

Audited Financial Statements

**NORTH SONOMA COUNTY
HEALTHCARE DISTRICT**

December 31, 2023 and 2022

Audited Financial Statements

NORTH SONOMA COUNTY HEALTHCARE DISTRICT

December 31, 2023

FINANCIAL STATEMENTS

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Management's Discussion and Analysis

NORTH SONOMA COUNTY HEALTHCARE DISTRICT

December 31, 2023

The management of the North Sonoma County Healthcare District (the District) has prepared this annual discussion and analysis in order to provide an overview of the District's performance for the fiscal year ended December 31, 2023 in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financials Statements; Management's Discussion and Analysis for State and Local Governments*. The intent of this document is to provide additional information on the District's historical financial performance as a whole in addition to providing a prospective look at revenue growth, operating expenses, and capital development plans. This discussion should be reviewed in conjunction with the audited financial statements for the fiscal year ended December 31, 2023 and accompanying notes to the financial statements to enhance one's understanding of the District's financial performance.

Overview of North Sonoma County Healthcare District's Financial Statements

This annual report consists of the audited financial statements and the notes to the financial statements which reflect the District's financial position and operating results for the fiscal years ended December 31, 2023 and December 31, 2022. The audited financial statements include the report of the independent auditors, statements of financial position, statements of revenues, expenses and changes in net position, and statements of cash flows. They also include notes to the financial statements.

- The statements of net position include all of the District's assets and liabilities based on the accrual method of accounting for the years ended December 31, 2023 and December 31, 2022.
- The statements of revenues, expenses and changes in net position present the operating activities of the District during the fiscal years ended December 31, 2023 and December 31, 2022.
- The statements of cash flows report the net cash provided by operating activities as well as other sources and uses of cash from various District financial activities.

Financial Summary for the Year

- Total assets and deferred outflows decreased by \$739,318 from the prior fiscal year.
- Total operating cash and cash equivalents decreased by \$469,125 over the prior year.
- Assets limited as to use increased by \$39,300. These are funds held in trust to collect parcel taxes and service the debt borrowings.
- Current liabilities decreased by \$733,361 from the prior fiscal year bringing the current ratio to 2.41 for the year as compared to 2.12 in the prior year.

Management’s Discussion and Analysis (continued)

NORTH SONOMA COUNTY HEALTHCARE DISTRICT

- Operating expenses increased by \$8,376 from the previous year.
- The increase in net position was \$799,382 for 2023 as compared to \$217,125 in 2022.

Net Assets for the District as of December 31, 2023, 2022 and 2021

A summary of the District’s net assets for 2023, 2022 and 2021 as follows:

	<u>2023</u>	<u>2022</u>	2022-2023 <u>% Change</u>	<u>2021</u>	2021-2022 <u>% Change</u>
Assets (000's)					
Current assets	\$ 7,766	\$ 8,409	14%	\$ 7,347	14%
Other assets		50	-72%	175	-72%
Capital assets			n/a		n/a
Deferred outflows	<u>357</u>	<u>403</u>	-11%	<u>450</u>	-11%
Total	<u>\$ 8,123</u>	<u>\$ 8,862</u>	11%	<u>\$ 7,972</u>	11%
Liabilities (000's)					
Current liabilities	\$ 3,228	\$ 3,961	58%	\$ 2,508	58%
Other liabilities	<u>7,720</u>	<u>8,525</u>	-9%	<u>9,306</u>	-9%
Total liabilities	10,948	12,486	6%	11,814	6%
Net position (000's)					
Net investment in capital			n/a		n/a
Restricted	1,935	1,896	367%	517	367%
Unrestricted	<u>(4,760)</u>	<u>(5,520)</u>	26%	<u>(4,359)</u>	26%
Total net position	<u>(2,825)</u>	<u>(3,624)</u>	-6%	<u>(3,842)</u>	-6%
Total	<u>\$ 8,123</u>	<u>\$ 8,862</u>	11%	<u>\$ 7,972</u>	11%

Cash and Investments

For the fiscal year ended December 31, 2023, the District’s operating cash and cash equivalents totaled \$4,323,936 as compared to \$4,793,061 in the prior fiscal year. At December 31, 2023, days cash on hand were 10,734 as compared to the prior year of 12,617. The majority of the District’s cash is deposited with local banks and in other short-term money market accounts to maintain liquidity.

