

**North Sonoma County Healthcare District**

Financial Report  
December 31, 2020

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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 (the District) as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District'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 District'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 District'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, 2020 and 2019, 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 3–9 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  
August 9, 2021

## **North Sonoma County Healthcare District**

### **Management's Discussion and Analysis Year Ended December 31, 2020**

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North Sonoma County Healthcare District (District) is a special health care 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 2020, 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.

As of January 1, 2021, the District Board transferred control of the Hospital to NorCal HealthConnect, a secular affiliate of Providence St. Joseph Health. The acquisition of the Hospital was the culmination of several years of the board and management of the District seeking out strategic partnerships that would ensure the long-term sustainability of health care in the District. As part of the transfer of operations NorCal Health Connect committed to invest \$10,000,000 over the next ten years in the development or expansion of the Hospital and health care improvements, equipment and/or programs and services that will support the community and population health of the District's constituents.

#### **Financial Highlights**

- The Hospital experienced an increase in net position in 2020, in spite of the impact of the pandemic. 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.
- The Hospital spent \$1,526,000 on capital assets in 2020, allowing the Hospital to make significant upgrades in both facilities and equipment to better serve our patients.
- \$117,000 of the Hospital's cash and investments is restricted or designated, and \$7,049,000 is unrestricted and can be used at the Hospital's discretion.
- Current assets and current liabilities both increased from 2019 due to federal stimulus efforts and transactions related to the 2021 sale of the Hospital, with a strong current ratio of 3.74.
- The Hospital received \$8,072,000 from various Intergovernmental Transfers (IGT's), an increase of \$2,052,000 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, 2020.

## North Sonoma County Healthcare District

### Management's Discussion and Analysis Year Ended December 31, 2020

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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 Board (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 97% 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 revenues, 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, and capital asset and long-term debt activity.

The financial statements report historical 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 health care 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

### Management's Discussion and Analysis Year Ended December 31, 2020

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#### 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 2020, and the changes from 2019 shown in the following tables and the audited financial statements.

#### Condensed Statements of Net Position

	2020	2019	2018	2019 vs 2020	
				Amount	Percent
<b>Assets</b>					
Current assets	\$ 34,477,492	\$ 20,333,860	\$ 16,431,352	\$ 14,143,632	69.6%
Noncurrent assets and deferred outflows	10,483,837	15,443,365	17,176,483	(4,959,528)	(32.1%)
<b>Total assets</b>	<b>\$ 44,961,329</b>	<b>\$ 35,777,225</b>	<b>\$ 33,607,835</b>	<b>\$ 9,184,104</b>	<b>25.7%</b>
<b>Liabilities and Net Position</b>					
Accounts payable, accrued expenses and estimated third-party payor settlements	\$ 8,379,459	\$ 7,352,925	\$ 6,678,779	\$ 1,026,534	14.0%
Notes and capital leases payable, current	830,000	767,000	746,000	63,000	8.2%
Notes and capital leases payable and workers' compensation, long-term and deferred inflows	11,749,000	11,999,000	12,928,000	(250,000)	(2.1%)
Net position	24,002,870	15,658,300	13,255,056	8,344,570	53.3%
<b>Total liabilities and net position</b>	<b>\$ 44,961,329</b>	<b>\$ 35,777,225</b>	<b>\$ 33,607,835</b>	<b>\$ 9,184,104</b>	<b>25.7%</b>

Within current assets, the largest increase is funds transferred to the purchaser of the Hospital operations totaling \$13,746,000. This amount was transferred to the buyer prior to December 31, 2020 in anticipation of the sale that occurred on January 1, 2021.

The decrease in noncurrent assets and deferred outflows resulted primarily from the decrease in noncurrent assets limited to use in the amount of \$5,173,000 as many restrictions were removed with sale of the Hospital operations.

Total current liabilities increased from 2019 by 13.4%. Long-term liabilities and deferred inflows decreased 2.1% due to the payments on the debt and a reduction in the actuarially determined liability for workers' compensation claims.

Net position (total assets less total liabilities and deferred inflows) increased by \$8,344,570 or 53.3%.

