,000	\$ 52,244,138
Provision for bad debt	(2,461,697)	(2,192,211)
Net patient service revenue	53,942,303	50,051,927
Other operating revenue	1,056,772	873,146
Total operating revenues	54,999,075	50,925,073
Operating expenses:		
Salaries and wages	23,661,017	22,170,397
Employee benefits	9,540,061	8,927,555
Registry and other professional fees	1,516,671	1,778,537
Medical professional fees	5,463,208	6,489,846
Supplies	8,875,840	6,214,585
Purchased services	2,716,974	2,921,738
Repairs and maintenance	842,411	605,933
Utilities	493,214	481,592
Building and equipment rent	1,226,771	1,218,137
Insurance	389,173	335,410
Depreciation	1,736,931	1,845,223
Other operating expenses	1,035,715	1,237,436
Total operating expenses	57,497,986	54,226,389
Operating loss	(2,498,911)	(3,301,316)
Nonoperating revenues (expenses):		
District tax revenues	3,458,833	3,391,426
Investment gain (loss), net	17,951	(38,632)
Interest expense	(278,421)	(314,153)
Grants and contributions	10,325	220,151
Other	1,678,267	-
Total nonoperating revenues, net	4,886,955	3,258,792
Gain (loss) before capital contributions	2,388,044	(42,524)
Capital contributions for acquisition of equipment	15,200	12,600
Change in net position	2,403,244	(29,924)
Net position:		
Beginning of year	13,255,056	13,284,980
End of year	\$ 15,658,300	\$ 13,255,056

See notes to financial statements.

**North Sonoma County Healthcare District
d/b/a Healdsburg District Hospital**

**Statements of Cash Flows
Years Ended December 31, 2019 and 2018**

	2019	2018
Cash flows from operating activities:		
Receipts from patients and other third-party payors	\$ 54,798,772	\$ 53,971,846
Payments to suppliers	(21,233,074)	(21,412,056)
Payments to employees	(32,749,819)	(30,586,956)
Other receipts	(2,233,667)	840,188
Net cash provided by (used in) operating activities	(1,417,788)	2,813,022
Cash flows provided by noncapital financial activities, district tax revenues		
	3,458,833	3,391,426
Cash flows from capital and related financing activities:		
Purchase of capital assets	(1,950,386)	(4,196,936)
Issuance of long-term debt	-	7,503,878
Contributions received for capital asset acquisitions	15,200	12,600
Long-lived asset impairment	3,267	-
Principal payments on long-term debt	(746,000)	(1,217,980)
Interest payments on long-term debt	(284,861)	(249,594)
Net cash provided by (used in) capital and related financing activities	(2,962,780)	1,851,968
Cash flows from investing activities:		
Net change in assets limited as to use	1,728,034	(3,725,521)
Investment gain (loss)	2,516	(6,249)
Grants and contributions	10,325	220,151
Net cash provided by (used in) investing activities	1,740,875	(3,511,619)
Net increase in cash and cash equivalents	819,140	4,544,797
Cash and cash equivalents:		
Beginning of year	7,356,699	2,811,902
End of year	\$ 8,175,839	\$ 7,356,699

(Continued)

**North Sonoma County Healthcare District
d/b/a Healdsburg District Hospital**

**Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018**

	2019	2018
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$ (2,498,911)	\$ (3,301,316)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	1,736,931	1,845,223
Loss on disposal of capital assets	-	14,589
Changes in operating assets and liabilities:		
Patient accounts receivables and other receivables	(1,073,078)	(945,594)
Other current assets	(125,167)	180,035
Inventories	(20,149)	21,239
Estimated third-party payor settlements	313,108	4,849,463
Accounts payable and accrued expenses	367,478	(617)
Estimated workers' compensation liability	(118,000)	150,000
Net cash provided by (used in) operating activities	\$ (1,417,788)	\$ 2,813,022

See notes to financial statements.

**North Sonoma County Healthcare District
d/b/a Healdsburg District Hospital**

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: North Sonoma County Healthcare District (d/b/a Healdsburg District Hospital), heretofore referred to as the Hospital, is a public entity organized under Local Hospital District Law as set forth in the Health and Safety Code of the State of California. The Hospital is a political subdivision of the State of California and is generally not subject to federal or state income taxes. The Hospital is governed by a five-member Board of Directors, elected from within the district to specified terms of office. The Hospital is located in Healdsburg, California. It operates a 21-bed acute care facility with intensive care, a 17-bed hospital-based sub-acute nursing facility and swing bed services. The Hospital provides health care services primarily to individuals who reside in the local geographic area.

Significant accounting policies:

Accrual basis of accounting: The accrual basis of accounting is used by the Hospital. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recognized when the liability has been incurred.

Basis of accounting: The financial statements of the Hospital are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Government Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

Deferred inflows of resources: In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so it will not be recognized as an inflow of resources (revenue) until that time. Property taxes are shown as a deferred inflow of resources under the full accrual basis of accounting and will become an inflow in the year for which they are levied and intended for the Hospital's use.