Management's Discussion and Analysis (continued)

NORTH SONOMA COUNTY HEALTHCARE DISTRICT

Current Liabilities

As previously noted, current liabilities of the District decreased by \$733,361 due mainly to the reduction in the refundable advances in the amount of 547,341 and the decrease in other District payables by \$209,020. The District's goal is to maintain sufficient cash flow to sustain operations.

Revenues and Expenses for the Years Ended December 31, 2023, 2022 and 2021

The following shows the revenues, (expenses) and increase (decrease) in net position for 2023, 2022 and 2021:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating revenues (000's)			
Net patient service revenues			
Other operating revenues	\$ _____	\$ <u>9</u>	\$ <u>8</u>
Total operating revenues		9	8
Operating expenses (000's)			
Professional fees	(118)	(109)	(144)
Other operating expenses	<u>(29)</u>	<u>(30)</u>	<u>(37)</u>
Operating loss	(147)	(130)	(173)
Nonoperating revenues (expenses) (000's)			
District tax revenues	3,464	3,439	3,440
District tax expense	(2,458)	(2,346)	(2,388)
Investment income and unrealized losses	279	(84)	5
Interest expense	(288)	(309)	(333)
Forgiveness and other losses	(50)		(28,396)
Grants and contributions	<u>(1)</u>	<u>(353)</u>	<u>_____</u>
Total nonoperating revenues (expenses)	<u>946</u>	<u>347</u>	<u>(27,672)</u>
Increase (decrease) in net position	<u>\$ 799</u>	<u>\$ 217</u>	<u>\$ (27,845)</u>

Management's Discussion and Analysis (continued)

NORTH SONOMA COUNTY HEALTHCARE DISTRICT

Operating Expenses

Total operating expenses were \$147,037 for the current fiscal year compared to \$138,661 for the prior fiscal year. Changes were as follows:

- A \$8,973 increase in professional fees.
- A \$703 increase in administrative expenses.
- A \$1,300 decrease in board stipends.

District Strategic Priorities

Before 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 to the ongoing operations of the Hospital. Due to unfunded government mandates and the healthcare environment, the District chose to sell the Hospital and assets to Providence St. Joseph. The transaction was announced in the summer of 2020 and approved by the voters in November. The sale closed December 31, 2020.

Since then, the District has assumed the long-term role of collecting parcel tax, overseeing the performance of Providence St. Joe's Health in providing healthcare services to the community, and improving the overall health outcomes of the District. The District chose to focus on mental health and substance abuse as strategic priorities. Initially, the District responded to urgent requests by local healthcare providers with small grants for COVID vaccines to ensure equitable vaccine distribution. More recently, it funded substance abuse educators at Alliance Medical Center, provided seed funding for a community health project in Cloverdale, and made grants to Alexander Valley Healthcare for a new clinic facility and Save for Students to provide mental health services for local students.

Going forward, the District has partnered with the Healthcare Foundation of Northern Sonoma County to set strategic priorities and supply grant funding to local non-profits to help improve health outcomes in the District. It will also continue to play its role of parcel tax collection and support of Healdsburg Hospital and Providence St. Joseph Health.

Management's Discussion and Analysis (continued)

NORTH SONOMA COUNTY HEALTHCARE DISTRICT

Next Year's Budget and Operating Goals

The District's Board approved the budget for the fiscal year ending December 31, 2024 at a recent Board meeting. For fiscal year 2024, the District is budgeted to conservatively increase its net position. This increase is a slight increase in parcel tax revenues coupled with a comparable level of expenses as recorded in 2023.

