



**SONOMA VALLEY HEALTH CARE DISTRICT  
AUDIT COMMITTEE  
AGENDA  
TUESDAY OCTOBER 26  
4:00 P.M.**

**TO BE HELD VIA ZOOM VIDEOCONFERENCE**

To Participate via Zoom Videoconferencing,  
use the link below:

<https://sonomavalleyhospital-org.zoom.us/j/99043846724?pwd=U05ucDEyY0dpOTFoRitxT2FsOFBMUT09>

**Enter the Meeting ID: 990 4384 6724  
Password: 925013**

To Participate via Telephone only (no video), dial:  
**1-669-900-9128 or 1-669-219-2599**  
**and Enter the Meeting ID: 990 4384 6724**  
**Password: 925013**

AGENDA ITEM	RECOMMENDATION	
In compliance with the Americans with Disabilities Act, if you require special accommodations to participate in a District meeting, please contact the District Clerk, Jenny Fontes, at <a href="mailto:jfontes@sonomavalleyhospital.org">jfontes@sonomavalleyhospital.org</a> or (707) 935.5005 at least 48 hours prior to the meeting.		
<b>MISSION STATEMENT</b> <i>The mission of the SVHCD is to maintain, improve, and restore the health of everyone in our community.</i>		
<b>1. CALL TO ORDER/ANNOUNCEMENTS</b>	<i>Boerum</i>	Inform
<b>2. PUBLIC COMMENT SECTION</b> <i>At this time, members of the public may comment on any item not appearing on the agenda. It is recommended that you keep your comments to three minutes or less. Under State Law, matters presented under this item cannot be discussed or acted upon by the Committee at this time. For items appearing on the agenda, the public will be invited to make comments at the time the item comes up for Committee consideration.</i>		
<b>3. ANNUAL AUDIT REPORT 2021</b>	<i>Armanino LLP</i>	Inform/Action
<b>4. ADJOURN</b>	<i>Boerum</i>	

# **Sonoma Valley Health Care District**

Financial Statements  
and Supplementary Information

June 30, 2021 and 2020

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## 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, 2021 and 2020, 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, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other 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 - 11 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.

**DRAFT**

Armanino<sup>LLP</sup>  
San Ramon, California

October 21, 2021

Sonoma Valley Health Care District  
Management's Discussion and Analysis (Unaudited)  
As of, and for the Years Ended, June 30, 2021, 2020 and 2019

**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, 2021 and 2020. 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 2021 by approximately \$5,078,000 or 17% and increased in 2020 by approximately \$9,238,000 or 46%.
- Cash and cash equivalents decreased in 2021 by approximately \$372,000 or 3% and increased in 2020 by approximately \$5,403,000 or 96%. The decrease in 2021 was due to an increase in payments for operating expenses over net revenue collected. 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
- Net patient accounts receivable increased in 2021 by approximately \$960,000 or 24% and decreased in 2020 by approximately \$1,935,000 or 33%. The increase in 2021 is attributable to the increase in net revenue from increased volumes. 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 COVID19 pandemic.
- The District reported operating losses in both 2021 (\$7,618,000) and 2020 (\$7,013,000). The operating loss in 2021 increased by approximately \$605,000 or 9% from the operating loss reported in 2020. The increase in the operating loss in 2021 is due to an increase in operating expenses over net revenue. 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 COVID19 pandemic.

Sonoma Valley Health Care District  
Management's Discussion and Analysis (Unaudited)  
As of, and for the Years Ended, June 30, 2021, 2020 and 2019

**Operational Changes and Future Plans**

During 2021 the hospital continued to experience challenges related to the COVID-19 pandemic that included lower volumes and an increase in costs. Although the volumes began to improve during the year the hospital has not experienced the same volumes from before the pandemic. Additional costs related to the COVID-19 pandemic have been outsourcing the COVID-19 test processing, testing supplies, additional PPE, increased cost in nursing registry, as well as front lobby screeners to screen all staff, patients, and visitors. In 2021 the health care district did not receive any additional CARES Act provider relief funding as in 2020.