## North Sonoma County Healthcare District

### Management's Discussion and Analysis Year Ended December 31, 2020

#### Condensed Statements of Revenues, Expenses and Changes in Net Position

	2020	2019	2018	2019 vs 2020	
				Amount	Percent
Operating revenues, net	\$ 57,096,933	\$ 54,999,075	\$ 50,925,073	\$ 2,097,858	3.8%
Operating expenses	57,818,537	57,497,986	54,226,389	320,551	0.6%
<b>Operating loss</b>	<b>(721,604)</b>	<b>(2,498,911)</b>	<b>(3,301,316)</b>	<b>1,777,307</b>	<b>(71.1%)</b>
Nonoperating revenues, net	9,054,308	4,886,955	3,258,792	4,167,353	85.3%
<b>Gain (loss) before capital contributions</b>	<b>8,332,704</b>	<b>2,388,044</b>	<b>(42,524)</b>	<b>5,944,660</b>	<b>248.9%</b>
Capital contributions for acquisition of equipment	11,866	15,200	12,600	(3,334)	(21.9%)
<b>Change in net position</b>	<b>8,344,570</b>	<b>2,403,244</b>	<b>(29,924)</b>	<b>5,941,326</b>	<b>247.2%</b>
Net position, beginning of year	15,658,300	13,255,056	13,284,980	2,403,244	18.1%
Net position, end of year	<u>\$ 24,002,870</u>	<u>\$ 15,658,300</u>	<u>\$ 13,255,056</u>	<u>\$ 8,344,570</u>	<u>53.3%</u>

The Hospital experienced an increase in net position in 2020. 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 approximately \$2,098,000. Increased funding from the various Hospital IGT's accounted for the increase.

While total operating expenses were consistent with the prior year, significant changes within operating expenses are as follows:

- Registry and other professional fees increased 52% primarily due to costs incurred in connection with the acquisition of the Hospital by NorCal HealthConnect, LLC.
- Supplies expense decreased 29%. The decrease was primarily a result of decreased surgery department costs for implants. The Hospital adopted the recommendations of the Centers for Disease Control and American Academy of Surgeons to minimize, postpone, or cancel elective surgeries.
- Purchased services increased 33% due to outsourcing of billing, due diligence, community relations and marketing, reference lab and various IT projects.
- Insurance increased 210% due to the Hospital purchase of tail coverage in connection with the acquisition of the Hospital by NorCal HealthConnect, LLC.

Nonoperating revenues consist primarily of parcel taxes, which were consistent with 2019, and HHS provider relief funds due to the impact of COVID-19.

The change in net position is the sum of the operating loss, net nonoperating revenues and capital contributions. The Hospital net position increased \$8,345,000 in 2020.



## North Sonoma County Healthcare District

### Management's Discussion and Analysis Year Ended December 31, 2020

#### Condensed Statements of Cash Flows

	2020	2019	2018	2019 vs 2020	
				Amount	Percent
Cash flows provided by (used in) operating activities	\$ (5,004,879)	\$ (1,417,788)	\$ 2,813,022	\$ (3,587,091)	253.0%
Cash flows provided by noncapital financing activities	8,875,668	3,458,833	3,391,426	5,416,835	156.6%
Cash flows provided by (used in) capital and related financing activities	(11,158,138)	(2,962,780)	1,851,968	(8,195,358)	276.6%
Cash flows provided by (used in) investing activities	6,051,830	1,740,875	(3,511,619)	4,310,955	247.6%
<b>Net change in cash and cash equivalents</b>	<b>(1,235,519)</b>	<b>819,140</b>	<b>4,544,797</b>	<b>(2,054,659)</b>	<b>(250.8%)</b>
Cash and cash equivalents:					
Beginning of year	8,175,839	7,356,699	2,811,902	819,140	11.1%
End of year	<u>\$ 6,940,320</u>	<u>\$ 8,175,839</u>	<u>\$ 7,356,699</u>	<u>\$ (1,235,519)</u>	<u>(15.1%)</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:					
Operating loss	\$ (721,604)	\$ (2,498,911)	\$ (3,301,316)	\$ 1,777,307	(71.1%)
Adjustments to reconcile	(4,283,275)	1,081,123	6,114,338	(5,364,398)	(496.2%)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (5,004,879)</b>	<b>\$ (1,417,788)</b>	<b>\$ 2,813,022</b>	<b>\$ (3,587,091)</b>	<b>253.0%</b>

Cash and cash equivalents totaled \$6,940,000 compared to \$8,176,000 in 2019. The \$5,005,000 of cash used by operating activities was largely a product of an increase in payroll cost due to the employee cash out of PTO prior to the acquisition, and increased payments to suppliers for various costs incurred in advance of the acquisition. Cash flows from noncapital financing activities of \$8,876,000 consist of the Hospital's parcel tax receipts and HHS Provider Relief Funds received. The cash flows used in capital and related financing activities of \$11,158,000 was a result of purchases of capital assets, principal and interest payments for debt and cash transferred to the buyer of the Hospital. The cash provided by investing activities was primarily from additional funds being released from restriction from the 2020 certificates of participation (COP) debt and board designations being released due to the acquisition of the Hospital.

#### Capital Assets

The Hospital's capital assets decreased by \$263,000, or 2.6%, in 2020 due to asset acquisitions of \$1,526,000 (of both equipment and facility additions) and depreciation of \$1,743,000. (See Note 6 in the Audited Financial Statements for information on capital assets.)

In spite of the significant investment made in 2020, 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

### Management's Discussion and Analysis Year Ended December 31, 2020

#### 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. In 2020, the Hospital issued the 2020 COP (tax exempt bonds) in the amount of \$10,379,000 to refund the 2016 COP in the amount of \$10,438,000. (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 2018, 2019 and 2020.