Fiscal year 2024 will be a time for the District to continue their recent transformation started in 2021 with the sale of the Hospital to NorCal Health Connect, LLC (Providence). The District will continue to operate with the three continuing goals moving forward. The first goal remains to collect the parcel tax and then forward the proceeds, net of debt service, to Providence for use in the operations of the Hospital. The second goal is to continue to monitor Providence in their efforts to maintain their commitments and responsibilities as set forth in the transaction agreement. The third goal is to facilitate better health in the community by working with local stakeholders with a focus on mental health and health outcomes.

As always, the District board members are happy to talk about specifics as questions may arise. All District meetings and transaction documents are made public on the District's website.

JWT & Associates, LLP

A Certified Public Accountancy Limited Liability Partnership

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Report of Independent Auditors

The Board of Directors
North Sonoma County Healthcare District
Petaluma, California

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, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audits 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 it is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement 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 District'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern.

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.

Emphasis of Matter

As discussed in Note A, the District analyzed the effects of GASB 87 for the year beginning January 1, 2022 and ending December 31, 2022 finding that it did not affect the District's financial reporting.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 *Government Auditing Standards*, 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.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2024, 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.

JW7 & Associates, LLP

Fresno, California
May 17, 2024

Statements of Net Position

NORTH SONOMA COUNTY HEALTHCARE DISTRICT

	December 31	
	<u>2023</u>	<u>2022</u>
Assets and Deferred Outflows		
Current assets:		
Cash and cash equivalents	\$ 4,323,936	\$ 4,793,061
Assets limited as to use	1,935,208	1,895,908
District tax receivable	1,507,000	1,548,523
Other receivables		<u>171,458</u>
Total current assets	<u>7,766,144</u>	<u>8,408,950</u>
Noncurrent assets:		
Note receivable		<u>50,000</u>
Total assets	<u>7,766,144</u>	<u>8,458,950</u>
Deferred outflows of resources	<u>356,589</u>	<u>403,101</u>
Total assets and deferred outflows of resources	<u><u>\$ 8,122,733</u></u>	<u><u>\$ 8,862,051</u></u>
Liabilities, Deferred Inflows and Net Position		
Current liabilities:		
Current maturities of debt borrowings	\$ 805,000	\$ 782,000
Accounts payable and accrued expenses	97,419	228,801
Refundable advance		547,341
District tax payable	<u>2,325,634</u>	<u>2,403,272</u>
Total current liabilities	<u>3,228,053</u>	<u>3,961,414</u>
Noncurrent liabilities:		
Debt borrowings, net of current maturities	<u>7,202,000</u>	<u>8,007,000</u>
Total liabilities	<u>10,948,155</u>	<u>11,968,414</u>
Deferred inflows of resources	<u>518,102</u>	<u>518,441</u>
Total liabilities and deferred inflows of resources	<u>10,948,155</u>	<u>12,486,855</u>
Net position (deficit):		
Restricted for debt service on debt borrowings	1,935,208	1,895,908
Unrestricted deficit	<u>(4,760,630)</u>	<u>(5,520,712)</u>
Total net position (deficit)	<u>(2,825,422)</u>	<u>(3,624,804)</u>
Total liabilities and net position	<u><u>\$ 8,122,733</u></u>	<u><u>\$ 8,862,051</u></u>

