Sonoma Valley Health Care District

Financial Statements
and Supplementary Information

June 30, 2020 and 2019

armanino

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sonoma Valley Health Care District
Sonoma, California

We have audited the accompanying financial statements of Sonoma Valley Health Care District (the "District"), which comprise the statements of net position as of June 30, 2020 and 2019, and the related statements of revenues, expenses and change in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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 entity'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 entity'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 Sonoma Valley Health Care District as of June 30, 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.

Emphasis of Matter

As further discussed in Note 19 to the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. Given the uncertainty of the situation, the duration of the Organization's disruption and related financial impact cannot be reasonably estimated at this time. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information on pages 39 - 40, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Armanino LLP

ArmaninoLLP
San Ramon, California

January 7, 2021

Sonoma Valley Health Care District
Management's Discussion and Analysis (Unaudited)
As of, and for the Years Ended, June 30, 2020, 2019 and 2018

Introduction

This management's discussion and analysis of the financial performance of Sonoma Valley Health Care District (the "District") provides an overview of the District's financial activities for the years ended June 30, 2020 and 2019. It should be read in conjunction with the accompanying financial statements and notes to financial statements of the District.

Financial highlights

- The District's net position increased in 2020 by approximately $9,238,000 or 46% and increased in 2019 by approximately $4,238,000 or 27%.
- Cash and cash equivalents increased in 2020 by approximately $5,403,000 or 96% and increased in 2019 by approximately $3,309,000 or 141%. The increase in 2020 was due to a significant decrease in operating expenses during 2020 as well as a decrease in capital leases and notes payable. The increase in 2019 was due to an increase in hospital net revenue and a decrease in operating expenses.
- Net patient accounts receivable decreased in 2020 by approximately $1,935,000 or 33% and decreased in 2019 by approximately $608,000 or 9%. The decrease in 2020 was due to the transfer of the hospital’s skilled nursing facility management to a third party company and the significant reduction of patient volume from late March 2020 through June 2020 due to the COVID-19 pandemic to be discussed further in the Operational Changes section.
- The District reported operating losses in both 2020 ($7,013,000) and 2019 ($2,835,000). The operating loss in 2020 increased by approximately $4,178,000 or 147% from the operating loss reported in 2019. The increase in the operating loss in 2020 is due to the significant reduction in patient volumes and subsequent net revenues from late March 2020 through June 2020 due to the COVID-19 pandemic. The decrease in the operating loss in 2019 was due to an increase in net operating revenues and a decrease in operating expenses, most notably in salaries, wages and agency fees.

Operational Changes and Future Plans

The transfer of the skilled nursing facility management to a third party became effective July 1, 2019 and has been successful in increasing the hospital's other revenues from shared services and decreasing the hospital's operating expenses primarily in salaries and wages. The hospital also experienced a gain on sale of land in 2020 from the sale of land purchased in August 2016. The gain on the sale was $2,005,000 and with the proceeds the hospital paid the $2,000,000 note on the land and paid down their line of credit by $1,250,000. Furthermore, in 2020 the hospital began construction on the new outpatient diagnostic center beginning with the CT project which will improve the layout and refurbish the department and replace the end of life CT scanner with a new 128 slice CT scanner. The CT project is estimated to be completed in early 2021.

On March 2, 2020 the hospital opened its Incident Command Center (ICC) in response to the COVID-19 virus and on March 11, 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. Subsequently, the County of Sonoma issued a Shelter in Place (SIP) order on March 17, 2020. In response to the SIP issued by the county the hospital cancelled all elective surgeries and non-emergent outpatient diagnostic services in order to conserve resources and prepare for a potential surge of COVID-19 patients. During this time the hospital's emergency room visits fell to 50% of normal. Furthermore, the hospital's volume of COVID-19 patients were minimal. In the month of May 2020 the hospital began a push to reopen services with added safety and social distancing measures in place. By June 30, 2020 the hospital's volume was roughly 75% of normal. The negative impact of COVID-19 can be seen in the significant reduction in the hospital's net operating revenue for 2020.

On March 27, 2020 the President signed into law the CARES Act which allocated $175 billion in Provider Relief Funds to healthcare organizations to help with increased costs related to COVID-19 and lost revenues. The hospital received its first distribution in April 2020 of $1,149,084 and a second distribution in May of $4,423,885. These funds are subject to a single subject audit which will be performed as more information becomes available.

The District will continue to focus on the acute care hospital needs of the community with emergency and outpatient services being a priority. The District will continue to grow their affiliation with UCSF to provide access to specialty physicians and keep patients in the District. The District will continue construction on their new outpatient diagnostic center with the CT project completed in early 2021 and the MRI project is projected to be completed by late 2021. This project is being fully funded by the Sonoma Valley Hospital Foundation.

Using this annual report

The District's financial statements consist of three statements—statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. These statements provide information about the activities of the District, including resources held by the District but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The District is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The statement of net position and statement of revenues, expenses and changes in net position

The statement of net position and the statement of revenues, expenses and changes in net position report information about the District's resources and its activities. One of the most important questions asked about the District's finances is, "Is the District as a whole, better or worse off as a result of the year's activities?" The statement of net position and the statement of revenues, expenses and change in net position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes thereto. The District's net position - the difference between assets and liabilities - is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. Other non-financial factors, such as changes in the District's patient base and measures of the quality of service it provides to the community, should be considered, as well as local economic factors.

The statement of cash flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to questions such as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The District's net position

The District's net position is the difference between its assets and liabilities reported in the statement of financial position. The District's net position increased by $9,238,000, or 46% in 2020 from 2019 and increased by $4,238,000 or 27% in 2019 from 2018, as shown in Table 2.

The increase in net position in 2020 is primarily the result of a significant decrease in both operating revenues and operating expenses, offset by the receipt of Provider Relief Funds and the gain on sale of land. The decrease in operating expenses during 2020 was due most notably to the significant reductions in salaries, wages, and agency fees, medical professional fees, and supply costs due to the elimination of expenses related to the skilled nursing facility and to the reduction of patient volumes from March 2020 through June 2020 due to the COVID-19 pandemic.

In 2020, estimated third-party cost report settlements decreased by $350,200 or 79% compared to 2019. The decrease in 2020 is due to the payback of over payments on Medicare's Periodic Interim Payment ("PIP") from 2019. Property tax receivable increased by $190,000 or 3% from 2019. Other receivables increased by $727,000 or 133% from 2019, which is due to the collection of the PRIME grant, offset by outstanding pledges from 2020 related to the Outpatient Diagnostic Center construction costs.