	2020	2019	2018	2019 vs 2020	
				Amount	Percent
Inpatient statistics:					
Acute care admissions	473	566	478	(93)	(16.4%)
ICU admissions	88	120	169	(32)	(26.7%)
Skilled care (SWG) admissions	58	87	65	(29)	(33.3%)
Subacute care admissions	2	24	5	(22)	(91.7%)
<b>Total admissions</b>	<b>621</b>	<b>797</b>	<b>717</b>	<b>(176)</b>	<b>(22.1%)</b>
Acute care patient days	1,534	1,463	1,666	71	4.9%
ICU patient days	473	479	779	(6)	(1.3%)
Skilled care (SWG) patient days	453	546	515	(93)	(17.0%)
Subacute care patient days	6,029	5,454	5,483	575	10.5%
<b>Total patient days</b>	<b>8,489</b>	<b>7,942</b>	<b>8,443</b>	<b>547</b>	<b>6.9%</b>
Acute/skilled % of occupancy	32.09%	32.46%	38.62%	(0.37%)	
Acute/skilled average daily census	6.7	6.8	8.1	(0.1)	(1.1%)
Acute/skilled average length of stay (days)	4.0	3.2	4.2	0.8	23.5%
Subacute % of occupancy	97.16%	87.90%	88.36%	9.27%	
Subacute average daily census (patients)	16.5	14.9	15.0	1.6	10.5%
Outpatient statistics:					
Surgeries	2,011	3,952	2,630	(1,941)	(49.1%)
Total emergency room visits	6,794	8,097	8,576	(1,303)	(16.1%)
Healdsburg primary care	7,252	7,640	8,706	(388)	(5.1%)
Total outpatient visits	38,339	43,257	46,494	(4,918)	(11.4%)

- Despite a 22.1% decrease in admissions, total patient days increased 6.9%.
- The Hospital saw a significant decrease in surgeries, primarily in the area of pain management, due to implementing recommendations by the Centers for Disease Control and American Academy of Surgeons to minimize, postpone, or cancel elective surgeries.
- There was a significant decrease in primary care and overall outpatient visits from 2019 to 2020 due to the COVID-19 pandemic, with many areas seeing the lowest volumes in several years.

## **North Sonoma County Healthcare District**

### **Management's Discussion and Analysis Year Ended December 31, 2020**

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#### **Economic Factors and Outlook**

Providence/St. Joseph's Health System (NorCal HealthConnect) took over operations on January 1, 2021. As a result, the North Sonoma County Healthcare District itself will no longer be providing the health care services they have in the past, but will continue to have financial transactions primarily for parcel taxes, debt service, and staffing to perform these activities.

The members of the District Board are transitioning their focus away from the oversight of the hospital and towards new goals that serve the community. An effort is underway to identify the greatest needs in our local health care network, and a strategic planning group will be making recommendations on how this board can align their new mission, vision and values to address those needs.

#### **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 District via email at [info@nschd.com](mailto:info@nschd.com)

Jim Nantell  
Board Treasurer

Nathan Oliver  
Financial Consultant

**North Sonoma County Healthcare District**

**Statements of Net Position  
December 31, 2020 and 2019**

	2020	2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 6,940,320	\$ 8,175,839
Assets limited as to use, current portion	73,460	929,000
Patient accounts receivable, net of allowances	6,486,136	5,157,609
Other receivables	3,311,823	3,313,104
District tax receivables	1,500,000	1,541,000
Inventories	885,879	810,562
Prepaid expenses and other assets	341,848	406,746
Estimated third-party payor settlements	1,192,000	-
Refundable deposits	13,746,026	-
<b>Total current assets</b>	<b>34,477,492</b>	<b>20,333,860</b>
Assets limited as to use, less current portion	<u>43,738</u>	<u>5,216,728</u>
Capital assets:		
Nondepreciable	1,580,312	1,075,609
Depreciable, net	8,254,884	9,022,411
	<u>9,835,196</u>	<u>10,098,020</u>
Investments and other assets	<u>108,779</u>	<u>128,617</u>
Deferred outflows of resources, deferred outflows related to debt refunding	<u>496,124</u>	<u>-</u>
<b>Total assets</b>	<b>\$ 44,961,329</b>	<b>\$ 35,777,225</b>

See notes to financial statements.

