

North Sonoma County Healthcare District

Financial Report
December 31, 2021

Contents

Independent auditor's report	1-2
Management's discussion and analysis	3-4
Financial statements	
Statement of net position	5
Statement of revenues, expenses and changes in net position	6
Statement of cash flows	7
Notes to financial statements	8-11
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	12-13



Independent Auditor's Report

RSM US LLP

Board of Directors
North Sonoma County Healthcare District

Report of the Audit of the Financial Statements

Opinion

We have audited the financial statements of North Sonoma County Healthcare District (the District), which comprise the statement of net position as of December 31, 2021, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the District as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3–4 be presented to supplement the basic financial statements. Such information is the responsibility of management, and 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.

Emphasis of Matter

On January 1, 2021 prior to commencing operations for the day, the District sold substantially all assets and transferred operations and substantially all liabilities to a third-party. See Note 5 to the financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2022 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

RSM US LLP

Davenport, Iowa
August 30, 2022

North Sonoma County Healthcare District

Management's Discussion and Analysis Year Ended December 31, 2021

Message from the Board of Directors

The North Sonoma County Healthcare District began a new transformation at the start of 2021. Previous to December 31, 2020, the District's primary responsibility was to oversee the management of Healdsburg District Hospital (the Hospital) and collect the parcel tax that was critical in funding the Hospital. The Hospital is a critical access hospital serving northern Sonoma County with an emergency room, certified stroke program, CT and MRI imaging services. The Hospital serves residents across the district including Windsor, Healdsburg, Geyserville, Cloverdale, the County and tourists to the area. The Hospital was not profitable, struggled to stay ahead of unfunded government mandates and required large capital improvements including a multi-million-dollar seismic retrofit.

To address the long-term sustainability of the Hospital, the District Board embarked on a multi-year journey to find a strategic partner. In 2018 a non-denominational division of Providence St. Joes (Providence) was chosen as the best long-term partner for the District since the two organizations had aligned values, a commitment to quality and a focus on the improving health access in the district.

In 2020 the District embarked on a series of community meetings and listening sessions where we shared the terms of the negotiated transaction, listened to concerns and addressed questions. The terms of the transaction were that Providence would purchase the Hospital including all its assets and liabilities for \$5 million cash and \$10 million in secured future community benefit spending, and in exchange guaranteed to operate the Hospital for a minimum of 30 years without a reduction in services for our community. This agreement guaranteed the capital upgrades required by government mandates and ensured the Hospital would remain available for residents of the district with all services intact. The transaction was announced in summer of 2020 and put on the ballot as Measure BB for the November 4, 2020 election. Measure BB was approved by the voters by 86%. The transaction was closed on January 1, 2021, prior to commencement of operations that day, with some of the closing activities and audit activities occurring in 2021 as per usual for this type of transaction.

The District started 2021 with the \$5.0 million proceeds from the sale of the Hospital. The primary source of revenue for the District during 2021 was the parcel tax, which brought in \$3.4 million in revenue. After deducting \$1.0 million for bond interest and principal, the remainder was transferred to Providence for the operation of the Hospital. Expenses were kept at a minimum in 2021 by sharing a Board Clerk with the Petaluma Health Care District, holding virtual meetings and avoiding the investment in infrastructure.

The District will continue to operate with three main goals moving forward. The first goal is to collect the parcel tax and then forward the proceeds to Providence for use for the operations of Hospital. One key element of the purchase agreement was that the parcel tax continue to be assessed to the District residents since it is the only way for the Hospital to continue to operate. Without the parcel tax funding, Providence can terminate the relationship with the District and the Hospital will close.

The second goal for the District is to ensure that Providence is maintaining their commitment and responsibilities per the transaction agreements. Providence created a new Community Board that has members of the community across the District represented, along with a District board member. This Community Board provides oversight to Providence with regards to Hospital along with the Community Benefit and Quality Committees of the Community Board. These committees also include District community members as well and board members. The District's Board also remains committed and focused on Providence oversight to ensure the transaction details are carried out to their full extent and that quality and services remain intact.

North Sonoma County Healthcare District

Management's Discussion and Analysis Year Ended December 31, 2021

The third goal of the District is to facilitate better health in our community by working with local stakeholders with a focus on mental health and health outcomes. In early 2021 given the nature of the COVID19 pandemic, the District stepped up as a regional funder and facilitated the first grants in our new role to our Federally Qualified Health Clinics for the administration of COVID19 vaccines to hard-to-reach community members. In addition to this grant, the District undertook organizational redesign efforts to re-establish the organization without the resources of the Hospital and completed an additional strategic planning effort to identify focus areas for future grant efforts. This work is still ongoing, and the District would welcome any input from community members.

The District board members would be happy to talk about the specifics of the transaction should any resident have specific questions. In addition, all District meetings and transaction documents are public records and accessible on our website. The District board members are excited to continue to use the role of the District to convene community stakeholders to drive improved health outcomes for all members of our community and ensure health access for generations to come in our local communities.