Table 1: Statements of Net Position

	2020	2019	2018
ASSETS			
Current assets			
Cash and cash equivalents	$ 11,054,230	$ 5,651,697	$ 2,342,737
Patient accounts receivable, net of allowance for doubtful accounts of $920,518 and $1,185,345 in 2020 and 2019, respectively	3,920,682	5,856,145	6,464,621
Estimated third-party payor settlements	94,987	445,220	892,336
Property tax receivable	7,195,321	7,004,881	7,060,250
Other receivables	1,272,442	544,948	593,245
Inventories	864,337	901,652	852,688
Prepaid expenses and other current assets	764,658	1,116,921	785,383
Total current assets	25,166,657	21,521,464	18,991,260
Capital assets, net	49,267,897	50,868,937	52,220,907
Noncurrent investments			
Restricted for debt service	5,528,299	5,016,479	4,437,878
Total noncurrent investments	5,528,299	5,016,479	4,437,878
Total assets	$ 79,962,853	$ 77,406,880	$ 75,650,045
LIABILITIES AND NET POSITION			
Current liabilities			
Accounts payable and accrued expenses	$ 4,968,824	$ 6,510,167	$ 5,628,545
Accrued payroll and related liabilities	3,389,085	3,150,043	3,634,422
Deferred tax revenue	7,109,173	6,904,781	6,853,235
Line of credit	5,473,734	6,723,734	6,973,734
Bonds payable, current portion	1,743,000	1,631,000	1,529,000
Capital lease obligations, current portion	82,652	344,477	950,690
Notes payable, current portion	252,342	2,419,733	2,350,366
Total current liabilities	23,018,810	27,683,935	27,919,992
Long-term liabilities			
Accrued workers' compensation liability	707,000	650,000	663,000
Bonds payable, net of current portion	26,526,000	28,269,000	29,900,000
Capital lease obligations, net of current portion	171,018	279,128	611,726
Notes payable, net of current portion	223,090	445,532	735,189
Total long-term liabilities	27,627,108	29,643,660	31,909,915
Total liabilities	50,645,918	57,327,595	59,829,907
Net position			
Net investment in capital assets	14,796,061	10,756,333	9,170,202
Restricted			
For debt service	5,528,299	5,016,479	4,437,878
Expendable for capital assets	-	2,337,205	650,620
Total restricted	5,528,299	7,353,684	5,088,498
Unrestricted	8,992,575	1,969,268	1,582,132
Total net position	29,316,935	20,079,285	15,840,832
Total liabilities and net position	$ 79,962,853	$ 77,406,880	$ 75,670,739

Table 2: Statements of Revenues, Expenses and Changes in Net Position

In 2020 the District's operating loss increased by $4,178,000 or 147% from 2019. In 2019 the operating loss decreased by $3,190,000 or 53% from 2017, as shown in Table 2 below:

	2020	2019	2018
Operating revenues			
Net patient service revenue	$ 46,618,700	$ 57,553,690	$ 54,439,085
Capitation revenue	287,390	755,801	1,358,418
	46,906,090	58,309,491	55,797,503
Operating expenses			
Salaries and wages	23,077,573	26,834,013	29,992,860
Employee benefits	5,565,682	6,104,110	6,551,231
Purchased services	4,589,543	4,867,261	4,398,195
Professional fees, medical	5,418,479	6,669,310	5,809,116
Professional fees, non-medical	304,758	658,575	580,667
Supplies	6,119,489	6,898,410	6,356,090
Facilities and equipment	622,096	668,684	740,668
Utilities	1,188,302	1,171,603	1,189,990
Insurance	466,482	441,380	371,824
Depreciation and amortization	3,108,248	3,392,233	3,424,202
Other expenses	3,458,433	3,439,339	2,407,797
Total operating expenses	53,919,085	61,144,918	61,822,640
Loss from operations	(7,012,995)	(2,835,427)	(6,025,137)
Nonoperating income (expenses)			
General obligation bond tax assessment revenues	3,264,864	3,273,235	3,164,434
Parcel tax assessment revenues	3,771,152	3,781,005	3,791,051
General obligation bond interest	(1,151,759)	(1,217,171)	(1,275,052)
Interest expense	(312,663)	(657,499)	(564,546)
Gain on sale of land	2,005,303	5,512	1,150
Provider relief funds	5,572,969	-	-
Contributions to Prima Medical Foundation	(133,171)	(452,439)	(681,200)
Investment income	111,196	99,989	71,390
Other income, net	661,394	246,028	(9,216)
Total nonoperating income (expenses), net	13,789,285	5,078,660	4,498,011
Capital contributions	2,461,360	1,995,220	1,227,291
Changes in net position	9,237,650	4,238,453	(299,835)
Net position, beginning of year	20,079,285	15,840,832	16,140,667
Net position, end of year	$ 29,316,935	$ 20,079,285	$ 15,840,832

*The District's net patient revenue is comprised of comprehensive services that span the continuum of healthcare services: inpatient and outpatient hospital patient care services, emergency services, skilled nursing facility services and home health care services. The following is the payor mix based upon net patient service revenue. Net patient service revenue represents payments made by insurance companies and patients and is not the gross billed charges.

The following chart shows the percentage of Government programs (Medicare, Medicare HMO, Medi-Cal and Medi-Cal Managed Care), commercial insurance and other net patient revenue. Government programs generally do not cover the cost of providing patient care services and therefore are augmented by commercial insurance payments. The District's payor mix is the reason that the parcel tax is so critical to the ongoing operations of the District.

Payor mix - Percentage of total cash collections;

	FY 2020	FY 2019	FY 2018
Medicare	26.8 %	30.5 %	37.4 %
Medicare HMO	8.3 %	8.4 %	8.2 %
Medi-Cal	1.8 %	1.6 %	2.2 %
Medi-Cal Managed Care	22.4 %	21.3 %	13.8 %
Commercial insurance	31.6 %	28.1 %	28.4 %
Workers compensation	2.8 %	1.9 %	2.0 %
Capitated	0.2 %	0.5 %	0.3 %
Other government	1.5 %	1.4 %	1.9 %
Self pay - other	4.6 %	6.3 %	5.8 %
	100.0 %	100.0 %	100.0 %

Over the period, the District has continued to experience the shift from inpatient to outpatient care. The District's experience with this shift in patient care services is consistent across all hospitals in the United States. Insurance companies, including Medicare, the District's largest payor, are more frequently requiring services to be provided in the outpatient setting.

Operating losses

The first component of the overall change in the District's net position is its operating income or loss; generally, the difference between net patient services and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the District has reported an operating loss. This is consistent with the District's operating history as the District was formed and operates primarily to serve residents of Sonoma Valley, regardless of their ability to pay. The District levies property taxes to provide sufficient resources to enable the facility to serve lower income and other residents.

The operating loss for 2020 increased by $4,178,000, or over 100% as compared to 2019. In 2019 the operating loss decreased by $3,190,000 or 53% as compared to 2018. The major components of those changes in operating loss are:

- Total operating revenues decreased by $11,403,000 or 20% in 2020. Total operating revenues increased by $2,512,000 or 5% in 2019 compared to 2018. The decrease in 2020 is due to the elimination of the skilled nursing facility net revenue and the significant reduction in patient volumes and subsequent net revenue from March 2020 through June 2020 from the COVID-19 pandemic.
- Salaries, wages and benefits decreased in 2020 by $4,295,000 or 13% due to the elimination of salaries, wages, and benefits related to the skilled nursing facility and to the reduction of staff due to lower volumes from the COVID-19 pandemic. Salaries, wages and benefits decreased in 2019 by $3,606,000 or 10% due to the implementation of cost savings measures from 2018 and the transfer of the Home Health department to an outside organization and the closure of the obstetrics department.
- Purchased services decreased in 2020 by $278,000 or 6% compared to 2019 and increased in 2019 by $469,000 or 11% compared to 2018. The decrease in 2020 is due to the reconfiguration of the hospital's Bio-medical equipment maintenance contract that yielded a 40% savings from 2019 and a reduction of services utilized in laundry and linen and in the pharmacy.
- Medical professional fees decreased in 2020 by $1,251,000 or 19% primarily due to a significant reduction in nurse registry costs from 2019. Medical fees increased in 2019 by $860,000 or 15% due to new physician costs associated with the opening of the hospital's family practice physician clinic in July 2018 as well as an increased use in nursing registry due to nursing turn over.
- Non-medical professional fees decreased in 2020 by $354,000 or 54% from 2019 due to the elimination of professional management fees associated with the hospital's family practice physician clinic and the elimination of other Administrative professional costs. Non-medical professional fees increased in 2019 by $78,000, or 13% from 2018 due to professional management fees associated with the opening of the hospital's family practice physician clinic in July 2018.
- Supplies decreased in 2020 by $779,000 or 11% from 2019 primarily due to a decrease in patient volumes due to COVID-19. Supplies increased in 2019 by $542,000 or 9% from 2018 primarily due to an increase in pharmaceutical costs because the hospital no longer qualified for the 340B drug program due to the hospital's declining Medi-Cal utilization.
- Facilities and equipment decreased in 2020 by $47,000 or 7% from 2019 due to a reduction in rents and leases. Facilities and equipment decreased in 2020 by $72,000 or 10% from 2018 due to a reduction in rents and an operating lease ending.
- Other expenses increased in 2020 by $20,000 or 1% compared to 2019. Other expenses increased in 2019 by $1,032,000 or 43% compared to 2018 due to an increase in Inter-Governmental Transfers (IGT) matching fee payments during 2019.