	2020	2019
<b>Liabilities, Deferred Inflows and Net Position</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 830,000	\$ 767,000
Accounts payable and other accrued expenses	1,900,733	3,664,458
Accrued payroll and related liabilities	1,478,726	2,943,467
Estimated third-party payor settlements	-	745,000
Refundable advance	5,000,000	-
<b>Total current liabilities</b>	<b>9,209,459</b>	<b>8,119,925</b>
Long-term debt, net of current maturities	9,549,000	9,671,000
Estimated workers' compensation liability, net of current portion	700,000	787,000
<b>Total liabilities</b>	<b>19,458,459</b>	<b>18,577,925</b>
Deferred inflows of resources, deferred inflows related to district tax revenues	1,500,000	1,541,000
<b>Total liabilities and deferred inflows</b>	<b>20,958,459</b>	<b>20,118,925</b>
Commitments and contingencies (Note 10)		
Net position:		
Net investment in capital assets	(22,627)	3,307,571
Restricted for:		
Debt service, under trust agreements	25,053	516,172
Other purposes	8,310	266,005
Unrestricted	23,992,134	11,568,552
<b>Total net position</b>	<b>24,002,870</b>	<b>15,658,300</b>
<b>Total liabilities, deferred inflows and net position</b>	<b>\$ 44,961,329</b>	<b>\$ 35,777,225</b>

North Sonoma County Healthcare District

Statements of Revenues, Expenses and Changes in Net Position  
Years Ended December 31, 2020 and 2019

	2020	2019
Operating revenues:		
Net patient service revenue, before provision for bad debt	\$ 58,056,291	\$ 56,404,000
Provision for bad debt	<u>(1,724,491)</u>	<u>(2,461,697)</u>
<b>Net patient service revenue</b>	<b>56,331,800</b>	53,942,303
Other operating revenue	<u>765,133</u>	<u>1,056,772</u>
<b>Total operating revenues</b>	<b><u>57,096,933</u></b>	<b><u>54,999,075</u></b>
Operating expenses:		
Salaries and wages	23,372,999	23,661,017
Employee benefits	8,853,641	9,540,061
Registry and other professional fees	2,302,802	1,516,671
Medical professional fees	5,402,272	5,463,208
Supplies	6,305,302	8,875,840
Purchased services	3,610,044	2,716,974
Repairs and maintenance	753,757	842,411
Utilities	551,687	493,214
Building and equipment rent	1,424,908	1,226,771
Insurance	1,207,589	389,173
Depreciation	1,742,523	1,736,931
Other operating expenses	<u>2,291,013</u>	<u>1,035,715</u>
<b>Total operating expenses</b>	<b><u>57,818,537</u></b>	<b><u>57,497,986</u></b>
<b>Operating loss</b>	<b><u>(721,604)</u></b>	<b><u>(2,498,911)</u></b>
Nonoperating revenues (expenses):		
District tax revenues	3,449,971	3,458,833
Investment gain (loss), net	(16,453)	17,951
Interest (expense)	(265,465)	(278,421)
Grants and contributions	19,915	10,325
Other	440,643	1,678,267
HHS provider relief funds revenue	<u>5,425,697</u>	<u>-</u>
<b>Total nonoperating revenues, net</b>	<b><u>9,054,308</u></b>	<b><u>4,886,955</u></b>
<b>Gain before capital contributions</b>	<b>8,332,704</b>	2,388,044
Capital contributions for acquisition of equipment	<u>11,866</u>	<u>15,200</u>
<b>Change in net position</b>	<b><u>8,344,570</u></b>	<b><u>2,403,244</u></b>
Net position:		
Beginning of year	<u>15,658,300</u>	<u>13,255,056</u>
End of year	<b><u>\$ 24,002,870</u></b>	<b><u>\$ 15,658,300</u></b>

See notes to financial statements.

**North Sonoma County Healthcare District**

**Statements of Cash Flows  
Years Ended December 31, 2020 and 2019**

	2020	2019
Cash flows from operating activities:		
Receipts from patients and other third-party payors	\$ 53,066,273	\$ 54,798,772
Payments to suppliers	(25,013,483)	(21,233,074)
Payments to employees	(33,778,381)	(32,749,819)
Other receipts (payments)	720,712	(2,233,667)
<b>Net cash used in operating activities</b>	<b>(5,004,879)</b>	<b>(1,417,788)</b>
Cash flows from noncapital financing activities:		
HHS provider relief funds received	5,425,697	-
District tax revenues	3,449,971	3,458,833
<b>Net cash provided by noncapital financing activities</b>	<b>8,875,668</b>	<b>3,458,833</b>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(1,525,815)	(1,950,386)
Issuance of long-term debt	10,379,000	-
Contributions received for capital asset acquisitions	11,866	15,200
Long-lived asset impairment	-	3,267
Payment of refundable advance	(13,746,026)	-
Receipt of refundable advance	5,000,000	-
Payment of premium on bond	(496,124)	-
Principal payments on long-term debt	(10,438,000)	(746,000)
Interest paid on long-term debt	(343,039)	(284,861)
<b>Net cash used in capital and related financing activities</b>	<b>(11,158,138)</b>	<b>(2,962,780)</b>
Cash flows from investing activities:		
Net change in assets limited as to use	6,028,530	1,728,034
Investment gain	3,385	2,516
Grants and contributions	19,915	10,325
<b>Net cash provided by investing activities</b>	<b>6,051,830</b>	<b>1,740,875</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,235,519)</b>	<b>819,140</b>
Cash and cash equivalents:		
Beginning of year	8,175,839	7,356,699
End of year	<b>\$ 6,940,320</b>	<b>\$ 8,175,839</b>