See accompanying notes and auditor's report

Statements of Revenues, Expenses and Changes in Net Position

NORTH SONOMA COUNTY HEALTHCARE DISTRICT

	Year Ended December 31	
	<u>2023</u>	<u>2022</u>
Operating revenues		
Other operating revenue	\$ _____	\$ 9,105
Total operating revenues		9,105
Operating expenses		
Professional fees	118,070	109,097
Administrative	15,267	14,564
Board stipends	<u>13,700</u>	<u>15,000</u>
Total operating expenses	<u>147,037</u>	<u>138,661</u>
Operating loss	(147,037)	(129,556)
Nonoperating revenues (expenses)		
District tax revenues	3,463,995	3,439,161
District tax expenses	(2,457,474)	(2,345,787)
Interest income and unrealized losses	278,862	(84,317)
Interest expense	(288,164)	(309,676)
Grant expense and contributions	(800)	(352,700)
Debt forgiveness	<u>(50,000)</u>	<u> </u>
Total nonoperating revenues (expenses)	<u>946,419</u>	<u>346,681</u>
Increase (decrease) in net position	799,382	217,125
Net position (deficit) at beginning of the year	<u>(3,624,804)</u>	<u>(3,841,929)</u>
Net position (deficit) at end of the year	<u>\$ (2,825,422)</u>	<u>\$ (3,841,929)</u>

See accompanying notes and auditor's report

Statements of Cash Flows

NORTH SONOMA COUNTY HEALTHCARE DISTRICT

	Year Ended December 31	
	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Cash received from operations	\$ 171,458	\$ 595,782
Cash payments to suppliers and contractors	<u>(278,419)</u>	<u>(11,820)</u>
Net cash provided by (used in) operating activities	(106,961)	583,962
Cash flows from noncapital financing activities:		
District tax revenues	3,463,995	3,439,161
Grant expense and contributions	(800)	(352,700)
District tax payments	<u>(2,457,474)</u>	<u>(2,345,787)</u>
Net cash provided by noncapital financing activities	1,005,721	740,674
Cash flows from capital and related financing activities:		
Net change in district tax receivable/payable	(36,115)	1,372,210
Net change in refundable advances	(547,341)	(184,856)
Repayment of debt borrowings	(782,000)	(760,000)
Interest payments on debt borrowings and other	<u>(288,164)</u>	<u>(309,675)</u>
Net cash provided by (used in) capital financing activities	(1,653,620)	117,679
Cash flows from investing activities:		
Net change in assets limited as to use	(39,300)	(1,378,446)
Net change in deferred resources	46,173	980
Net cash (advanced) to local health care providers		125,000
Interest received and other changes	<u>278,862</u>	<u>(37,807)</u>
Net cash (used in) investing activities	<u>285,735</u>	<u>(1,290,273)</u>
Net increase (decrease) in cash and cash equivalents	(469,125)	152,042
Cash and cash equivalents at beginning of year	<u>4,793,061</u>	<u>4,641,019</u>
Cash and cash equivalents at end of year	<u>\$ 4,323,936</u>	<u>\$ 4,793,061</u>

See accompanying notes and auditor's report

Statements of Cash Flows (continued)

NORTH SONOMA COUNTY HEALTHCARE DISTRICT

	Year Ended December 31	
	<u>2023</u>	<u>2022</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating (loss)	\$ (147,037)	\$ (129,556)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable	171,458	586,677
Accounts payable and accrued expenses	<u>(131,382)</u>	<u>126,841</u>
Net cash (used in) operating activities	<u>\$ (106,961)</u>	<u>\$ 583,962</u>

See accompanying notes and auditor's report

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: North Sonoma County Healthcare District (the District) is a public entity organized under Local Hospital District Law as set forth in the Health and Safety Code of the State of California. The District is a political subdivision of the State of California and is generally not subject to state or federal income taxes. The District is governed by a five-member board of directors who are elected to specific terms. The District, located in Petaluma, California, formerly owned and operated Healdsburg District Hospital (the Hospital) through December 31, 2020. On January 1, 2021, the operations of the Hospital and substantially all of its assets were sold to NorCal Health Connect, LLC (Providence) who also assumed substantially all liabilities of the Hospital, except for certain debt borrowings.

Basis of Preparation: The accounting policies and financial statements of the District generally conform with the recommendations of the audit and accounting guide, *Health Care Organizations*, published by the American Institute of Certified Public Accountants. The financial statements are presented in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Management's Discussion and Analysis: GASB Statement number 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the District's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis provided in the annual reports of organizations in the private sector.