Nonoperating revenues and expenses

Nonoperating revenues and expenses consist primarily of parcel taxes levied by the District, investment income, interest expense and noncapital grants and gifts. Furthermore, in 2020 non-operating revenues include the one-time gain on sale of land of $2,005,000 and provider relief funds from the CARES Act of $5,573,000. Parcel taxes remained consistent in both 2020 and 2019. In 2020 interest expense decreased by $410,000 or 22% from 2019 due to the payoff of several notes and lease obligations. In 2019 interest expense increased by $35,000 or 2% from 2018.

Capital grants and gifts

The District received gifts from Sonoma Valley Hospital Foundation and various individuals for the construction costs related to the outpatient diagnostic center and to purchase capital assets in the amount of $2,461,000 in 2020 and $1,995,000 in 2019; an increase of $466,000 in 2020 over 2019. Capital grants and gifts increased by $768,000 in 2019 over 2018.

The District's cash flows

Changes in the District's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses, as discussed earlier.

Capital assets

At the end of 2020 and 2019, the District had $49,268,000 and $50,869,000, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 8 to the financial statements. In 2020 and 2019, the District purchased new equipment and made capital improvements costing $3,085,000 and $2,129,000, respectively.

Debt

At June 30, 2020 and 2019, the District had $28,998,000 and $33,389,000, respectively, in bonds, equipment notes payable and notes payable outstanding as detailed in Notes 10 and 11 to the financial statements. The District has a line of credit agreement with a bank for an amount not to exceed $6,750,000, maturing on January 31, 2022. The District had unused credit on the line of $1,276,000 as of June 30, 2020.

Contacting the District's financial management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Chief Financial Officer by telephoning (707) 935-5003.

Sonoma Valley Health Care District
Statements of Net Position
June 30, 2020 and 2019

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 11,054,230	$ 5,651,697
Patient accounts receivable, net of allowance for doubtful accounts of $920,518 and $1,185,345 in 2020 and 2019, respectively	3,920,682	5,856,145
Estimated third-party payor settlements	94,987	445,220
Property tax receivable	7,195,321	7,004,881
Other receivables	1,272,442	544,948
Inventories	864,337	901,652
Prepaid expenses and other current assets	764,658	1,116,921
Total current assets	25,166,657	21,521,464
Capital assets, net	49,267,897	50,868,937
Noncurrent investments		
Restricted for debt service	5,528,299	5,016,479
Total noncurrent investments	5,528,299	5,016,479
Total assets	$ 79,962,853	$ 77,406,880
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable and accrued expenses	$ 4,968,824	$ 6,510,167
Accrued payroll and related liabilities	3,389,085	3,150,043
Deferred tax revenue	7,109,173	6,904,781
Line of of credit	5,473,734	6,723,734
Bonds payable, current portion	1,743,000	1,631,000
Capital lease obligations, current portion	82,652	344,477
Notes payable, current portion	252,342	2,419,733
Total current liabilities	23,018,810	27,683,935
Long-term liabilities		
Accrued workers' compensation liability	707,000	650,000
Bonds payable, net of current portion	26,526,000	28,269,000
Capital lease obligations, net of current portion	171,018	279,128
Notes payable, net of current portion	223,090	445,532
Total long-term liabilities	27,627,108	29,643,660
Total liabilities	50,645,918	57,327,595
Net position		
Net investment in capital assets	14,796,061	10,756,333
Restricted		
For debt service	5,528,299	5,016,479
Expendable for capital assets	-	2,337,205
Total restricted	5,528,299	7,353,684
Unrestricted	8,992,575	1,969,268
Total net position	29,316,935	20,079,285
Total liabilities and net position	$ 79,962,853	$ 77,406,880

The accompanying notes are an integral part of these financial statements.

Sonoma Valley Health Care District
Statements of Revenues, Expenses and Change in Net Position
For the Years Ended June 30, 2020 and 2019

	2020	2019
Operating revenues		
Net patient service revenue	$ 46,618,700	$ 57,553,690
Capitation revenue	287,390	755,801
Total operating revenues	46,906,090	58,309,491
Operating expenses		
Salaries and wages	23,077,573	26,834,013
Employee benefits	5,565,682	6,104,110
Purchased services	4,589,543	4,867,261
Professional fees, medical	5,418,479	6,669,310
Professional fees, non-medical	304,758	658,575
Supplies	6,119,489	6,898,410
Facilities and equipment	622,096	668,684
Utilities	1,188,302	1,171,603
Insurance	466,482	441,380
Depreciation and amortization	3,108,248	3,392,233
Other expenses	3,458,433	3,439,339
Total operating expenses	53,919,085	61,144,918
Loss from operations	(7,012,995)	(2,835,427)
Nonoperating income (expenses)		
General obligation bond tax assessment revenues	3,264,864	3,273,235
Parcel tax assessment revenues	3,771,152	3,781,005
General obligation bond interest	(1,151,759)	(1,217,171)
Interest expense	(312,663)	(657,499)
Contributions to Prima Medical Foundation	(133,171)	(452,439)
Investment income	111,196	99,989
Gain on sale of land	2,005,303	5,512
Provider relief funds	5,572,969	-
Other income, net	661,394	246,028
Total nonoperating income, net	13,789,285	5,078,660
Capital contributions	2,461,360	1,995,220
Change in net position	9,237,650	4,238,453
Net position, beginning of year	20,079,285	15,840,832
Net position, end of year	$ 29,316,935	$ 20,079,285

The accompanying notes are an integral part of these financial statements.

Sonoma Valley Health Care District
Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Cash received from patients and third-parties	$ 49,166,690	$ 59,548,957
Cash payments to contractors, vendors and suppliers	(23,292,662)	(24,288,394)
Cash payments to employees and benefit programs	(28,147,363)	(33,435,502)
Net cash provided by (used in) operating activities	(2,273,335)	1,825,061
Cash flows from noncapital financing activities		
Noncapital grants, contributions and other	5,531,965	136,657
Contribution to Prima Medical Foundation	(133,171)	(452,439)
District tax revenues	3,785,106	3,887,917
Net cash provided by noncapital financing activities	9,183,900	3,572,135
Cash flows from capital and related financing activities		
Purchase of capital assets	(2,850,272)	(2,124,590)
Principal payments on note payable	(2,389,683)	(375,636)
Principal payments on capital lease obligations	(369,935)	(938,811)
Payment on line of credit	(1,250,000)	(250,000)
Principal payments on bond payable	(1,631,000)	(1,529,000)
Interest paid on long-term debt	(1,491,107)	(1,899,718)
Proceeds on note payable	-	155,346
Proceeds from sale of capital assets	3,148,367	84,327
Tax revenue related to general obligation bonds	3,264,862	3,273,238
Capital grants and gifts	2,461,360	1,995,220
Net cash used in capital financing activities	(1,107,408)	(1,609,624)
Cash flows from investing activities		
Purchases of investments	(511,820)	(578,601)
Interest received from investments	111,196	99,989
Net cash used in investing activities	(400,624)	(478,612)
Net increase in cash and cash equivalents	5,402,533	3,308,960
Cash and cash equivalents, beginning of year	5,651,697	2,342,737
Cash and cash equivalents, end of year	$ 11,054,230	$ 5,651,697

The accompanying notes are an integral part of these financial statements.