(Continued)

**North Sonoma County Healthcare District**

**Statements of Cash Flows (Continued)  
Years Ended December 31, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	<b>\$ (721,604)</b>	\$ (2,498,911)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	<b>1,742,523</b>	1,736,931
Loss on disposal of capital assets	<b>46,116</b>	-
Changes in operating assets and liabilities:		
Patient accounts receivable and other receivables	<b>(886,603)</b>	(1,073,078)
Other current assets	<b>64,898</b>	(125,167)
Inventories	<b>(75,317)</b>	(20,149)
Estimated third-party payor settlements	<b>(1,937,000)</b>	313,108
Accounts payable and other accrued expenses	<b>(3,150,892)</b>	367,478
Estimated workers' compensation liability	<b>(87,000)</b>	(118,000)
<b>Net cash used in operating activities</b>	<b><u>\$ (5,004,879)</u></b>	<b><u>\$ (1,417,788)</u></b>

See notes to financial statements.



## North Sonoma County Healthcare District

### Notes to Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies

**Nature of business:** North Sonoma County Healthcare District (District) is a special health care district, a political subdivision of the State of California organized under Local Hospital District Law as set forth in the Health and Safety Code of the State of California. The District owns and operates Healdsburg District Hospital (Hospital). The District is a political subdivision of the State of California and is generally not subject to federal or state income taxes. The District 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.

On January 1, 2021, the operations of the Hospital and substantially all of its assets were sold to a third party who also assumed substantially all liabilities of the Hospital, except for long-term debt (see Note 13).

#### Significant accounting policies:

**Accrual basis of accounting:** The accrual basis of accounting is used by the District. 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 District 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 statement 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.

**Deferred outflows of resources:** In addition to assets, the statement of net position will sometimes report a section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a usage of net position that applies to a future period(s) and so it will not be recognized as an outflow of resources (expense) until that time. The premium paid for refunding of debt is shown as a deferred outflow of resources under the full accrual basis of accounting and will become an outflow as it is amortized over the life of the debt.

**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.

## North Sonoma County Healthcare District

### Notes to Financial Statements

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

**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.

**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 consist primarily of deposits on hand with local banking and investment institutions.

**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. The District has 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 2020 and 2019.

## North Sonoma County Healthcare District

### Notes to Financial Statements

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

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, 2020 and 2019, there were no impairment losses recognized.

**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, 2020 and 2019, and were approximately \$912,000 and \$1,450,000, 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 adjustments 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.

## North Sonoma County Healthcare District

### Notes to Financial Statements

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

**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.

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 an immaterial amount for 2020 and 2019, 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 \$3,450,000 and \$3,459,000 of its financial support from property taxes for the years ended December 31, 2020 and 2019, 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 \$1,500,000 and \$1,541,000 as of December 31, 2020 and 2019, 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 District'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.

## North Sonoma County Healthcare District

### Notes to Financial Statements

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#### Note 2. Deposits and Investments

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

	2020	2019
Deposits:		
Deposits with financial institutions	\$ 7,055,372	\$ 13,803,360
Cash on hand	2,135	2,035
	<u>7,057,507</u>	<u>13,805,395</u>
Investments:		
Money market mutual fund	11	516,172
Corporate stock	98,837	118,675
Other	9,942	9,942
	<u>108,790</u>	<u>644,789</u>
	<u>\$ 7,166,297</u>	<u>\$ 14,450,184</u>
Reported as follows in the statements of net position:		
Cash and cash equivalents	\$ 6,940,320	\$ 8,175,839
Assets limited as to use, current portion	73,460	929,000
Assets limited as to use, noncurrent portion	43,738	5,216,728
Investments and other assets	108,779	128,617
Total	<u>\$ 7,166,297</u>	<u>\$ 14,450,184</u>

**Custodial credit risk—deposits:** At December 31, 2020 and 2019, the Hospital's cash deposits with financial institutions totaled approximately \$7,141,000 and \$15,846,000, 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, 2020 and 2019, 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, 2020 and 2019, 100% of the money market mutual fund investments were with a single issuer.

## North Sonoma County Healthcare District

### Notes to Financial Statements

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#### Note 2. Deposits and Investments (Continued)

**Fair value:** The District 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 August 9, 2021, cost reports through December 31, 2018, 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 August 9, 2021, cost reports through December 31, 2019 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 2020 and 2019 net patient service revenue increased approximately \$90,000 and \$150,000, 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, 2020 and 2019, the Hospital recognized the net impact of approximately \$9,513,000 and \$7,759,000, respectively, as a reduction of contractual adjustment expense, which is included in net patient service revenue. The increase in IGT's of \$2,052,000 was partially offset by a decrease in Medi-Cal supplemental funding of \$299,000.