Management estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents, and investments: For purposes of the statements of cash flows, cash and cash equivalents include deposits on account in banking institutions and certain investments in highly liquid debt instruments, when present, with an original maturity of a short-term nature or subject to withdrawal upon request, excluding cash and cash equivalents included in assets limited as to use. Exceptions are for those investments which are intended to be continuously invested. Investments in securities are reported at fair value.

Interest, dividends and both unrealized and realized gains and losses on investments are included as investment gain (loss) in nonoperating revenues when earned.

**North Sonoma County Healthcare District
d/b/a Healdsburg District Hospital**

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Patient accounts receivable: Patient accounts receivable consist of amounts owed by various governmental agencies, insurance companies and private patients. The Hospital manages its receivables by regularly reviewing the accounts, inquiring with respective payors as to collectability and providing for allowances for estimated contractual adjustments and uncollectible accounts. Significant concentrations of patient accounts receivable are discussed in Note 4.

Patient accounts receivable, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the services provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Patient accounts receivable due directly from the patients are carried at the original charge for the services provided, less amounts covered by third-party payors and less an estimated allowance for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts, by using historical experience applied to an aging of accounts, and by considering a patient's financial and credit history, and current economic conditions. Patient accounts receivable are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad-debt expense when received.

Inventories: Inventories, which consist primarily of medical supplies and pharmaceutical drugs, are valued at the lower of cost (first-in, first-out method) or market.

Assets limited as to use: Assets limited as to use include contributor restricted funds, amounts designated by the Board of Directors for replacement or purchases of capital assets, and other specific purposes, and amounts held by trustees under specified agreements. Assets limited as to use consist primarily of deposits on hand with local banking and investment institutions, and bond trustees.

Capital assets: Capital assets consist of property and equipment and are reported on the basis of cost, or in the case of donated items, on the basis of acquisition value at the date of donation. Routine maintenance and repairs are charged to expense as incurred. Expenditures, which increase values, change capacities or extend useful lives, are capitalized. Depreciation of property and equipment and amortization of property under capital leases are computed by the straight-line method over the estimated useful lives of the assets, which range from 10 to 40 years for buildings and improvements, and 3 to 10 years for equipment. During the year ended December 31, 2018, the Hospital adopted GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, and as a result, no interest costs were capitalized in fiscal years 2018 and 2019.

Capital assets are evaluated for impairment when events or changes in circumstances suggest that there has been a significant unexpected decline in the utility of a capital asset. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The amount of impairment, if any, is determined by comparing the historical carrying value of the asset to the valuation method that most appropriately reflects the decline in service utility of the capital asset. During the years ended December 31, 2019 and 2018, there were no impairment losses recognized.

**North Sonoma County Healthcare District
d/b/a Healdsburg District Hospital**

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Compensated absences: The Hospital's employees earn paid time off (PTO) benefits at varying rates depending on years of service. Accumulated PTO benefits are paid to an employee upon either termination or retirement, or upon request of an employee at any time. Amounts representing the cost of earned but unused compensated absences are recorded as current liabilities. These liabilities have been computed based on rates of pay in effect at December 31, 2019 and 2018, and were approximately \$1,450,000 and \$1,287,000, respectively.

Risk management: The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters.

Net position: Net position is classified in three categories. The first category is "net investment in capital assets." This category of net position consists of capital assets (both restricted and unrestricted), debt proceeds placed into an escrow restricted for future capital purchases, net of accumulated depreciation and reduced by the outstanding principal balances of any debt borrowings that were attributable to the acquisition, construction or improvement of those capital assets.

The second category is "restricted" net position. This category consists of externally designated constraints placed on those net assets by creditors (such as through debt covenants), grantors, contributors, law or regulations of other governments or government agencies, or law or constitutional provisions or enabling legislation.

The third category is "unrestricted" net position. This category consists of net position that does not meet the definition or criteria of the previous two categories.

Net patient service revenue: Patient service revenue is recorded at the Hospital's established rates when services are provided, with contractual adjustments, provisions for bad debts and charity care allowances deducted to arrive at net patient service revenue as the net realizable amount.

The Hospital has agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. The primary payors are Medicare and Medicaid.

Retroactive adjustments with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity care: The Hospital accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Hospital. Essentially, these policies define charity services as those services for which no payment is anticipated. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. Services provided are recorded as gross patient service revenue and then written off entirely as an adjustment to net patient service revenue.

**North Sonoma County Healthcare District
d/b/a Healdsburg District Hospital**

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies and equivalent service statistics. The cost estimates are based upon the Hospital's cost-to-charge ratio and are on the accrual basis of accounting, thereby including the impact of changes in charity care allowances. Charity care does not include the unreimbursed costs of Medi-Cal. Charges forgone based on established rates were approximately \$161,000 during 2019 and immaterial for 2018, and estimated costs and expenses to provide those services were commensurate with the forgone charges.