Sonoma Valley Health Care District
Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	2020	2019
Reconciliation of loss from operations to net cash used in operating activities		
Loss from operations	$ (7,012,995)	$ (2,835,427)
Adjustments to reconcile loss from operations to net cash provided by (used in) operating activities		
Depreciation and amortization	3,108,248	3,392,233
Provision for doubtful accounts	2,130,000	1,980,000
Changes in operating assets and liabilities		
Patient accounts receivable, net	(219,633)	(1,187,650)
Estimated third-party payor settlements	350,233	447,116
Accounts payable and accrued expenses	(1,018,766)	409,291
Other assets and liabilities	389,578	(380,502)
Net cash provided by (used in) operating activities	$ (2,273,335)	$ 1,825,061

The accompanying notes are an integral part of these financial statements.

1. NATURE OF OPERATIONS

Sonoma Valley Health Care District (the "District") is a political subdivision of the State of California organized under the State of California Local Health Care District Law as set forth in the Health and Safety Code of the State of California. The Health Care District is governed by an elected Board of Directors and is considered the primary government for financial reporting purposes.

The Health Care District owns and operates Sonoma Valley Hospital (the "Hospital"). The Hospital is located in Sonoma, California, and is licensed for 48 general acute care beds and 27 skilled nursing beds. It also provides 24-hour basic emergency care, outpatient diagnostic and therapeutic services, and it operated a home health agency through September 2018. The Hospital derives a significant portion of its revenues from third-party payors, including Medicare, Medi-Cal and commercial insurance organizations.

The District approved the closure of the obstetrics service line effective October 31, 2018 due to the ongoing decline in births locally and continuous losses that have been incurred. The District also approved the transfer of home health care to the organization Incare Home Care, LLC effective September 30, 2018. Effective July 1, 2019, the District Board approved the transfer of the skilled nursing facility management to a third party.

The District Board has approved the planning phase and construction of a new outpatient diagnostic center (the "center"). The construction of the center commenced during fiscal year 2020, and is funded entirely by donor contributions raised by the Sonoma Valley Hospital Foundation. See Note 15, Transactions with Sonoma Valley Hospital Foundation, for further discussion.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The District's financial statements are presented in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). The financial statement presentation, required by GASB Statements No. 34, 37 and 38 provides a full accrual basis, comprehensive, entity-wide perspective of the District's assets, results of operations and cash flows. The District follows the "business-type activities" reporting requirements of GASB Statement No. 34. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

In June 2015, the GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments ("GASB No. 76"), which is effective for financial statements for periods beginning after June 15, 2015. The objective of GASB No. 76 is to identify, in the context of the current governmental financial reporting environment, the hierarch of generally accepted accounting principles ("GAAP"). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

Proprietary fund accounting and financial statement presentation

The District utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis and the financial statements are prepared using the economic resources measurement focus.

Net position of the District is comprised of the following three components:

- *Net investment in capital assets* - consists of capital assets (both restricted and unrestricted), net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction or improvement of those capital assets.
- *Restricted net position* - consists of net position with limits on their use that are externally imposed by creditors (such as through debt covenants), grantors, contributors or by laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net position* - consists of the remaining net position that does not meet the definition of invested in capital assets, net of related debt or restricted net position.

Use of estimates

The preparation of the 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 amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents include deposits with financial institutions and investments in highly liquid debt instruments with an original maturity of three months or less. Cash and cash equivalents exclude amounts whose use is limited by Board designation or by legal restriction.

Patient accounts receivable and concentration of credit risk

Patient accounts receivable consist of amounts owed by various governmental agencies, insurance companies and private patients. The District manages its receivables by regularly reviewing the accounts, providing appropriate reserves for contractual allowances and uncollectible accounts based upon historical net collections, the aging of individual accounts, as well as current economic and regulatory conditions. Patient accounts receivable from government agencies represent the only concentrated group of credit risk for the District and management does not believe there are any material credit risks associated with these governmental agencies. Contracted and other private patient accounts receivable consist of various payors including individuals involved in diverse activities, subject to differing economic conditions. While the overall concentration of these other payor receivables is significant, they do not represent any individual concentrated credit risk to the District. Medicare and Medi-Cal receivables combined account for approximately 23% and 35% of net patient accounts receivable as of June 30, 2020 and 2019, respectively.

Uncollectible accounts

The District provides care to patients without requiring collateral or other security. Patient charges not covered by a third-party payor are billed directly to the patient if it is determined that the patient has the ability to pay. A provision for uncollectible accounts is recognized based on management's estimate of amounts that ultimately may be uncollectible given historical collection trends. At June 30, 2020 and 2019 , the District provided allowances for losses on amounts directly from patients totaling $920,518 and $1,185,345, respectively.

Investments

The District maintains a portion of its cash in the State of California Local Agency Investment Fund ("LAIF") pooled investment. The funds deposited in LAIF are invested in accordance with Government Code Sections 16340 and 16480, the stated investment authority for the Pooled Money Investment Account. Balances are stated at their estimated fair value.

Noncurrent investments consist of Board-designated and restricted funds set aside by the Board for future capital improvements and other operational reserves, over which the Board retains control and may at its discretion, use for other purposes; assets set aside for qualified capital outlay projects in compliance with state law and assets restricted by donors or grantors.

Investment income, realized gains and losses and unrealized gains and losses on investments are reflected as nonoperating income or expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements

In February 2015, the GASB issued Statement No. 72, Fair Value Measurement and Application ("GASB No. 72"), which is effective for financial statements for periods beginning after June 15, 2015. GASB No. 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The District reports the fair value of its investments in accordance with GASB 72. This standard requires an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. In addition, the District reports certain investments using the net asset value per share as determined by investment managers under the so called "practical expedient". The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. Fair value measurement standards also require the District to classify these financial instruments into a three-level hierarchy based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 reporting depending on lock-up and notice periods associated with the underlying funds.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

- *Level 1* - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- *Level 2* - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Level 2 also includes practical expedient investments with notice periods for redemption of 90 days or less.
- *Level 3* - Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation. Level 3 also includes principal expedient investments with notice periods for redemption of more than 90 days.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest and credit risk. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in the District's financial statements.

Pledges receivable

Pledges are recorded at their present value net of applicable discounts. There are no discounts recorded as of June 30, 2020 and 2019, as all pledge balances are expected to be collected within one year. An allowance for uncollectible pledges receivable is established based upon management's judgment including such factors as prior collection history and aging statistics of pledge balances. At June 30, 2020 and 2019, management determined that no allowance for uncollectible pledges was required, as all balances are considered to be fully collectible.

Inventories

Inventories consist primarily of hospital operating supplies and pharmaceuticals and are stated at cost, determined by the first-in, first-out method, not in excess of fair value.

Restricted for debt services

According to the terms of the General Obligation Bond indenture agreements, certain amounts are held by the bond trustee and paying agent and are maintained and managed by the trustee and are invested in noncurrent investments. These assets are available for the settlement of future current bond obligations.