In October 2020 the hospital experienced a ransomware cyber-attack. In response, the hospital's network was immediately shut down to prevent the spread of the virus and the hospital's incident command center was initiated. The hospital engaged with several third-party vendors as well as had access to UCSF resources to respond to the breach as well the network recovery. It was determined that the hospital could restore operations from the back-ups and therefore the ransom was not paid. During the process of data and systems recovery there was minimal impact on patient care. The hospital incurred significant costs related to the breach response and data recovery but expect a full recoupment from the hospital's cyber insurance policy.

The hospital continued to grow their affiliation with UCSF and as of January 2021 the CFO and CMO became UCSF employees. In 2021 the health care district with UCSF recruited and hired a new CEO who is also a UCSF employee. With the chief positions being UCSF employees the health care district has access to UCSF resources. Furthermore, in 2022 the hospital and UCSF hired a Director of Information Systems Technology further expanding the affiliation resources to our IT department that will enhance IT security and assist in the future implementation of a new Electronic Health Record and financial system.

The CT project, which is part of the Outpatient Diagnostic Center, was initially projected to be completed in early 2021 but was delayed due to both the COVID-19 pandemic and unforeseen structural issues discovered during the construction. The new CT scanner machine is on campus and the project is expected to be completed by early 2022. The MRI project which is the second phase of the Outpatient Diagnostic Center will begin in 2022.

In November 2021, Sonoma Valley Health Care District residents will vote on renewing the parcel tax supporting Sonoma Valley Hospital. The current parcel tax expires in June 2022 and the District Board approved a resolution to put a renewal of the tax on the ballot this Fall. This vote asks the community to renew the tax at the same yearly amount of \$250 but extend the term from five to ten years.

The District will continue to grow their affiliation with UCSF to provide access to specialty physicians to keep patients in the community and will focus on the acute care hospital needs of the community with emergency and outpatient services being a priority.

Sonoma Valley Health Care District  
Management's Discussion and Analysis (Unaudited)  
As of, and for the Years Ended, June 30, 2021, 2020 and 2019

**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 \$5,078,000, or 17% in 2021 from 2020 and increased by \$9,238,000 or 46% in 2020 from 2019, as shown in Table 2.

The increase in net position in 2021 is primarily the result of a significant increase in capital contributions from the Sonoma Valley Hospital Foundation for the construction of the Outpatient Diagnostic Center. The increase in net revenue in 2021 was offset by an increase in overall expenses primarily in salaries and wages, purchased services, and supplies.



Sonoma Valley Health Care District  
Management's Discussion and Analysis (Unaudited)  
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In 2021, estimated third party cost report settlements increased by \$96,800 or 102% compared to 2020. The increase in 2021 is due to the outstanding balance due from a third-party. Property tax receivable decreased by \$450,000 or 6% from 2020. Other receivables increased by \$245,400 or 19% from 2020, from the balance due from the hospital's cyber insurance claim related to the cyber-attack and is offset by the collection of the outstanding pledges from 2020 related to the Outpatient Diagnostic Center construction costs.

Sonoma Valley Health Care District  
Management's Discussion and Analysis (Unaudited)  
As of, and for the Years Ended, June 30, 2021, 2020 and 2019