Use of 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: The District considers cash and cash equivalents to include certain investments in highly liquid debt instruments, when present, with an original maturity of three months or less or subject to withdrawal upon request. Exceptions are for those investments which are intended to be continuously invested. Investments in debt securities, when present, are reported at fair value. Interest, dividends and both unrealized and realized gains and losses on investments are included as investment income in nonoperating revenues when earned.

Assets Limited as to Use: Assets limited as to use include, amounts designated by the Board of Directors for replacement or purchases of capital assets, and other specific purposes, and amounts held by trustees under specified agreements. Amounts required to meet current obligations of the District, are classified as current assets.

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the North Sonoma County Healthcare District Certificates of Participation 2020 Refunding Revenue Bonds (the Bonds) is shown as a deferred outflow of resources under the full accrual basis of accounting and will become an outflow as it is amortized under the straight-line method over the life of the Bonds.

Deferred Inflows of Resources: In addition to liabilities, the statement of net position will sometimes report a 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. Parcel taxes are shown as deferred inflows of resources under the full accrual basis of accounting and will become an inflow in the year for which the parcel taxes are legally levied against the property owners for intended District use.

Use of 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.

Risk Management: Commercial insurance is generally purchased to cover the District against 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 employee health, dental, and accidental benefits. Settled claims have not exceeded this commercial coverage in any of the two preceding years.

Statements of Cash Flows: For purposes of the statements of cash flows, all highly liquid investments with original maturities of three months or less and demand deposits are considered to be cash equivalents. Cash paid for interest expense during the year ended December 31, 2023 and 2022 was \$249,212 and \$309,675, respectively.

Net Position: Net position may be presented in three categories. The first category is net position “invested in capital assets, net of related debt”. This category of net position consists of capital assets (both restricted and unrestricted), 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 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.

NORTH SONOMA COUNTY HEALTHCARE DISTRICT

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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. When the District has both restricted and unrestricted resources available to finance a particular program, it is the District’s policy to use restricted resources before unrestricted resources.

District Tax Revenues: The District receives approximately 99% of its financial support from property taxes. These funds are used to support operations and meet required debt service agreements. They are classified as non-operating revenue as the revenue is not directly linked to District services. Property taxes are levied by the County on the District’s behalf on July 1st of each year, and are intended to help finance the District’s activities during the same year. Amounts are levied on the basis of the most current property values on record with the County. The County has established certain dates to levy, lien, mail bills, and receive payments from property owners during the year. Property taxes are considered delinquent on the day following each payment due date. Those dates are: (1) lien date of January 1; (2) due dates of November 1 and February 1; and (3) delinquent dates of December 10 and April 10. Management determined that levied amounts not yet received, and which are intended for the District’s future use, should be recorded as deferred inflows of resources.

District Tax Expenses: District tax revenues in excess of the Bond debt service (principal and interest) are to be remitted to Providence in accordance with the terms of the asset purchase agreement as described later in these footnotes. This amount remitted to Providence is recognized as a district tax expense as a non-operating expense on the statement of revenues, expenses and changes in net position. Any amounts owed to Providence and not yet paid as of the date of the statement of net position, is recorded as a district tax payable.

Operating Revenues and Expenses: The District’s statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing District services, which is the District’s principal activity. Operating expenses are all expenses incurred to these District services, other than financing costs. Nonoperating revenues and expenses are those transactions not considered directly linked to providing District services.

Revenue Recognition: Gifts of long-lived assets such as land, buildings, or equipment are reported as net assets without donor restrictions unless explicit donor stipulations specify how the donated asset must be used. Gifts of long-lived assets with explicit donor restrictions that specify how the asset is to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived asset is placed in service. Cash received in excess of revenue recognized is unearned revenue.

NORTH SONOMA COUNTY HEALTHCARE DISTRICT

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions are recognized as revenue when they are received or unconditionally pledged. Donor stipulations that limit the use of the donation are recognized as contributions with donor restrictions. When the purpose is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from donor restrictions. Donor restricted contributions whose restriction expire during the same fiscal year are recognized as net assets without donor restrictions. Absent donor imposed restrictions, the District records donated services, materials, and facilities as net assets without donor restrictions.