It is an honor to represent the health needs of our community members across the district.

North Sonoma County District Board Members

Dave Anderson

Sue Campbell

Erin Gore

Jim Nantell

Danielle Streb

North Sonoma County Healthcare District

Statement of Net Position
December 31, 2021

Assets

Current assets:

Cash and cash equivalents	\$ 4,641,019
Assets limited as to use	517,462
District tax receivables	1,431,000
Other receivables	758,135
Total current assets	<u>7,347,616</u>

Notes receivable	<u>175,000</u>
------------------	----------------

Deferred outflows of resources, deferred outflows related to debt refunding	<u>449,612</u>
--	----------------

Total assets	<u><u>\$ 7,972,228</u></u>
---------------------	----------------------------

Liabilities, Deferred Inflows and Net Position

Current liabilities:

Current maturities of long-term debt	\$ 760,000
Accounts payable and other accrued expenses	101,960
Refundable advance	732,197
District tax payable	913,539
Total current liabilities	<u>2,507,696</u>

Long-term debt, net of current maturities	<u>8,789,000</u>
---	------------------

Total liabilities	<u>11,296,696</u>
--------------------------	-------------------

Deferred inflows of resources, deferred inflows related to district tax revenues	<u>517,461</u>
Total liabilities and deferred inflows	<u>11,814,157</u>

Net position, unrestricted	<u>(3,841,929)</u>
----------------------------	--------------------

Total liabilities, deferred inflows and net position	<u><u>\$ 7,972,228</u></u>
---	----------------------------

See notes to financial statements.

North Sonoma County Healthcare District

**Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2021**

Operating expenses:	
Professional services	144,217
Administrative	19,616
Board stipends	17,000
Total operating expenses	<u>180,833</u>
Operating loss	<u>(180,833)</u>
Nonoperating revenues (expenses):	
District tax revenues	3,440,144
District tax (expense)	(2,388,303)
Interest income	4,814
Interest (expense)	(332,626)
Loss on sale of hospital operations	(28,396,345)
Other	8,350
Total nonoperating revenues, net	<u>(27,663,966)</u>
Change in net position	(27,844,799)
Net position:	
Beginning of year	<u>24,002,870</u>
End of year	<u><u>\$ (3,841,929)</u></u>

See notes to financial statements.

North Sonoma County Healthcare District

Statement of Cash Flows Year Ended December 31, 2021

Cash flows from operating activities:	
Payments to suppliers	\$ (171,181)
Advances to local health care providers	(175,000)
Increase in loans and other receivables	(256,223)
Net cash used in operating activities	<u>(602,404)</u>
Cash flows from investing activities:	
Interest received	4,814
Net cash provided by investing activities	<u>4,814</u>
Cash flows from noncapital financing activities:	
District tax proceeds	3,509,144
District tax payments	(2,457,303)
Net cash provided by noncapital financing activities	<u>1,051,841</u>
Cash flows from capital and related financing activities:	
Principal payments on long-term debt	(830,000)
Payment of refundable advance	(267,803)
Interest paid on long-term debt	(206,347)
Receipt of refundable advance	1,000,000
Net cash transferred to buyer upon sale of hospital operations	(1,940,290)
Cash received from other nonoperating revenue	8,350
Net cash used in capital and related financing activities	<u>(2,236,090)</u>
Net decrease in cash and cash equivalents	(1,781,839)
Cash and cash equivalents:	
Beginning of year	<u>6,940,320</u>
End of year (includes \$517,462 of assets limited as to use)	<u>\$ 5,158,481</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (180,833)
Changes in operating assets and liabilities:	
Loans and other receivables	(431,223)
Accounts payable and other accrued expenses	9,652
Net cash used in operating activities	<u>\$ (602,404)</u>
Supplemental disclosure of noncash information, sale of hospital operations to NorCal HealthConnect, LLC:	
Total assets (excluding cash)	\$ 35,522,973
Total liabilities	(9,066,918)
Loss on sale of hospital operations	<u>(28,396,345)</u>
Net cash transferred to buyer upon sale of hospital operations	<u>\$ (1,940,290)</u>

See notes to financial statements.

North Sonoma County Healthcare District

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: North Sonoma County Healthcare District (the 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 owned and operated Healdsburg District Hospital (the Hospital) through December 31, 2020. 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.

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 5).

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 District'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.

Cash and cash equivalents and investments: For purposes of the statement 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.

North Sonoma County Healthcare District

Notes to Financial Statements

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

Other receivables: Other receivables are comprised primarily of reimbursement of amounts paid to the California Department of Health Care Services (DHCS) to fund intergovernmental transfers (IGT).