District tax revenues: Property taxes are levied by the County on the Hospital's behalf on July 1, and are intended to help finance the Hospital's activities during the year ending the following June 30. The County has established certain dates to levy, lien, mail bills and receive payments from property owners during the year. Amounts levied on behalf of the Hospital are a direct charge of \$150 per parcel. Property taxes are considered delinquent on the day following each payment due date. The Hospital received approximately \$3,459,000 and \$3,391,000 of its financial support from property taxes for the years ended December 31, 2019 and 2018, respectively. These funds are used to support operations and meet required debt service agreements. They are classified as nonoperating revenue as the revenue is not directly linked to patient care and recorded by the Hospital when levied and during the period of their intended use. Management determined that levied amounts not yet received and which are intended for the Hospital's future use should be recorded as deferred inflows, which totaled approximately \$1,541,000 and \$1,585,000 as of December 31, 2019 and 2018, respectively.

Grants and contributions: From time to time, the Hospital receives grants from various governmental agencies and private organizations. The Hospital also receives contributions from foundation and auxiliary organizations, as well as from individuals and other private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or capital acquisitions. These amounts, when recognized upon meeting all requirements, are reported as either nonoperating revenue or capital contributions for acquisition of equipment.

340B program: The Hospital participates in the 340B drug discount program, which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Hospital benefits under this program by purchasing pharmaceuticals at a reduced cost. As one of the conditions for participating in the 340B program, the Hospital is subject to audit. During 2018, HRSA conducted an audit of the Hospital's 340B drug discount program. The results of the audit did not materially impact the financial statements. Beginning in 2019, the Hospital's participation in the 340B program is primarily limited to the Hospital's contracts with third-party retail pharmacies.

Operating revenues and expenses: The Hospital's statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Hospital's principal activity. Operating expenses are all expenses incurred to provide health care services, other than financing costs. Nonoperating revenues and expenses are those transactions not considered directly linked to providing health care services.

Reclassifications: Certain items on the statement of net position and statement of revenues, expenses and changes in net position as of and for the year ended December 31, 2018 have been reclassified to be consistent with classifications adopted as of December 31, 2019. The reclassifications had no effect on total net position and the change in net position.

**North Sonoma County Healthcare District
d/b/a Healdsburg District Hospital**

Notes to Financial Statements

Note 2. Deposits and Investments

The fair value of deposits and investments at December 31 are as follows:

	2019	2018
Deposits:		
Deposits with financial institutions	\$ 13,803,360	\$ 14,713,039
Cash on hand	2,035	1,589
	<u>13,805,395</u>	<u>14,714,628</u>
Investments:		
Money market mutual fund	516,172	515,833
Corporate stock	118,675	103,240
Other	9,942	9,942
	<u>644,789</u>	<u>629,015</u>
	<u>\$ 14,450,184</u>	<u>\$ 15,343,643</u>
Reported as follows in the statement of net position:		
Cash and equivalents	\$ 8,175,839	\$ 7,356,699
Assets limited to use, current portion	929,000	695,026
Assets limited to use, noncurrent portion	5,216,728	7,178,736
Investments and other assets	128,617	113,182
Total	<u>\$ 14,450,184</u>	<u>\$ 15,343,643</u>

Custodial credit risk—deposits: At December 31, 2019 and 2018, the Hospital's cash deposits with financial institutions totaled approximately \$15,846,000 and \$15,119,000, respectively. Funds held in deposits are collateralized in accordance with the California Government Code (CGC), except for \$250,000 per account that is federally insured by the Federal Deposit Insurance Corporation. Under the provisions of the CGC, California banks and savings and loan associations are required to secure the Hospital's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the Hospital's deposits. California law also allows financial institutions to secure Hospital deposits by pledging first trust deed mortgage notes having a value of 150% of the Hospital's total deposits. The pledged securities are held by the pledging financial institution's trust department in the name of the Hospital.

Custodial credit risk—investments: For investments, custodial credit risk is the risk that, in the event of failure of the counterparty, the Hospital will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. Securities held by a third party are registered in the name of the Hospital.

Interest rate risk: The investment policy does not limit investment maturities as a means of managing its exposure to fair value losses from increasing interest rates. At December 31, 2019 and 2018, the money market mutual fund investments were due in less than one year.

Credit risk: State law limits investments in authorized securities to certain credit risk ratings. The money market mutual fund was rated Aaa-mf by Moody's and AAAM by Standard & Poor's.

Concentration of credit risk: The Hospital places no limit on the amounts that may be invested in any single issuer. At December 31, 2019 and 2018, 100% of the money market mutual fund investments were with a single issuer.

**North Sonoma County Healthcare District
d/b/a Healdsburg District Hospital**

Notes to Financial Statements

Note 2. Deposits and Investments (Continued)

Fair value: The Hospital uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The investment in corporate stock is reported at the last reported sales price on the day of valuation and therefore has been classified as Level 1 within the fair value hierarchy. The investment in the money market mutual fund is not reported at fair value, but rather at net asset value per share (NAV).

Note 3. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: Payments for acute care services rendered to Medicare program beneficiaries are paid on cost reimbursement principles. The Hospital was designated as a critical access hospital effective December 1, 2005. The Hospital is paid for services at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. As of June 18, 2020, cost reports through December 31, 2016, have been final settled.