Capital assets

Capital asset acquisitions over $5,000 are capitalized and recorded at cost. Donated property is recorded at its fair value on the date of donation. Equipment under capital lease is amortized on the straight-line basis over the shorter of the lease term or the estimated useful life of the equipment. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the related assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets (continued)

Depreciation and amortization of property and equipment is computed using the straight-line method over the following estimated useful lives:

Land improvements	10 - 20 years
Buildings and improvements	20 - 40 years
Equipment	2 - 10 years

Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered, the District, using its best estimates and projections, reviews for impairment the carrying value of long-lived identifiable assets to be held and used in the future. Any impairment losses identified are recognized when determined. Recoverability of assets is measured by comparison of the carrying amount of the asset to the net undiscounted future cash flows expected to be generated from the asset. If the future undiscounted cash flows are not sufficient to recover the carrying value of the assets, the asset's carrying value is adjusted to fair value. As of June 30, 2020 and 2019, the District has determined that no capital assets are significantly impaired.

Costs of borrowing

Except for capital assets acquired through gifts, contributions or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Risk management

The District 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; employee health, dental and accidents; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The District maintains professional liability insurance on a claims-made basis, with liability limits of $15,000,000 per claim and $25,000,000 in aggregate, which is subject to a $5,000 per claim deductible. Additionally, the District is self-insured for workers' compensation benefits. The District purchases a workers' compensation excess policy that insures claims with no limits in the amounts and a $500,000 deductible. An actuarial estimate of uninsured losses from workers' compensation claims has been accrued as a liability in the accompanying financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Statements of revenues, expenses and changes in net position

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 health care services, which is the District's principal activity. Operating expenses are all expenses incurred to provide health care services, other than financing costs. Other transactions such as property tax revenue, interest expense, investment income, gain on sale of capital assets, gifts and contributions, and grants and bequests are reported as nonoperating income.

Net patient service revenue

Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered, and adjusted in future periods as final settlements are determined.

The distribution of net patient revenue, which represents both cash collected and expected to be collected, by payor is as follows:

	2020	2019
Medicare	26.8 %	30.5 %
Medicare HMO	8.3 %	8.4 %
Medi-Cal	1.8 %	1.6 %
Medi-Cal Managed Care	22.4 %	21.3 %
Commercial Insurance	31.6 %	28.1 %
Workers Compensation	2.8 %	1.9 %
Capitated	0.2 %	0.5 %
Self-pay-other	1.5 %	6.3 %
Other government	4.6 %	1.4 %

Charity care

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capitation revenues

The District, in association with Meritage Medical Network (formerly Marin Independent Practice Association) ("Meritage") has an agreement with a health maintenance organization ("HMO") to provide medical services to subscribing participants. Under this agreement, the District receives monthly capitation payments based on the number of each HMO's participants, regardless of the services actually performed by the District. The District is not responsible for the cost of services provided to subscribing participants by other hospitals. The District reassesses the profitability of the agreements for exposure risks in the event future medical costs to provide medical services exceed the related future capitation payments.

Property tax revenues

Taxes for District operations and for debt service payments related to District General Obligation Bonds are levied annually on the taxable property within the District.

In March 2002, the District voters adopted a special tax on each taxable parcel of land within the District at an annual rate of up to $130 per parcel for five years. In March 2007, the District voters extended the special tax at an annual rate of up to $195 per parcel. In June 2017, the District voters approved an extension of the special tax at an annual rate of up to $250 per parcel for a five-year period through 2022. The purpose of the special parcel tax is to ensure continued local access to emergency room and acute hospital care and other medical services for residents of the District and for visitors to the area.

Property tax revenue funds were designated as follows:

	2020	2019
Designated for hospital operations	$ 3,771,152	$ 3,781,005
Levied for hospital operations and debt service payments	3,264,864	3,273,235
	$ 7,036,016	$ 7,054,240

The District recognizes property taxes receivable when the enforceable legal claim arises (January 1) and recognizes revenues over the period for which the taxes are levied (July 1 to June 30). Property taxes are considered delinquent on the day following each payment due date. Property tax revenues are nonexchange transactions that are reported as nonoperating income.

Grants and contributions

The District receives grants as well as contributions from individuals and 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 for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated absences

District policies permit most employees to accumulate paid time-off benefits that may be realized as paid time-off or as a cash payment upon termination. The expense and the related liability are recognized as paid time-off benefits when earned. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of financial position date plus an additional amount for compensation-related payments, such as social security and Medicare taxes computed using rates in effect at the date of computation.

Income taxes

The District operates under the purview of the Internal Revenue Code, Section 115, and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to state or federal taxes on income. However, income from the unrelated business activities of the District may be subject to income taxes.

3. CASH DEPOSITS

At June 30, 2020 and 2019, the District's cash deposits had carrying amounts of $11,054,230 and $5,651,697, respectively, and bank balances of $11,418,826 and $6,269,659, respectively. All of the bank balances at June 30, 2020 and 2019, were covered by federal depository insurance.

4. NET PATIENT SERVICE REVENUES

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. The difference between the Hospital's established rates and the amounts paid under third-party contracts are reflected as contractual adjustments. Medicare and Medi-Cal settlements are estimated and recorded in the financial statements in the year services are provided, or when amounts are estimable. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. The District believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquires have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medi-Cal programs. Changes in Medicare, Medi-Cal, or other programs or the reduction of program funding could have an adverse impact on future net patient service revenues.

4. NET PATIENT SERVICE REVENUES (continued)

A summary of the payment arrangements with major third-party payors is as follows:

- Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge for the District. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The District's classification of inpatients under the Medicare program and the appropriateness of their admissions are subject to an independent review by a peer review organization under contract with the District. Most outpatient services at the District provided to Medicare beneficiaries are paid at prospectively determined rates per encounter that vary according to procedures performed. At June 30, 2020 Medicare cost reports have been audited and final settled by the fiscal intermediary through June 30, 2017 for the District.
- Medi-Cal - Payments for inpatient acute care services rendered to Medi-Cal program beneficiaries are reimbursed under a diagnostic related group (DRG) methodology. Under this methodology, similar to Medicare, 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. At June 30, 2020 the District's Medi-Cal cost reports have been audited and final settled through June 30, 2018.
- Others - Payments for services rendered to other than Medicare and Medi-Cal patients are based on established rates or agreements with certain commercial insurance companies, health maintenance organizations, Napa State, and preferred provider organizations which provide for various discounts from established rates.

Net patient service revenues consisted of the following:

	2020	2019
Services provided to Medicare patients	$ 132,528,038	$ 116,561,188
Services provided to Medi-Cal patients	42,665,195	49,134,185
Services provided to other patients	63,459,126	106,404,718
Gross patient service revenues	238,652,359	272,100,091
Contractual allowances and allowance for doubtful accounts	(192,033,659)	(214,546,401)
Total net patient service revenue	$ 46,618,700	$ 57,553,690

4. NET PATIENT SERVICE REVENUES (continued)

The District receives funds under Assembly Bill No. 915 legislation for MediCal services provided through an Inter-Governmental Transfer (IGT) whereby funds are advanced by the District to be matched by the federal government. As a result of participation in the Hospital Provider Fee and the Rate Range IGT programs, the District recognized gross revenues of $7,010,496 and IGT expense of $2,827,534 for the year ended June 30, 2020. The District recognized gross revenues of $7,169,044 and IGT expense of $2,584,514 for the year ended June 30, 2019 under these two programs. Revenue and expense under these programs are recorded upon notification by the Department of Health Care Services of final earned amounts for MediCal services in the specific service year of calculation. The revenues recognized under these programs are recorded within net patient service revenues, and the IGT expense paid into the programs is reflected as other expense.