Notes receivable: Notes receivable are comprised of loans the District has made to two local health care providers to help cover costs for establishing COVID vaccine clinics. Both loans were made at 0% interest and are to be repaid if and when the applicant receives reimbursement for costs incurred to administer the COVID vaccines within the district from other governmental sources. Both loans were forgiven in full in 2022.

Risk management: The District is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. These risks are covered by the purchase of commercial insurance. There have been no significant reductions in insurance coverage nor have settled claims from the risk exceeded commercial insurance in any of the past three years.

Net position: Net position for an entity such as the District 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.

District tax revenues: Property taxes are levied by the County on the District's behalf on July 1, and are intended to help finance the District'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 District are a direct charge of \$150 per parcel. Property taxes are considered delinquent on the day following each payment due date. The District received approximately \$3,440,000 of its financial support from property taxes for the year ended December 31, 2021. 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 District when levied and during the period of their intended use. Management determined that levied amounts not yet received and which are intended for the District's future use should be recorded as deferred inflows, which totaled approximately \$517,000 as of December 31, 2021. Parcel tax exemptions (i.e. abatements) totaled approximately \$17,000 for the year ended December 31, 2021.

District tax expenses: Any parcel tax proceeds in excess of the semi-annual debt service payments are to be remitted to NorCal HealthConnect in accordance with terms of the asset purchase agreement described in Note 5. This amount remitted to NorCal HealthConnect is recognized as district tax expense on the statement of revenues, expenses and changes in net position. Any amount owed to NorCal HealthConnect and not yet paid as of the statement of net position date are recorded as district tax payable on the statement of net position.

North Sonoma County Healthcare District

Notes to Financial Statements

Note 2. Deposits and Investments

Custodial credit risk—deposits: At December 31, 2021, the District's cash deposits with financial institutions totaled approximately \$5,159,000. 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 District's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits. The pledged securities are held by the pledging financial institution's trust department in the name of the District. As of December 31, 2021, the District held no investments.

Custodial credit risk—investments: Custodial credit risk is the risk that, in the event of failure of the counterparty, the District 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 District.

Note 3. Long-Term Debt

As of December 31, 2021, debt borrowings were as follows:

	December 31, 2020	Borrowings	Payments	December 31, 2021	Due Within One Year
North Sonoma County Healthcare District Certificates of Participation: 2020 Refunding Revenue Bonds	\$ 10,379,000	\$ -	\$ (830,000)	\$ 9,549,000	\$ 760,000
	\$ 10,379,000	\$ -	\$ (830,000)	\$ 9,549,000	\$ 760,000

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

Years ending December 31:	Note Payable		Total Debt Service Requirements
	Principal	Interest	
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	853,000	178,626	1,031,626
2027-2031	4,511,000	518,897	5,029,897
2032	1,009,000	21,953	1,030,953
	\$ 9,549,000	\$ 1,669,329	\$ 11,218,329

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.

North Sonoma County Healthcare District

Notes to Financial Statements

Note 3. Long-Term Debt (Continued)

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 balance of the debt service reserve fund totaled \$517,462 as of December 31, 2021, and is included in assets limited as to use in the accompanying statement of net position. 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, are 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 rata 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.

Note 4. Subsequent Events

Management has evaluated subsequent events and transactions through August 30, 2022, the date these financial statements were available to be issued.

Note 5. Sale of Hospital Operations

On January 1, 2021, the District's hospital operations and substantially all assets were acquired and all liabilities were assumed, other than long-term debt comprised of 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 statement 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 was recorded as refundable deposits on the statement 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 for health care improvements, equipment and/or programs or services supportive of community and population health of the District during the 10-year period beginning January 1, 2021. In addition to the financial commitments, the terms of the asset purchase agreement stipulate that NorCal HealthConnect, LLC shall provide an agreed-upon level of community benefit programs and ensure the continuation of hospital services for an agreed-upon period of time and at the level furnished at the Hospital as of closing date of the transaction. These service commitments are contingent upon certain terms and conditions of the asset purchase agreement.

In connection with the transaction described above, NorCal HealthConnect, LLC advanced \$1,000,000 to the District on January 1, 2021, to be used to pay for certain audit and cost report services. Any unused portion of this \$1,000,000 is to be refunded to NorCal HealthConnect, LLC. The unused portion as of December 31, 2021, is included in the statement of net position as a refundable advance.

Assets sold to NorCal HealthConnect, LLC	\$ (42,463,263)
Liabilities assumed by NorCal HealthConnect, LLC	9,066,918
Net assets sold	(33,396,345)
Consideration received	5,000,000
Net loss on sale of hospital operations	<u>\$ (28,396,345)</u>

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

Independent Auditor's Report

Board of Directors
North Sonoma County Healthcare District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Sonoma County Healthcare District (the District), which comprise the statement of net position as of December 31, 2021, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 30, 2022.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

RSM US LLP

Davenport, Iowa
August 30, 2022