Medi-Cal: Payments for inpatient services rendered to Medi-Cal patients are based on the State's diagnosis-related group system (DRG's). Under this methodology, services are paid at prospectively determined rates per discharge according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing care services rendered to Medi-Cal program beneficiaries are reimbursed at prospectively determined per diem rates. Outpatient services rendered to Medi-Cal program beneficiaries are reimbursed based on prospectively determined fee schedules. As of June 18, 2020, cost reports through December 31, 2018 have been audited or otherwise final settled.

Retroactive adjustments made to related estimated third-party settlements for prior years are recorded in net patient service revenue in the year the adjustment is determined. The 2019 and 2018 net patient service revenue increased approximately \$150,000 and \$191,000, respectively, as a result of retroactive adjustments related to prior years, excluding the final settlement with a Medi-Cal managed care payor as noted below.

The Hospital receives supplemental Medi-Cal funding from various programs through direct grants and intergovernmental transfers (IGT's). Some of these programs include Assembly Bill 113 (AB 113), Hospital Quality Assurance Fee (HQAF), Rate Range IGT, Public Hospital Redesign and Incentives in Medi-Cal (PRIME) and Assembly Bill 915 (AB 915). In general, the IGT and direct grant programs reimburse the Hospital for a portion of the difference between the cost of treating Medi-Cal patients and the amounts reimbursed through Medi-Cal and Medi-Cal managed care contracts. PRIME is unique in that it is a pay-for-performance Medi-Cal program in which the Hospital is using evidence based quality improvement methods to achieve performance targets and improve health outcomes for patients. All funding for PRIME is contingent on meeting these targets and demonstrating continuous improvement. The Hospital recognizes revenue from the various programs when the certainty of receiving the funds is assured, which is generally when payment is received.

During the years ended December 31, 2019 and 2018, the Hospital recognized the net impact of approximately \$7,759,000 and \$3,755,000, respectively, as a reduction of contractual adjustment expense, which is included in net patient service revenue. An increase of \$1,200,000 from HQAF, \$1,784,000 from the Rate Range, \$753,000 from PRIME and \$502,000 from an AB 915 Direct Grant were the primary reason for the increase.

**North Sonoma County Healthcare District
d/b/a Healdsburg District Hospital**

Notes to Financial Statements

Note 3. Net Patient Service Revenue (Continued)

In April of 2018, the Hospital received a \$5,287,000 settlement from a Medi-Cal managed care payor, \$4,918,000 of which related to claims with dates of service in 2017 and prior and was recognized in net patient service revenue during the year ended December 31, 2017. The remaining \$369,000 was included in net patient service revenue for the year ended December 31, 2018.

Other: Payments for services rendered to other than Medicare and Medi-Cal patients are based on established rates or on agreements with certain commercial insurance companies, health maintenance organizations and preferred provider organizations which provide for various discounts from established rates.

Net patient service revenue for the years ended December 31, 2019 and 2018, is comprised of the following:

	2019	2018
Inpatient services	\$ 21,983,520	\$ 23,362,874
Inpatient ancillary services	20,769,088	20,864,610
Outpatient services	75,440,263	68,190,526
Gross patient service revenue	118,192,871	112,418,010
Less contractual adjustments and provision for bad debts	(64,250,568)	(62,366,083)
Net patient service revenue	<u>\$ 53,942,303</u>	<u>\$ 50,051,927</u>

Medicare and Medi-Cal revenue accounted for approximately 75% and 72% of the Hospital's 2019 and 2018 gross patient service revenue, respectively. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is a possibility that estimates will change by a material amount in the near term.

Note 4. Concentration of Credit Risk

The Hospital grants credit without collateral to its patients and third-party payors. Patient accounts receivable from government agencies represent the only concentrated group of credit risk for the Hospital and management does not believe there is any credit risk associated with these governmental agencies. Contracted and other patient accounts receivable consist of various payors including individuals involved in diverse activities, subject to differing economic conditions and management believes they do not represent any concentrated credit risks to the Hospital. The composition of patient accounts receivable by payor at December 31, 2019 and 2018 was as follows:

	2019	2018
Medicare	\$ 4,521,785	\$ 5,715,303
Medi-Cal	13,327,455	7,672,461
Other third-party payors	8,324,245	6,774,696
Self pay	2,269,301	2,575,724
Gross patient accounts receivable	28,442,786	22,738,184
Less allowances for contractual adjustments and bad debts	(23,285,177)	(17,037,214)
Net patient accounts receivable	<u>\$ 5,157,609</u>	<u>\$ 5,700,970</u>

**North Sonoma County Healthcare District
d/b/a Healdsburg District Hospital**

Notes to Financial Statements

Note 5. Assets Limited as to Use

Assets limited as to use as of December 31, 2019 and 2018, were comprised of the following:

	2019	2018
Under trust agreements	\$ 516,172	\$ 515,833
Designated by the Board	1,716,000	1,562,000
Restricted for specific use	3,903,181	5,757,903
For employee flexible spending plan	10,375	38,026
	<u>6,145,728</u>	<u>7,873,762</u>
Less current portion to match current liabilities	(929,000)	(695,026)
	<u>\$ 5,216,728</u>	<u>\$ 7,178,736</u>