5. INVESTMENTS RESTRICTED FOR DEBT SERVICE

District investment balances and average maturities were as follows at June 30, 2020:

	Fair Value	Less than 1	1 to 5
Money market mutual fund	$ 5,528,299	$ 5,528,299	$ -

District investment balances and average maturities were as follows at June 30, 2019:

	Fair Value	Less than 1	1 to 5
Money market mutual fund	$ 5,016,479	$ 5,016,479	$ -

Except for the investment of unexpended funds borrowed for construction, the District's investment policy limits the first $5,000,000 of investments to the LAIF. Once investments exceed $5,000,000, the policy (California Government Code) limits investments to bonds and other obligations of the US Treasury, US agencies or instrumentalities, or the state of California; bonds of any city, county, school district, or special road district of the state of California; bonds of banks for cooperatives, federal land banks, federal intermediate credit banks, Federal Home Loan Bank, Tennessee Valley Authority and the National Mortgage Association or certificates of deposit.

The investment policy does not specifically address interest rate risk, credit risk, custodial credit risk, concentration of credit risk or foreign currency risk.

Inherent rate risk

Inherent 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. The money market mutual fund has a maturity of less than one year and is redeemable in full immediately.

5. INVESTMENTS RESTRICTED FOR DEBT SERVICE (continued)

Credit risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2020 and 2019, the District's investment in a money market mutual fund was rated AAA by both Moody's Investors Service and Standard and Poor's.

Concentration of credit risk

This risk relates to the risk of loss attributed to the magnitude of the District's investment in a single issuer. For the year ended June 30, 2020 the District had a single money market mutual fund investment.

6. FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value as of June 30, 2020:

	Level 1	Level 2	Level 3	Fair Value
Money market mutual funds	$ 5,528,299	$ -	$ -	$ 5,528,299

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value as of June 30, 2019:

	Level 1	Level 2	Level 3	Fair Value
Money market mutual funds	$ 5,016,479	$ -	$ -	$ 5,016,479

7. PROPERTY TAX RECEIVABLES

Property tax receivables consisted of the following:

	2020	2019
Special parcel tax	$ 3,886,141	$ 3,900,099
Tax for general obligation bond debt service payments	3,309,180	3,104,782
	$ 7,195,321	$ 7,004,881

8. CAPITAL ASSETS

Capital assets activity as of June 30, 2020, consisted of the following:

	Balance, June 30, 2019	Purchases and Transfers	Sales, Transfers, and Retirements	Balance, June 30, 2020
Non-depreciable capital assets				
Land	$ 1,934,206	$ -	$ (1,287,519)	$ 646,687
Construction in progress	2,722,198	2,068,956	(234,230)	4,556,924
Total non-depreciable capital assets	4,656,404	2,068,956	(1,521,749)	5,203,611
Depreciable capital assets				
Land improvements	805,238	5,240	(15,667)	794,811
Buildings and improvements	64,517,952	136,992	(78,653)	64,576,291
Equipment	31,117,458	873,316	(1,338,260)	30,652,514
	96,440,648	1,015,548	(1,432,580)	96,023,616
Less accumulated depreciation	(50,228,115)	(3,108,248)	1,377,033	(51,959,330)
Total depreciable capital assets	46,212,533	(2,092,700)	(55,547)	44,064,286
Total capital assets, net	$ 50,868,937	$ (23,744)	$ (1,577,296)	$ 49,267,897

Capital assets activity as of June 30, 2019, consisted of the following:

	Balance, June 30, 2018	Purchases and Transfers	Sales, Transfers, and Retirements	Balance, June 30, 2019
Non-depreciable capital assets				
Land	$ 1,934,206	$ -	$ -	$ 1,934,206
Construction in progress	811,065	1,911,133	-	2,722,198
Total non-depreciable capital assets	2,745,271	1,911,133	-	4,656,404
Depreciable capital assets				
Land improvements	805,238	-	-	805,238
Buildings and improvements	64,531,377	25,041	(38,466)	64,517,952
Equipment	31,428,990	192,340	(503,872)	31,117,458
	96,765,605	217,381	(542,338)	96,440,648
Less accumulated depreciation	(47,289,969)	(3,392,233)	454,087	(50,228,115)
Total depreciable capital assets	49,475,636	(3,174,852)	(88,251)	46,212,533
Total capital assets, net	$ 52,220,907	$ (1,263,719)	$ (88,251)	$ 50,868,937

9. LINE OF CREDIT

The District had a line of credit agreement with a bank for an amount not to exceed $7,000,000 that matured on January 31, 2019. On this date, the line of credit was extended for an amount not to exceed $6,750,000, with an interest rate of 2.5% plus LIBOR, maturing on January 31, 2022. The line of credit is collateralized with the District's cash, cash equivalents and receivables. At any time prior to the maturity date, subject to the terms of the loan, the District may borrow, repay and reborrow so long as the maximum principal balance outstanding does not exceed $6,750,000 on or before March 31, 2020, $5,500,000 on or before April 1, 2020 and $5,000,000 on or before April 1, 2021.

On March 30, 2020, the District entered into an amended line of credit agreement with the bank for a loan amount not to exceed $6,750,000, with an interest rate of 2.5% plus LIBOR, maturing on January 31, 2022. At any time prior to the maturity date of this note, the District may borrow, repay and reborrow so long as the principal amounts outstanding do not exceed $6,750,000 from March 30, 2020 through March 31, 2021, and $5,500,000 at all other times during the terms of the note.

The District is required to comply with certain restrictive covenants, including maintaining a total liabilities to tangible net worth ratio of not greater than 2.0 to 1.0, at all times tangible net worth to be no less than $9 million, and the loan outstanding balance shall be limited to 70% of the sum of net accounts receivable, contributions receivable, special parcel tax and cash. The District was in compliance with these covenants as of June 30, 2020 and 2019.

The District had unused credit on the line of $1,276,266 and $26,266 as of June 30, 2020 and 2019, respectively.

10. LONG-TERM DEBT

The District's long-term debt transactions as of June 30, 2020, consisted of the following:

	Balance, June 30, 2019	Additions	Decreases / Amortization	Balance, June 30, 2020
GO Bond principal	$ 29,900,000	$ -	$ (1,631,000)	$ 28,269,000
Notes payable	2,865,265	-	(2,389,833)	475,432
Anticipation notes	-	1,000,000	(1,000,000)	-
	$ 32,765,265	$ 1,000,000	$ (5,020,833)	$ 28,744,432

10. LONG-TERM DEBT (continued)

The District's long-term debt transactions as of June 30, 2018, consisted of the following:

	Balance, June 30, 2018	Additions	Decreases / Amortization	Balance, June 30, 2019
GO Bond Principal	$ 31,429,000	$ -	$ (1,529,000)	$ 29,900,000
Notes payable	3,085,555	155,346	(375,636)	2,865,265
Anticipation notes	-	3,000,000	(3,000,000)	-
Sonoma Valley Charitable Foundation	-	650,000	(650,000)	-
	$ 34,514,555	$ 3,805,346	$ (5,554,636)	$ 32,765,265

General obligation bonds payable

On November 4, 2008, the District electorate approved the authorization to issue a total of $35,000,000 in general obligation bonds. On April 1, 2009, the District issued $12,000,000 principal amount of general obligation bonds (Sonoma Valley Health Care District General Obligation Bonds, Election of 2008, Series A 2009). Bond proceeds are to be used to pay for a portion of the costs of renovating and retrofitting the District's existing hospital facility, to purchase equipment, to refund outstanding indebtedness, to pay costs of issuance and to pay bond interest due August 1, 2009. $4,000,000 of the proceeds were used to refund all of the then outstanding Revenue Bonds. $8,000,000 of the proceeds and the proceeds from all future bonds authorized by the election will be used to construct a new central utility plant, improve utility infrastructure, make all necessary seismic upgrades to existing facilities, and purchase additional medical equipment and install information systems wiring (the "Project").

Interest on the Bonds is payable semi-annually at rates ranging from 5.375% to 8.750% with principal payments due annually beginning August 1, 2013.