## North Sonoma County Healthcare District

### Notes to Financial Statements

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#### Note 3. Net Patient Service Revenue (Continued)

**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, 2020 and 2019, is comprised of the following:

	2020	2019
Inpatient services	\$ 24,301,717	\$ 21,983,520
Inpatient ancillary services	20,921,869	20,769,088
Outpatient services	65,595,848	75,440,263
Gross patient service revenue	110,819,434	118,192,871
Less contractual adjustments and provision for bad debts	(54,487,634)	(64,250,568)
Net patient service revenue	<u>\$ 56,331,800</u>	<u>\$ 53,942,303</u>

Medicare and Medi-Cal revenue accounted for approximately 74% and 75% of the Hospital's 2020 and 2019 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, 2020 and 2019 was as follows:

	2020	2019
Medicare	\$ 4,368,445	\$ 4,521,785
Medi-Cal	5,103,686	13,327,455
Other third-party payors	11,976,014	8,324,245
Self pay	553,598	2,269,301
Gross patient accounts receivable	22,001,743	28,442,786
Less allowances for contractual adjustments and bad debts	(15,515,607)	(23,285,177)
Net patient accounts receivable	<u>\$ 6,486,136</u>	<u>\$ 5,157,609</u>

## North Sonoma County Healthcare District

### Notes to Financial Statements

#### Note 5. Assets Limited as to Use

Assets limited as to use as of December 31, 2020 and 2019, were comprised of the following:

	2020	2019
Under trust agreements	\$ 25,053	\$ 516,172
Designated by the Board	-	1,716,000
Restricted for specific use	81,770	3,903,181
For employee flexible spending plan	10,375	10,375
	<u>117,198</u>	<u>6,145,728</u>
Less current portion to match current liabilities	(73,460)	(929,000)
	<u>\$ 43,738</u>	<u>\$ 5,216,728</u>

#### Note 6. Capital Assets

The following summarizes changes in the capital assets of the District for the years ended December 31, 2020 and 2019:

	Balance at December 31, 2019	Additions and Transfers	Transfers/ Retirements	Balance at December 31, 2020
Capital assets not being depreciated:				
Land and land improvements	\$ 440,000	\$ -	\$ -	\$ 440,000
Construction-in-progress	635,609	1,525,815	(1,021,112)	1,140,312
Total capital assets not being depreciated	<u>1,075,609</u>	<u>1,525,815</u>	<u>(1,021,112)</u>	<u>1,580,312</u>
Capital assets being depreciated:				
Buildings and improvements	7,402,776	5,413	(204,751)	7,203,438
Equipment	19,065,225	1,015,699	(311,310)	19,769,614
Total capital assets being depreciated	<u>26,468,001</u>	<u>1,021,112</u>	<u>(516,061)</u>	<u>26,973,052</u>
Less accumulated depreciation for:				
Buildings and improvements	4,070,462	332,097	(28,172)	4,374,387
Equipment	13,375,128	1,410,426	(441,773)	14,343,781
Total accumulated depreciation	<u>17,445,590</u>	<u>1,742,523</u>	<u>(469,945)</u>	<u>18,718,168</u>
Total capital assets being depreciated, net	9,022,411	(721,411)	(46,116)	8,254,884
Capital assets, net	<u>\$ 10,098,020</u>	<u>\$ 804,404</u>	<u>\$ (1,067,228)</u>	<u>\$ 9,835,196</u>



**North Sonoma County Healthcare District**

**Notes to Financial Statements**

**Note 6. Capital Assets (Continued)**

	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	1,120,670	1,908,281	(1,953,342)	1,075,609
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	24,573,891	42,105	1,852,005	26,468,001
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	15,809,996	1,736,931	(101,337)	17,445,590
Total capital assets being depreciated, net	8,763,895	(1,694,826)	1,953,342	9,022,411
Capital assets, net	<u>\$ 9,884,565</u>	<u>\$ 213,455</u>	<u>\$ -</u>	<u>\$ 10,098,020</u>

**Note 7. Long-Term Debt**

As of December 31, 2020 and 2019, debt borrowings were as follows:

	December 31, 2019	Borrowings	Payments	December 31, 2020	Due Within One Year
North Sonoma County Healthcare District Certificates of Participation:					
2016 Financing Project (2016 COP)	\$ 10,438,000	\$ -	\$ (10,438,000)	\$ -	\$ -
2020 Refunding Revenue Bonds	-	10,379,000	-	10,379,000	830,000
	<u>\$ 10,438,000</u>	<u>\$ 10,379,000</u>	<u>\$ (10,438,000)</u>	<u>\$ 10,379,000</u>	<u>\$ 830,000</u>
	December 31, 2018	Borrowings	Payments	December 31, 2019	Due Within One Year
North Sonoma County Healthcare District Certificates of Participation, 2016 Financing Project (2016 COP)	\$ 11,184,000	\$ -	\$ (746,000)	\$ 10,438,000	\$ 767,000
	<u>\$ 11,184,000</u>	<u>\$ -</u>	<u>\$ (746,000)</u>	<u>\$ 10,438,000</u>	<u>\$ 767,000</u>