Note 6. Capital Assets

The following summarizes changes in the capital assets of the Hospital for the years ended December 31, 2019 and 2018:

	Balance at December 31, 2018	Additions and Transfers	Transfers/ Retirements	Balance at December 31, 2019
Capital assets not being depreciated:				
Land and land improvements	\$ 440,000	\$ -	\$ -	\$ 440,000
Construction-in-progress	680,670	1,908,281	(1,953,342)	635,609
Total capital assets not being depreciated	<u>1,120,670</u>	<u>1,908,281</u>	<u>(1,953,342)</u>	<u>1,075,609</u>
Capital assets being depreciated:				
Buildings and improvements	7,024,332	-	378,444	7,402,776
Equipment	17,549,559	42,105	1,473,561	19,065,225
Total capital assets being depreciated	<u>24,573,891</u>	<u>42,105</u>	<u>1,852,005</u>	<u>26,468,001</u>
Less accumulated depreciation for:				
Buildings and improvements	3,744,841	325,621	-	4,070,462
Equipment	12,065,155	1,411,310	(101,337)	13,375,128
Total accumulated depreciation	<u>15,809,996</u>	<u>1,736,931</u>	<u>(101,337)</u>	<u>17,445,590</u>
Total capital assets being depreciated, net	<u>8,763,895</u>	<u>(1,694,826)</u>	<u>1,953,342</u>	<u>9,022,411</u>
Capital assets, net	<u>\$ 9,884,565</u>	<u>\$ 213,455</u>	<u>\$ -</u>	<u>\$ 10,098,020</u>

**North Sonoma County Healthcare District
d/b/a Healdsburg District Hospital**

Notes to Financial Statements

Note 6. Capital Assets (Continued)

	Balance at December 31, 2017	Additions and Transfers	Transfers/ Retirements	Balance at December 31, 2018
Capital assets not being depreciated:				
Land and land improvements	\$ 440,000	\$ -	\$ -	\$ 440,000
Construction-in-progress	294,505	4,006,818	(3,620,653)	680,670
Total capital assets not being depreciated	734,505	4,006,818	(3,620,653)	1,120,670
Capital assets being depreciated:				
Buildings and improvements	6,918,227	-	106,105	7,024,332
Equipment	14,022,698	190,118	3,336,743	17,549,559
Total capital assets being depreciated	20,940,925	190,118	3,442,848	24,573,891
Less accumulated depreciation for:				
Buildings and improvements	3,446,515	307,184	(8,858)	3,744,841
Equipment	10,681,474	1,538,039	(154,358)	12,065,155
Total accumulated depreciation	14,127,989	1,845,223	(163,216)	15,809,996
Total capital assets being depreciated, net	6,812,936	(1,655,105)	3,606,064	8,763,895
Capital assets, net	\$ 7,547,441	\$ 2,351,713	\$ (14,589)	\$ 9,884,565

Note 7. Long-Term Debt

As of December 31, 2019 and 2018, debt borrowings were as follows:

	December 31, 2018	Borrowings	Payments	December 31, 2019	Due Within One Year
North Sonoma County Healthcare District Certificates of Participation— 2016 Financing Project	\$ 11,184,000	-	\$ (746,000)	\$ 10,438,000	\$ 767,000
	\$ 11,184,000	\$ -	\$ (746,000)	\$ 10,438,000	\$ 767,000
	December 31, 2017	Borrowings	Payments	December 31, 2018	Due Within One Year
Capital lease obligation North Sonoma County Healthcare District Certificates of Participation— 2016 Financing Project	\$ 489,980	\$ -	\$ (489,980)	\$ -	\$ -
	4,408,122	7,503,878	(728,000)	11,184,000	746,000
	\$ 4,898,102	\$ 7,503,878	\$ (1,217,980)	\$ 11,184,000	\$ 746,000

**North Sonoma County Healthcare District
d/b/a Healdsburg District Hospital**

Notes to Financial Statements

Note 7. Long-Term Debt (Continued)

Scheduled principal and interest repayments on long-term debt are as follows:

Years ending December 31:	Note Payable		Total Debt Service Requirements
	Principal	Interest	
2020	\$ 767,000	\$ 265,410	\$ 1,032,410
2021	787,000	245,415	1,032,415
2022	807,000	224,903	1,031,903
2023	829,000	203,859	1,032,859
2024	850,000	182,258	1,032,258
2025-2029	4,438,000	573,063	5,011,063
2030-2031	1,960,000	63,831	2,023,831
	<u>\$ 10,438,000</u>	<u>\$ 1,758,739</u>	<u>\$ 12,196,739</u>

Certificates of participation: On December 29, 2016, the Hospital issued COP, 2016 Financing Program (2016 COP), in the original principal amount of \$12,440,000. The 2016 COP provided funds to: (i) refund its outstanding 2008 COP, executed to finance and refinance the acquisition and improvement of its health facilities; (ii) finance the improvement, renovation, replacement and equipping of the Hospital; and (iii) pay for costs associated with the execution and delivery of the COP.