Bonds maturing on or before August 1, 2014, are not subject to redemption prior to their respective stated maturity dates. Bonds maturing on or after August 1, 2015, may be redeemed prior to maturity at the District's option at redemption prices equal to the par amount of Bonds redeemed. The Bonds are general obligations of the District payable from ad valorem taxes. In the event the District fails to provide sufficient funds for payment of principal and interest when due, a commercial insurance company has guaranteed to pay that portion of principal and interest for which funds are not available.

In the first phase of the Project, the District prepared a master plan, completed the detailed planning for the Project, acquired some equipment, installed the information systems wiring and began construction.

10. LONG-TERM DEBT (continued)

General obligation bonds payable (continued)

In August 2010, the District issued $23,000,000 of additional general obligation bonds (Sonoma Valley Health Care District General Obligation Bonds, Election of 2008, Series B 2010) in order to finance the second and final phase of the Project. During this phase, which was completed in February 2014, the District completed all construction and improvement aspects of the Project and finished purchasing the equipment budgeted in the Project.

In February 2014, the District issued $12,437,000 of additional general obligation bonds (Sonoma Valley Health Care District 2014 General Obligation Refunding Bond) to refund all of the outstanding Sonoma Valley Health Care District General Obligation Bonds, Election of 2008, Series A 2009. The 2009 General Obligations Bonds were refunded in February 2014 and the funds were transferred to an escrow account held by a trustee until the bonds were fully called in August 2014.

Notes payable

The District obtained two loans in November and December 2016 totaling $819,500 to purchase medical equipment. The loans are due in December 2019 and December 2021 and bear interest at 5.97% and 4.08%.

On August 22, 2016, the District entered into a note payable agreement for $2,000,000 with a third-party in order to purchase two parcels of land adjacent to the current hospital site. The loan was secured by a deed of trust on the property and bore interest at 5% per annum. The District made interest only payments until June 30, 2018 when all principal and accrued interest were due in full.

On November 6, 2017, the District sold the two parcels of land to a separate third-party. On June 29, 2018, the District entered into a note payable agreement with the buyer in the amount of $2,000,000 in order to repay the third-party loan that became due on June 30, 2018. The loan was secured by a deed of trust on the property and bore interest at 6.5% per annum. The principal amount of the loan together with accrued interest was to be repaid on the maturity date which shall be the earlier to occur of (i) transfer of the land to the buyer, or (ii) thirty-six months from the date of issuance, or June 30, 2021. On July 16, 2019, the sale of the land was settled. Through the settlement of the sale of the land, the total debt of $2,130,156, including accrued interest, was paid off in full. The District recognized a gain on the sale of the land in the amount of $2,005,303.

10. LONG-TERM DEBT (continued)

Anticipation notes

The District entered into two Tax and Revenue Anticipation Notes with the County of Sonoma during 2018 and 2019; a $1,500,000 note bearing interest at 2.50%, dated September 6, 2018 and due on January 31, 2019, and a $1,500,000 note bearing interest at 2.80% dated March 22, 2019 and due on May 31, 2019. The District entered into a Tax and Revenue Anticipation Note with the County of Sonoma during 2020; a $1,000,000 note bearing interest at 2.80%, dated March 5, 2020 and due on May 31, 2020. The notes were secured by the District's expected parcel tax revenues from the County of Sonoma. These notes were advanced to the District for operational purposes. The note principal and accrued interest were repaid in full to the County of Sonoma with the funds being withheld from the property tax revenues paid in January 2018, April 2019, and April 2020.

Sonoma Valley Charitable Foundation

The District obtained a promissory note from Sonoma Valley Charitable Foundation on March 26, 2019 totaling $650,000 for operational purposes. The note was due by June 30, 2019 and does note bear any interest. The note was fully repaid on June 30, 2019.

Debt service requirements

The future maturities of the long-term debt are as follows:

	General Obligation Bonds		Note Payable	
Year ending June 30,	Principal	Interest	Principal	Interest
2021	$ 1,743,000	$ 1,110,973	$ 252,342	$ 6,618
2022	1,862,000	1,040,275	180,627	1,984
2023	1,989,000	964,813	42,463	319
2024	2,132,000	884,121	-	-
2025	2,291,000	797,589	-	-
2026 - 2030	14,487,000	2,410,438	-	-
2031 - 2035	3,765,000	171,563	-	-
	$ 28,269,000	$ 7,379,772	$ 475,432	$ 8,921

10. LONG-TERM DEBT (continued)

Interest costs

Interest costs incurred on all outstanding debt during the year is summarized as follows:

	2020	2019
Interest cost:		
Paid	$ 987,281	$ 1,370,844
Accrued	477,141	503,826
Total interest expense	$ 1,464,422	$ 1,874,670

11. CAPITAL LEASE OBLIGATIONS

Capital lease obligations outstanding are as follows:

Description	Maturity	Interest Rates	Original Issue	June 30, 2020
Capital leases - equipment net of interest	December 2018 - August 2022	3.45% - 8.50%	$ 5,667,205	$ 253,670
Less current portion				(82,652)
				$ 171,018

Description	June 30, 2019	Increases	Decreases	Outstanding June 30, 2020
Capital leases - equipment	$ 623,605	$ -	$ (369,935)	$ 253,670

Description	June 30, 2018	Increases	Decreases	Outstanding June 30, 2019
Capital leases - equipment	$ 1,562,416	$ -	$ (938,811)	$ 623,605

11. CAPITAL LEASE OBLIGATIONS (continued)

Future minimum lease payments of capital lease obligations are as follows:

Year ending June 30,	
2021	$ 84,885
2022	80,122
2023	93,143
	258,150
Interest expense	(4,480)
	$ 253,670

12. EMPLOYEE BENEFITS PLAN

Defined contribution plan

The District contributes to a defined contribution pension plan (the "Plan") covering substantially all employees. Pension expense is recorded for the amount of the District's required contributions, determined in accordance with the terms of the Plan. The Plan is administered by the District's Board of Directors. The Plan provides retirement benefits to Plan members and death benefits to beneficiaries of Plan members. Benefit provisions are contained in the Plan document and are established and can be amended by action of the District's governing body. The Plan contribution by the District, expressed as a percentage of covered payroll, was 3.36% and 3.53% for 2020 and 2019, respectively.

Deferred compensation plans

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is available to all employees and permits them to defer a portion of their salary. An employer match is also provided and is vested at the rate of 16.7% per year.

The District's contributions to the defined contribution and the deferred compensation Plans totaled $485,876 and $571,695 for 2020 and 2019, respectively.

13. MEDICAL MALPRACTICE COVERAGE AND CLAIMS

The District has joined together with other providers of health care services to form Beta Healthcare Group ("Beta"), a public entity risk pool (the "Pool") currently operating as a common risk management and insurance program for its members. The District purchases medical malpractice insurance from the Pool under a claims-made policy. The District pays an annual premium to the Pool for its tort insurance coverage. The District purchases excess liability insurance through a commercial insurer for amounts in excess of the coverage provided under Beta. The Pool's governing agreements specifies that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts. The District will accrue any malpractice losses in excess of all policy limits, if they are determined to be estimable and probable of occurrence. As of June 30, 2020 and 2019, the District has determined that no accrual is required for such losses under the various medical malpractice policies in place.

14. WORKERS' COMPENSATION CLAIMS

The District is self-insured for workers' compensation claims of its employees up to $500,000, with commercial stop-loss insurance coverage purchased for claims in excess of these amounts through June 30, 2020. A liability is accrued for self-insured workers' compensation claims, including both claims reported and claims incurred but not yet reported of $707,000 and $650,000 as of June 30, 2020 and 2019, respectively. The District utilizes an actuary to estimate the ultimate costs to settle such claims. Estimated future payments related to workers' compensation claims have been discounted at a rate of 1% at June 30, 2020 and 2019. It is reasonably possible that the District's estimate could change by a material amount in the near term.