**North Sonoma County Healthcare District**

**Notes to Financial Statements**

**Note 7. Long-Term Debt (Continued)**

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

	Note Payable		Total Debt Service Requirements
	Principal	Interest	
Years ending December 31:			
2021	\$ 830,000	\$ 206,348	\$ 1,036,348
2022	760,000	271,426	1,031,426
2023	782,000	249,212	1,031,212
2024	805,000	226,374	1,031,374
2025	829,000	202,841	1,031,841
2026-2030	4,383,000	646,932	5,029,932
2031-2032	1,990,000	72,544	2,062,544
	<u>\$ 10,379,000</u>	<u>\$ 1,875,677</u>	<u>\$ 12,254,677</u>

On December 11, 2020, the District issued Refunding Revenue Bonds, Series 2020 (2020 Bonds), in the original principal amount of \$10,379,000. The 2020 Bonds provided funds to refund the outstanding 2016 COP and pay costs of issuing the 2020 Bonds. The 2020 Bonds were issued in the form of one bond maturing on September 1, 2032 and bearing interest at 2.90%. The bond is subject to redemption at the option of the District, as a whole or in part in any amount, at a redemption price equal to the principal amount thereof, together with accrued interest to date, fixed for redemption, plus a premium of 1.00% through February 28, 2026 and 0% thereafter.

The 2020 Bonds are subject to mandatory sinking fund redemption on March 1 and September 1 each year, beginning March 1, 2021 through September 1, 2032, in amounts ranging from \$379,000 to \$505,000. The District's obligation to pay the principal and interest on the 2020 Bonds is secured by a first and prior lien on the revenues derived by the District from an annual special parcel tax on each taxable parcel of real property within the District.

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 shall deposit taxes collected into a debt service fund in the amount of principal and interest coming due on the next interest payment date. Any tax revenues remaining after such deposits 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 sinking fund requirements when due, the Parcel Tax Revenues shall be applied on a pro rate basis to the payment of such principal or sinking fund installments. Until such time as all of the 2020 Bonds have been fully paid or prepaid, the District will not issue or incur any obligations payable from Parcel Tax Revenues without consent of the bond holder. Any Parcel Tax proceeds in excess of the semi-annual debt service payments are to be remitted to NorCal HealthConnect.

## North Sonoma County Healthcare District

### Notes to Financial Statements

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#### **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, 2020 and 2019 were approximately \$496,000 and \$446,000, 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 2019, the Foundation disbursed approximately \$10,000 in unrestricted capital contributions to the Hospital. In 2020, the Foundation disbursed approximately \$20,000 in unrestricted capital contributions to the Hospital.

#### **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 approximately \$394,000 and \$34,000, respectively, for the years ended December 31, 2020 and 2019. The incentive payments are included in other operating revenue in the statements 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.

## North Sonoma County Healthcare District

### Notes to Financial Statements

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#### Note 10. Commitments and Contingencies (Continued)

**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, 2020 and 2019, was approximately \$1,425,000 and \$1,227,000, respectively, and is included in building and equipment rent expense. Future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year as of December 31, 2020, are as follows:

Years ending December 31:	
2021	\$ 1,124,633
2022	931,961
2023	576,893
2024	323,407
2025	283,875
Thereafter	1,223,255
	<u>\$ 4,464,024</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, 2020, will be resolved without material adverse effect on the District's future financial position, results from operations or cash flows.

**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 maintained 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. In anticipation of the sale of Hospital operations as described in Note 13, the Hospital purchased a five-year tail insurance policy which became effective at January 1, 2021. The premiums of the tail policy, totaling approximately \$838,000, were expensed during the year ended December 31, 2020.

**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 amounts recorded for outstanding and IBNR claims are estimated by an independent actuary.

## North Sonoma County Healthcare District

### Notes to Financial Statements

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#### Note 10. Commitments and Contingencies (Continued)

The change in the workers' compensation claims liabilities, which are included in the amount of \$170,000 within accounts payable and other accrued expenses and \$700,000 within estimated workers' compensation liability, net of current portion on the statements of net position, is approximately as follows:

	2020	2019
Claims payable, beginning of year	\$ 1,090,000	\$ 1,159,000
Incurred claims	50,000	57,000
Claim payments	(270,000)	(126,000)
Claims payable, end of year	<u>\$ 870,000</u>	<u>\$ 1,090,000</u>

**Health self-insurance:** The health care plan for the Hospital's employees is administered by a third-party administrator. The Hospital 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 \$5,095,000 for the year ended December 31, 2020, which may be adjusted upward by the carrier dependent upon certain factors. Administrative expenses and claims for the health care plan included in expense were approximately \$3,150,000 and \$3,643,000 for the years ended December 31, 2020 and 2019, respectively.