The COP evidence the direct, undivided fractional interests of the registered owners thereof (the Owners) in lease payments to be made by North Sonoma Hospital District (the District) for the lease of the Hospital pursuant to a lease agreement, dated as of December 1, 2016 by and between the District and Northern California Health Care Authority (the Authority). The District leases the Hospital to the Authority to enable the Authority to lease the Hospital back to the District pursuant to the Lease Agreement. Pursuant to an Assignment Agreement, dated as of December 1, 2016 between the Authority and the Trustee (the Assignment Agreement), the Authority assigned to the Trustee, for the benefit of the Owners, its rights under the Lease Agreement, including: (i) its right to receive Lease Payments; (ii) the District's pledge of its Parcel Tax Revenues to secure payment of Lease Payments; and (iii) its right to enforce amounts payable upon default.

As of December 31, 2016, the initial proceeds of \$4,936,000 were transferred to the Hospital. The difference between the net carrying value of the 2008 COP at the refunding date and the re-acquisition price of approximately \$254,000 was recognized as a deferred outflow of resources at that time, which was fully amortized at December 31, 2018.

In June 2018, the Hospital drew down the remaining \$7,504,000, which was placed into an escrow account restricted for future capital purchases. As of December 31, 2019 and 2018, \$3,648,000 and \$5,483,000 remained in escrow, which is recorded in noncurrent assets limited as to use in the accompanying statements of net position.

**North Sonoma County Healthcare District
d/b/a Healdsburg District Hospital**

Notes to Financial Statements

Note 7. Long-Term Debt (Continued)

Pledge of parcel tax revenues: Given there is a first and prior lien on the Parcel Tax Revenues, parcel tax payments are remitted directly to the Trustee, and the Trustee applies taxes collected to the amount due for Lease Payments, in which the Certificates represent undivided fractional interests. Any tax revenues remaining after the Lease Payments are made is remitted to the District. "Parcel Tax Revenues" are the annual amounts collected by the County on behalf of the District from the Parcel Tax. If Parcel Tax Revenues are insufficient to pay Lease Payments when due, the District promises to pay the Lease Payments from any other available revenues of the District, subject to existing and future liens and encumbrances on its other revenues; provided, however, that there is no assurance that such revenues will be available. Until such time as all of the Lease Payments have been fully paid or prepaid, the District: (a) will not suspend, abate or discontinue any payments provided for in the Lease Agreement; (b) will perform and observe all other agreements contained in the Lease Agreement; (c) will take appropriate action to oppose any effort to modify the Parcel Tax that would adversely affect the payment of the Certificates; and (d) will not terminate the term of the Lease Agreement for any cause.

Optional redemption: The 2016 COP are subject to redemption in whole or in part on any date on or after September 1, 2026, at the principal amount with respect thereto, together with accrued interest to the date fixed for redemption from the proceeds of optional prepayments made by the Hospital pursuant to the lease agreement. The 2016 COP are subject to optional redemption prior to their stated maturity, once per year on any date, at the option of the Hospital, in part, in inverse order of mandatory sinking fund installment payment date, up to 10% of the outstanding principal amount of the COP.

Mandatory sinking fund redemption: The 2016 COP are subject to mandatory redemption on March 1 and September 1 in each year on and after March 1, 2017, in the respective principal amounts set forth in the official statement.

Note 8. Retirement Plans

Effective October 1, 2004, the Hospital adopted a Section 457 retirement plan. Employees can contribute to this plan pursuant to plan documents. The Hospital also provides a defined contribution plan under Section 401(a), which allows the Hospital to match 50% of the employee's Section 457 contributions limited to a 3% maximum compensation level. All permanent employees who have completed 1,000 hours of service are eligible. Employer contributions to these plans for the years ended December 31, 2019 and 2018 were approximately \$446,000 and \$349,000, respectively, which is included in employee benefits expense.

The Hospital used to provide a 403(b) contributory plan. Effective October 1, 2004, this plan was frozen as the new Section 457/401(a) plans previously mentioned replaced it. There have been no contributions to this plan since it was frozen.

Note 9. Healthcare Foundation Support

The Healthcare Foundation North Sonoma County (the Foundation), is an independent 501(c)(3) organization that has operated capital campaigns to fund operations, a new emergency room, ICU, MRI and other capital improvements to the Hospital. In 2018, the Foundation disbursed approximately \$220,000 in unrestricted capital contributions to the Hospital. In 2019, the Foundation disbursed approximately \$10,000 in unrestricted contributions to the Hospital.

**North Sonoma County Healthcare District
d/b/a Healdsburg District Hospital**

Notes to Financial Statements

Note 10. Commitments and Contingencies

Electronic health record payments: The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program for eligible providers that adopt and meaningfully use certified EHR technology.