From time to time, the District receives grants from governmental agencies and private organizations. Revenues from grants are recognized when eligibility requirements, including time requirements are met. Grants may be restricted for specific operating purposes or capital acquisitions. These amounts, when recognized upon meeting all requirements, are reported as components of the statement of revenues, expenses and changes in net position.

Recently Adopted Accounting Pronouncement: In June, 2017 the Governmental Accounting Standards Board released GASB 87 regarding changes in the way leases are accounted for. GASB 87 superceded GASB 13 and GASB 62 and more accurately portrays lease obligations by recognizing lease assets and lease liabilities on the statement of net position and disclosing key information about leasing arrangements. The District analyzed the possible impact of GASB 87 noting that there were no leases which significantly qualified under this new pronouncement.

NOTE B - CASH AND CASH EQUIVALENTS

As of December 31, 2023 and 2022, the District had deposits invested in various financial institutions in the form of operating cash and cash equivalents amounted to \$4,323,936 and \$4,793,061, respectively. All of these funds were held in deposits, which are collateralized in accordance with the California Government Code (CGC), except for \$250,000 per account that is federally insured.

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.

Cash and cash equivalents also consist of investments in Charles Schwab (Schwab) which invests in several market pools as allowed according to public restrictions on investments. Schwab is a registered investment company with the U. S. Securities and Exchange Commission. Changes in market value between years are reflected as a component of investment income in the accompanying statement of revenues, expenses and changes in net position.

NORTH SONOMA COUNTY HEALTHCARE DISTRICT

NOTE C - CONCENTRATION OF CREDIT RISK

Financial Instruments: Financial instruments, potentially subjecting the District to concentrations of credit risk, consist primarily of bank deposits in excess of the Federal Deposit Insurance Corporation (FDIC) limits of \$250,000. There is one account as of December 31, 2022 that exceed the FDIC limit the District's bank accounts, however, management believes that any risk of loss is minimal due to the high financial quality of the bank with which the District does business. Management further believes that there is no risk of material loss concerning the Schwab account due to the quality of this investment company.

NOTE D - OTHER RECEIVABLES

Other receivables as of December 31, 2023 and 2022 were comprised of the following:

	<u>2023</u>	<u>2022</u>
Due from the California Department of Health Services via Providence	\$ _____	\$ 171,458
	<u>\$ _____</u>	<u>\$ 171,458</u>

NOTE E - RESTRICTED CASH HELD BY TRUSTEES

Assets limited as to use as of December 31, 2023 and 2022 were comprised of the following:

	<u>2023</u>	<u>2022</u>
Restricted for the following various purposes:		
Cash and cash equivalents held by bond indenture agreements	\$ 1,935,208	\$ 1,895,908
	<u>\$ 1,935,208</u>	<u>\$ 1,895,908</u>

NOTE F - COMMITMENTS AND CONTINGENCIES

Litigation: From time-to-time, the District may be involved in certain litigation which may have arisen in the normal course of business. After consultation with legal counsel, management has determined that there is no need to have recorded any possible losses as a result of any legal proceedings, and estimates that matters that may be existing as of December 31, 2023 will be resolved without any significant material adverse effect on the District's future net position, results from operations or cash flows.

Notes to Financial Statements (continued)

NORTH SONOMA COUNTY HEALTHCARE DISTRICT

NOTE G - DEBT BORROWINGS

	<u>Dec. 31, 2022</u>	<u>Additions</u>	<u>Repayments</u>	<u>Dec. 31, 2023</u>
North Sonoma County Healthcare District Certificates of Participation 2020 Refunding Revenue bonds	\$ 8,789,000	\$ _____	\$ (782,000)	\$ 8,007,000
Total debt borrowings	8,789,000	<u> </u>	<u> </u>	8,007,000
Less current maturities	<u>(782,000)</u>			<u>(805,000)</u>
Total long-term borrowings	<u>\$ 8,007,000</u>			<u>\$ 7,202,000</u>

Future principal maturities for debt borrowings for the next succeeding five years are: \$805,000 in 2024; \$829,000 in 2025; \$853,000 in 2026; \$821,000 in 2027; and \$830,000 in 2028.