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 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 \$200,000 and \$100,000 for the years ended December 31, 2020 and 2019, 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:

	2020	2019
Claims payable, beginning of year	\$ 595,000	\$ 380,000
Incurred claims	(3,078,000)	4,265,000
Claim payments	3,036,000	(4,050,000)
Claims payable, end of year	<u>\$ 553,000</u>	<u>\$ 595,000</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 retro-fit requirements and has until 2030 to be compliant with such regulations. Management is evaluating its facilities and is considering all options.

## North Sonoma County Healthcare District

### Notes to Financial Statements

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#### Note 10. Commitments and Contingencies (Continued)

**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. In 2020 the Hospital received approximately \$2,888,000 from their insurance carriers. \$2,447,000 of the amount received was included in other receivables on the accompanying statements 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 was approximately \$772,000, which was included in accounts payable and other accrued expenses on the accompanying statements of net position as of December 31, 2019. This amount was paid in 2020 and there was no payable remaining at December 31, 2020. The net insurance proceeds of approximately \$1,675,000 and \$441,000 was included in other nonoperating revenue on the accompanying statements of revenues, expenses and changes in net position for the years ended December 31, 2020 and 2019, respectively. The claim has been fully settled as of December 31, 2020.

#### Note 11. Recently Adopted and Pending Accounting Standards

For the year ended December 31, 2020, the Hospital adopted the following GASB Statements:

- GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, issued in May 2020, was effective immediately for the Hospital. The objective of Statement No. 95 was to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. The effective dates of certain provisions contained in the following pronouncements are postponed by one year, unless otherwise stated:
  - Statement No. 83, *Certain Asset Retirement Obligations*
  - Statement No. 84, *Fiduciary Activities*
  - Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
  - Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
  - Statement No. 90, *Majority Equity Interests*
  - Statement No. 91, *Conduit Debt Obligations*
  - Statement No. 92, *Omnibus 2020*
  - Statement No. 93, *Replacement of Interbank Offered Rates*
  - Statement No. 87, *Leases*, has been postponed by 18 months

The GASB has issued several statements not yet implemented by the Hospital. Given the transaction described in Note 13, all pending accounting standards have been omitted from these notes to the financial statements.

## North Sonoma County Healthcare District

### Notes to Financial Statements

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#### **Note 12. COVID-19 Pandemic and Relief Funding**

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 11, 2020, declared it to be a pandemic. The COVID-19 pandemic disrupted the health care industry. Public trust in health care facilities initially diminished patients’ desire to seek care and elective surgeries were put on hold. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to, amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic.

The Company’s accounting policies for the recognition of these stimulus monies are as follows:

**CARES Act Funds:** The CARES Act appropriated \$100 billion for the Public Health and Social Service Emergency Fund for health care providers in April 2020. All facilities and providers that received Medicare fee-for-service (FFS) reimbursement in 2019 were eligible for the distribution. During the year ended December 31, 2020, the Hospital received approximately \$5,426,000 from the Department of Health and Human Services (HHS) Provider Relief Fund.

These funds are subject to certain terms and conditions, which primarily include the requirement for the Hospital to demonstrate that it has incurred lost revenues or additional expenses specifically related to COVID-19. To the extent that the provider relief funds received exceed lost revenues and COVID-19 related expenses, they are required to be repaid to HHS. The Hospital has recognized provider relief fund grant revenue of approximately \$5,426,000 in the accompanying statements of revenues, expenses and changes in net position for the year ended December 31, 2020. Interpretative guidance related to compliance for the federal funds continues to be released. As this guidance is finalized, there may be effects on subsequent financial statements which cannot be predicted at this time.

Although patient volumes have begun to recover since the onset of the pandemic, the full impact of the pandemic on the Hospital’s business, financial condition and results of operations is difficult to predict.

#### **Note 13. Subsequent Events**

Management has evaluated subsequent events and transactions through August 9, 2021, the date these financial statements were available to be issued.

On January 1, 2021, the Hospital’s operations and substantially all assets were acquired and all liabilities were assumed, other than the 2020 Bonds, by NorCal HealthConnect, LLC under the terms of an asset purchase agreement. In return, the District received \$5,000,000 in cash, which was received prior to December 31, 2020 and recorded as a refundable advance in the accompanying statements of net position as of December 31, 2020. Additionally, prior to December 31, 2020, \$13,746,000 of cash was transferred to the purchaser, which is recorded as refundable deposits on the accompanying statements of net position as of December 31, 2020. NorCal HealthConnect, LLC also committed to expend or commit to expend \$10,000,000 on investments in, or development or expansion of, the Hospital or health care improvements, equipment and/or programs or services supportive of community and population health of the District during the ten-year period beginning January 1, 2021.