The Hospital is entitled to receive Medicare and Medicaid incentive payments for the adoption of certified EHR technology, as it has satisfied the statutory and regulatory requirements. The Hospital recognizes income related to Medicare and Medicaid incentive payments using a grant model based upon when it has determined that it is reasonably assured that the Hospital will be meaningfully using EHR technology for the applicable period and the cost report information is reasonably estimable. The Hospital recognized revenue from Medicare and Medicaid incentive payments totaling \$34,000 and \$102,000, respectively, for the years ended December 31, 2019 and 2018. The incentive payments are included in other operating revenue in the statement of revenues, expenses and changes in net position. The Hospital's attestation of compliance with the meaningful use criteria is subject to audit by the federal government or its designee. During 2019, the California Department of Healthcare Services (DHCS) conducted an audit of the Hospital's Medicaid EHR. Based on the final results of their audit, the Hospital believes there will not be a material financial impact to the financial statements.

Operating leases: The Hospital leases various equipment and facilities under operating leases expiring at various dates. Total building and equipment rent expense for the years ended December 31, 2019 and 2018, was approximately \$1,227,000 and \$1,218,000, respectively, and is included in building and equipment rent expense. Future minimum lease payments for future years under operating leases that have initial or remaining lease terms in excess of one year as of December 31, 2019, are as follows:

Years ending December 31:	
2020	\$ 700,921
2021	649,810
2022	607,643
2023	269,410
2024	277,492
Thereafter	1,517,442
	<u>\$ 4,022,718</u>

Litigation: The Hospital may from time-to-time be involved in litigation and regulatory investigations, which arise in the normal course of doing business. After consultation with legal counsel, management estimates that matters existing as of December 31, 2019, will be resolved without material adverse effect on the Hospital's future financial position, results from operations or cash flows.

Capital commitments: At December 31, 2019, the Hospital Board of Directors approved approximately \$3,900,000 related to various projects being funded by the 2016 COP.

**North Sonoma County Healthcare District
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Notes to Financial Statements

Note 10. Commitments and Contingencies (Continued)

Regulatory and compliance matters—general regulatory compliance: The health care industry is subject to voluminous and complex laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws and false claims prohibitions, and in the case of tax-exempt hospitals, the requirements of tax exemption. In recent years, government activity has increased with respect to eligibility for critical access hospital designation, investigations and allegations concerning possible violations of reimbursement, false claims, anti-kickback, and anti-referral statutes and regulations by health care providers. The Hospital believes it is generally in compliance with applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. The Hospital records a liability when it becomes aware that it has billed amounts or entered into transactions or relationships that may violate these governmental laws or regulations.

Medical malpractice insurance: The Hospital maintains commercial malpractice liability insurance coverage under a claims-made policy covering losses up to \$5 million per claim and up to \$15 million in the aggregate, with a per claim deductible of \$10,000. The Hospital plans to maintain the insurance coverage by renewing its current policy, or by replacing it with equivalent insurance. Based upon the Hospital's claims experience, management has determined that the potential liability for such claims is not material to the financial statements.

Workers' compensation program: The Hospital maintains workers' compensation self-insurance coverage under a claims-made policy covering losses on a per-occurrence basis in excess of \$350,000 with an aggregate limit of \$2,000,000. Outstanding claims and incurred but not reported claims (IBNR) are evaluated through a combination of case-by-case reviews and application of historical experience. The amount recorded for outstanding and IBNR claims are estimated by an independent actuary.

The change in the workers' compensation claims liabilities, which are included in the amount of \$303,000 within accounts payable and other accrued expenses and \$787,000 within estimated workers' compensation liability, net of current portion on the statements of net position, is approximately as follows:

	2019	2018
Claims payable, beginning of year	\$ 1,159,000	\$ 1,072,000
Incurred claims	57,000	239,000
Claim payments	(126,000)	(152,000)
Claims payable, end of year	<u>\$ 1,090,000</u>	<u>\$ 1,159,000</u>

Health self-insurance: The health care plan for the Hospital's employees is administered by a third-party administrator. The Organization acts as a self-insurer for employee health care claims with excess coverage for claims exceeding \$100,000 per covered person with an aggregate minimum stop loss of \$4,197,000, which may be adjusted upward by the carrier dependent upon certain factors, for the policy year ended December 31, 2019. For the year ended December 31, 2019, the carrier adjusted the aggregate stop loss to \$4,698,000. Administrative expenses and claims for the health care plan included in expense were approximately \$3,643,000 and \$3,598,000 for the years ended December 31, 2019 and 2018, respectively.

**North Sonoma County Healthcare District
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Notes to Financial Statements

Note 10. Commitments and Contingencies (Continued)

Liabilities are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. Included within the claims payable table below are estimated reinsurance receivables of \$100,000 and \$250,000, for the years ended December 31, 2019 and 2018, respectively.

The change in the balance of self-insured health claims liabilities, which are included in accounts payable and other accrued expenses on the statements of net position, is approximately as follows:

	2019	2018
Claims payable, beginning of year	\$ 380,000	\$ 455,000
Incurred claims	4,265,000	3,455,000
Claim payments	(4,050,000)	(3,530,000)
Claims payable, end of year	<u>\$ 595,000</u>	<u>\$ 380,000</u>

Health care reform: As a result of enacted federal health care reform legislation, substantial changes are anticipated in the United States health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

Seismic retro-fit: The State of California issued seismic safety regulations in 1994, which have been amended on several occasions since then. The regulations call for stringent structural building standards. The Hospital is required to comply with earthquake retrofit requirements and has until 2030 to be compliant with such regulations. Management is evaluating its facilities and is considering all options.