15. TRANSACTIONS WITH SONOMA VALLEY HOSPITAL FOUNDATION

Sonoma Valley Hospital Foundation, Inc. (the "Foundation") is authorized by the District to solicit contributions on behalf of the Hospital. In the absence of donor restrictions, the Foundation has discretionary control over the amounts, timing and use of their distributions. The District recorded contributions from the Foundation of $2,461,360 in 2020 and $1,995,220 in 2019. As of June 30, 2020 the Foundation raised donor restricted contributions totaling $13,178,397 related to the outpatient diagnostic center capital campaign. At June 30, 2020 and 2019, the Foundation's unaudited cash basis financial statements reported net assets of $14,437,262 and $13,178,397, respectively. The Foundation is not considered a component unit of the District because the Foundation is not controlled by the District.

16. RELATED PARTY TRANSACTIONS

During 2010, the District contributed $100,000 to Meritage for the development of Prima Medical Foundation ("PMF"), a joint venture with Meritage, Marin Healthcare District ("MHD") and Marin Medical Practice Concepts, Inc. ("MMPC"). The PMF's purpose is establishing, operating and maintaining multi-specialty medical clinics. The successful establishment and operation of PMF in Marin and Sonoma Counties is expected to be a cornerstone in the District's plans to ensure adequate health care services to the greater Sonoma Area. The District's contribution to PMF totaled $133,171 and $452,439 for the years ended June 30, 2020 and 2019, respectively.

17. COMMITMENTS AND CONTINGENCIES

Operating leases

The District leases certain facilities and equipment under the terms of noncancelable operating lease agreements expiring at various dates through February 2022. In 2016, the District began to sublease suites within its leased medical office under sublease agreements expiring through September 2021. Total rental expense for all operating leases amounted to $731,723 and $668,684 in 2020 and 2019, respectively. Total rental income during the years ended June 30, 2020 and 2019, amounted to $183,697 and $255,937, respectively.

The scheduled minimum lease payments under the lease terms are as follows:

Year ending June 30,	Facility and Equipment	Sub-lease Income	Net Lease Commitment
2021	$ 454,222	$ (104,592)	$ 349,630
2022	345,400	(17,898)	327,502
2023	95,399	-	95,399
2024	28,022	-	28,022
	$ 923,043	$ (122,490)	$ 800,553

Litigation

The District is a defendant in various legal proceedings arising out of the normal conduct of its business. In the opinion of management and its legal representatives, the District has valid and substantial defenses, and settlements or awards arising from legal proceedings, if any, will not exceed existing insurance coverage, nor will they have a material adverse effect on the financial position, results of operations, or liquidity of the District.

17. COMMITMENTS AND CONTINGENCIES (continued)

Regulatory environment

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicare and Medi-Cal fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. The District is subject to routine surveys and reviews by federal, state and local regulatory authorities. The District has also received inquiries at times from health care regulatory authorities regarding its compliance with laws and regulations. Although the District's management is not aware of any violations of laws and regulations, it has periodically received corrective action requests as a result of completed and ongoing surveys from applicable regulatory authorities. Management continually works in a timely manner to implement operational changes and procedures to address all corrective action requests from regulatory authorities. Breaches of these laws and regulations and non-compliance with survey corrective action requests could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. 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.

18. CHARITY CARE

During the years ended June 30, 2020 and 2019, the District incurred estimated costs of $124,953 and $584,536, respectively, in free or discounted services for underserved. This includes services provided to persons who have health care needs and are uninsured, under-insured and ineligible for a government program and are otherwise unable to pay for medically necessary care based on their individual financial situation. Costs are computed based on a relationship of costs to charges similar to a Medicare cost to charge ratio. During the years ended June 30, 2020 and 2019 there were approximately 83 and 132 patient cases under this policy, respectively.

19. RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused economic disruption through mandated and voluntary closings of businesses and shelter-in-place orders. In response, the U.S. Government enacted the Coronavirus Aid, Relief and Economic Security ("CARES") Act, which includes significant provisions to provide relief and assistance to affected organizations. As part of the CARES Act, the US Department of Health and Human Services ("HHS") distributed Provider Relief Funds to eligible hospitals and healthcare providers for financial relief. The HHS targeted funding to providers impacted by COVID-19 based on an estimation of loss in income, including lost net revenue, SNF allocation, and COVID-19 expenses. In April 2020, the District applied for Provider Relief Funds and estimated a loss of revenue and expenses to be approximately $5,900,000. The District received a total of $5,572,969 in April and May of 2020. In accordance with the CARES Act, the District will use the relief funds received to cover costs and loss of revenue as a result of COVID-19.

While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter-in-place orders and the ultimate impact of the CARES Act and other government initiatives. It is at least reasonably possible that this matter will negatively impact the Hospital. However, the financial impact and duration cannot be reasonably estimated at this time.

20. SUBSEQUENT EVENTS

The District has evaluated subsequent events through January 7, 2021, the date the financial statements were available to be issued.

In October 2020, the District was the victim of a cyberattack and as a result certain financial systems and data were impacted. The District has partnered with outside consultants to investigate and remedy the situation. The District has insurance coverage for such an event for a maximum loss of $2,000,000. Management does not believe the cost to restore the necessary systems and data will exceed the policy limit.

No subsequent events, other than that described above, have occurred that would have a material impact on the presentation of the District's financial statements.

SUPPLEMENTARY INFORMATION

Sonoma Valley Health Care District
Supplementary Information Related to Community Support
For The Years Ended June 30, 2020 and 2019

Uncompensated care

In September 2004, the District adopted a formal community benefits policy, developed under guidelines provided by the California Hospital Association and began to identify those patients who are medically indigent. The District's policy is to provide service to all who require it, regardless of their ability to pay. As such, it provides substantial amounts of uncompensated care. When this care is provided to patients who lack financial resources (and therefore are deemed medically indigent), it is classified as community benefits. When it is provided to patients who have the means to pay but decline to do so, it is classified as a provision for uncollectible accounts. Neither community benefits nor the provision for uncollectible accounts is reflected in net patient service revenues.

In addition, the District provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts that are less than established charges for the services provided to the recipients and frequently the payments are less than the cost of rendering the services. Finally, some undetermined portion of the provision for uncollectible accounts represents care to indigent patients whom the District has been unable to identify.

Uncompensated charges relating to these services are as follows:

	2020	2019
Community benefits (charity care) allowances	$ 124,953	$ 584,536
State Medi-Cal and other public aid programs	42,592,790	47,996,342
Provision for uncollectible accounts	2,130,000	1,980,000
	$ 44,847,743	$ 50,560,878

The District's estimated costs of providing uncompensated care and community benefits to the poor and the broader community are as follows:

	2020	2019
Uncompensated costs of community benefits and uncollectible accounts	$ 7,286	$ 134,139
Medi-Cal and other public aid programs	5,376,586	5,616,029
	$ 5,383,872	$ 5,750,168

Benefits for the broader community include the unpaid costs of providing service to the elderly, providing health screenings and other health-related services, training health professionals, educating the community with various seminars and classes and the costs associated with providing free clinics and other community service programs.

Sonoma Valley Health Care District
Supplementary Information Related to Community Support
For The Years Ended June 30, 2020 and 2019

Community support

The District recorded the following amounts related to community support as follows:

	2020	2019
Noncapital gifts and grants included in nonoperating income	$ 71,568	$ 30,530
Capital grants and contributions from Sonoma Valley Hospital Foundation	2,368,408	1,964,690
	$ 2,439,976	$ 1,995,220
Fundraising expenses included in operating expenses	$ 39,882	$ 33,321