On December 11, 2020, the District issued the Refunding Revenue Bonds, Series 2020 (the 2020 Bonds), in the original principal amount of \$10,379,000. The 2020 Bonds provided funds to refund the outstanding 2016 Certificates of Participation (COP Bonds) 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 2020 Bonds are 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% through February 28, 2026 and 0% thereafter.

The 2020 Bonds are subject to mandatory sinking fund redemption on March 1 and September 1 of 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 estate with the District's boundaries.

Given there is a first and prior lien on the Parcel Tax Revenues, parcel tax payments are remitted directly to the Trustee of the 2020 Bonds, and the Trustee then makes deposits into a debt service fund in the amount of principal and interest coming due with the next semi-annual payment. Any tax revenues remaining after these deposits are made are remitted to Providence according to the transaction agreement between the District and Providence. If Parcel Tax Revenues are insufficient to pay the 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.

NORTH SONOMA COUNTY HEALTHCARE DISTRICT

NOTE I - INVESTMENTS

The District's investment balances and average maturities were as follows at December 31, 2023 and 2022:

<i>As of December 31, 2023</i>	Fair Value	Investment Maturities in Years		
		Less than 1	1 to 5	Over 5
Money market - public funds	\$ 324,983	\$ 324,983		
Government obligations	5,296,659	671,857	\$ 4,624,802	
Securities and equities	509,691	143,883	365,808	
Total investments	<u>\$ 6,131,333</u>	<u>\$ 1,140,723</u>	<u>\$ 4,990,610</u>	<u>\$ -0-</u>

<i>As of December 31, 2022</i>	Fair Value	Investment Maturities in Years		
		Less than 1	1 to 5	Over 5
Money market - public funds	\$ 834,872	\$ 752,115		
Government obligations	5,426,954	527,589	\$ 4,899,365	
Securities and equities	364,718		364,718	
Total investments	<u>\$ 6,543,787</u>	<u>\$ 1,279,704</u>	<u>\$ 5,264,083</u>	<u>\$ -0-</u>

The District's investments are reported at fair value as previously discussed. The District's investment policy allows for various forms of investments generally held with government agencies. Policies generally identify certain provisions which address interest rate risk, credit risk and concentration of credit risk.

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways a hospital may manage its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a position of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for hospital operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the preceding schedules that shows the distribution of the District's investments by maturity.

Credit Risk: Credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization, such as Moody's Investor Service, Inc. Generally a hospital's investment policy for corporate bonds and notes would be to invest in companies with total assets in excess of \$500 million and having a "A" or higher rating by agencies such as Moody's or Standard and Poor's.

Notes to Financial Statements (continued)

NORTH SONOMA COUNTY HEALTHCARE DISTRICT

NOTE I - INVESTMENTS (continued)

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer), a hospital would not be able to recover the value of its investment or collateral securities that are in the possession of another party. A hospital's investments are generally held by broker-dealers or in the case of many healthcare district's, in government-pooled short-term cash equivalents such as mutual funds.

Investment Hierarchy - The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant other unobservable inputs. The District's investments are solely measured by Level 1 inputs and does not have any investments that are measured using Level 2 or 3 inputs.

NOTE J - SUBSEQUENT EVENTS

Management evaluated the effect of subsequent events on the financial statements through May 17, 2024, the date the financial statements are issued, and determined that there are no material subsequent events that have not been disclosed.

JWT & Associates, LLP

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Independent Auditors 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

The Board of Directors
North Sonoma County Healthcare District
Petaluma, California

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 the business-type activities of the North Sonoma County Healthcare District (the District) as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 17, 2024.

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 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 those limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses 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 financial statement. 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

JWT & Associates, LLP

Fresno, California
May 17, 2024