Kincade Fire: In October and November 2019, a wildfire known as the Kincade Fire (the Fire) spread through Sonoma County, California. Mandatory evacuations were issued for Sonoma County, including the closure of the Hospital for a period of time spanning October and November 2019. As a result of the Fire, the Hospital experienced a significant loss of revenue, as well as expenses incurred to purchase damaged pharmaceuticals, cleanup, and to comply with the regulations required to reopen the Hospital. Thus far, in 2020 the Hospital has received approximately \$2,447,000 from their insurance carriers. The amount received is included in other receivables on the accompanying statement of net position as of December 31, 2019. A portion of the insurance proceeds received were to be used to pay a third-party vendor used for cleanup after the fire. The payable to the vendor is approximately \$772,000, which is included in accounts payable and other accrued expenses on the accompanying statement of net position as of December 31, 2019. The net insurance proceeds of approximately \$1,675,000 is included in other nonoperating revenue on the accompanying statement of revenues, expenses and changes in net position for the year ended December 31, 2019. The Hospital is in the process of working with its insurance carriers to settle the insurance claims. The final claim amount is still uncertain as of June 18, 2020.

**North Sonoma County Healthcare District
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Notes to Financial Statements

Note 11. Recent Accounting Standards Not Yet Adopted

GASB Statement No. 83, *Certain Asset Retirement Obligations*, issued December 2016, will be effective for the Hospital beginning with its fiscal year ending December 31, 2020. Under Statement No. 83, a government that has legal obligations to perform future asset retirement activities related to its tangible capital assets is required to recognize a liability and a corresponding deferred outflow of resources. The Statement identifies the circumstances that trigger the recognition of these transactions. The Statement also requires the measurement of an asset retirement obligation to be based on the best estimate of the current value of outlays expected to be incurred while the deferred outflow of resources associated with the asset retirement obligation will be measured at the amount of the corresponding liability upon initial measurement and generally recognized as an expense during the reporting periods that the asset provides service. The Statement requires disclosures including a general description of the asset retirement obligation and associated tangible capital assets; the source of the obligation to retire the assets; the methods and assumptions used to measure the liability; and other relevant information.

GASB Statement No. 84, *Fiduciary Activities*, issued January 2017, will be effective for the Hospital beginning with its fiscal year ending December 31, 2020. This Statement established criteria for identifying fiduciary activities of all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund on the basic financial statements.

GASB Statement No. 87, *Leases*, issued June 2017, will be effective for the Hospital beginning with its fiscal year ending December 31, 2022, with earlier adoption encouraged. Statement No. 87 establishes a single approach to accounting for and reporting leases by state and local governments. Under this statement, a government entity that is a lessee must recognize (1) a lease liability and (2) an intangible asset representing the lessee's right to use the leased asset. In addition, the Hospital must report the (1) amortization expense for using the lease asset over the shorter of the term of the lease or the useful life of the underlying asset, (2) interest expense on the lease liability and (3) note disclosures about the lease. The Statement provides exceptions from the single-approach for short-term leases, financial purchases, leases of assets that are investments and certain regulated leases. This statement also addresses accounting for lease terminations and modifications, sale-leaseback transactions, nonlease components embedded in lease contracts (such as service agreements) and leases with related parties. The Hospital is in the process of implementing the standard for fiscal year 2020.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placement*, issued March 2018, will be effective for the Hospital beginning with its fiscal year ending December 31, 2020, with earlier adoption encouraged. Statement No. 88 clarifies which liabilities governments should include in their note disclosures related to debt. This Statement defines debt that must be disclosed in the notes to financial statements as a liability that arises from a contractual obligation to pay cash in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Governments must also disclose amounts of unused lines of credit, assets pledged as collateral for debt and the terms specified in debt agreements related to significant events of default with finance-related consequences, termination events with finance-related consequences and subjective acceleration clauses. Within the notes, governments should separate information regarding direct borrowings and direct placements of debt from other debt.

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Notes to Financial Statements

Note 12. Subsequent Events

Management has evaluated subsequent events and transaction through June 18, 2020, the date that these financial statements were issued.

COVID-19: The spread of COVID-19, a novel strain of coronavirus, is altering the behavior of organizations and individuals throughout the United States. Further, financial markets have recently experienced a significant decline attributed to coronavirus concerns. The continued spread of COVID-19 may adversely impact the local, regional and national economies. The extent to which the coronavirus impacts the Hospital's results will depend on future developments, which are highly uncertain and cannot be predicted. The impact is highly dependent on the breadth and duration of the outbreak and could be affected by other factors that cannot currently be predicted. Accordingly, management cannot presently estimate the overall operational and financial impact to the Hospital, but such an impact could have a material adverse effect on the financial condition of the Hospital.