**Table 1: Statements of Net Position**

	<u>2021</u>	<u>2020</u>	<u>2019</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 10,682,617	\$ 11,054,230	\$ 5,651,697
Patient accounts receivable, net of allowance for doubtful accounts of \$1,440,049 and 920,518 in 2021 and 2020, respectively	4,880,570	3,920,682	5,856,145
Estimated third-party payor settlements	191,797	94,987	445,220
Property tax receivable	6,745,740	7,195,321	7,004,881
Other receivables	1,517,831	1,272,442	544,948
Inventories	934,048	864,337	901,652
Prepaid expenses and other current assets	871,738	764,658	1,116,921
Total current assets	<u>25,824,341</u>	<u>25,166,657</u>	<u>21,521,464</u>
Capital assets, net	<u>52,581,236</u>	<u>49,267,897</u>	<u>50,868,937</u>
Noncurrent investments			
Restricted for debt service	5,935,165	5,528,299	5,016,479
Total noncurrent investments	<u>5,935,165</u>	<u>5,528,299</u>	<u>5,016,479</u>
Total assets	<u>\$ 84,340,742</u>	<u>\$ 79,962,853</u>	<u>\$ 77,406,880</u>
LIABILITIES AND NET POSITION			
Current liabilities			
Accounts payable and accrued expenses	\$ 6,065,424	\$ 4,968,824	\$ 6,510,167
Accrued payroll and related liabilities	3,482,666	3,389,085	3,150,043
Deferred tax revenue	6,581,749	7,109,173	6,904,781
Line of credit	5,473,734	5,473,734	6,723,734
Bonds payable, current portion	1,862,000	1,743,000	1,631,000
Capital lease obligations, current portion	263,030	82,652	344,477
Notes payable, current portion	186,787	252,342	2,419,733
Total current liabilities	<u>23,915,390</u>	<u>23,018,810</u>	<u>27,683,935</u>
Long-term liabilities			
Accrued workers' compensation liability	973,000	707,000	650,000
Bonds payable, net of current portion	24,664,000	26,526,000	28,269,000
Capital lease obligations, net of current portion	354,392	171,018	279,128
Notes payable, net of current portion	39,383	223,090	445,532
Total long-term liabilities	<u>26,030,775</u>	<u>27,627,108</u>	<u>29,643,660</u>
Total liabilities	<u>49,946,165</u>	<u>50,645,918</u>	<u>57,327,595</u>
Net position			
Net investment in capital assets	<u>19,737,910</u>	<u>14,796,061</u>	<u>10,756,333</u>
Restricted			
For debt service	5,935,165	5,528,299	5,016,479
Expendable for capital assets	-	-	2,337,205
Total restricted	<u>5,935,165</u>	<u>5,528,299</u>	<u>7,353,684</u>
Unrestricted	<u>8,721,502</u>	<u>8,992,575</u>	<u>1,969,268</u>
Total net position	<u>34,394,577</u>	<u>29,316,935</u>	<u>20,079,285</u>
Total liabilities and net position	<u>\$ 84,340,742</u>	<u>\$ 79,962,853</u>	<u>\$ 77,406,880</u>

Sonoma Valley Health Care District  
Management's Discussion and Analysis (Unaudited)  
As of, and for the Years Ended, June 30, 2021, 2020 and 2019

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

In 2021 the District's operating loss increased by \$605,000 or 9% from 2020. In 2020 the operating loss increased by \$4,178,000 or 147% from 2019, as shown in Table 2 below:

	2021	2020	2019
Operating revenues			
Net patient service revenue	\$ 48,979,099	\$ 46,618,700	\$ 57,553,690
Capitation revenue	245,100	287,390	755,801
	<u>49,224,199</u>	<u>46,906,090</u>	<u>58,309,491</u>
Operating expenses			
Salaries and wages	23,740,884	23,077,573	26,834,013
Employee benefits	5,575,741	5,565,682	6,104,110
Purchased services	5,227,906	4,589,543	4,867,261
Professional fees, medical	5,802,960	5,418,479	6,669,310
Professional fees, non-medical	770,008	304,758	658,575
Supplies	6,665,341	6,119,489	6,898,410
Facilities and equipment	644,186	622,096	668,684
Utilities	1,353,824	1,188,966	1,172,033
Insurance	540,199	466,482	441,380
Depreciation and amortization	3,056,269	3,108,248	3,392,233
Other expenses	3,465,064	3,457,769	3,438,909
Total operating expenses	<u>56,842,382</u>	<u>53,919,085</u>	<u>61,144,918</u>
Loss from operations	<u>(7,618,183)</u>	<u>(7,012,995)</u>	<u>(2,835,427)</u>
Nonoperating income (expenses)			
General obligation bond tax assessment revenues	3,259,264	3,264,864	3,273,235
Parcel tax assessment revenues	3,777,872	3,771,152	3,781,005
General obligation bond interest	(1,083,722)	(1,151,759)	(1,217,171)
Interest expense	(207,077)	(312,663)	(657,499)
Gain on sale of assets	4,600	2,005,303	5,512
Provider relief funds	-	5,572,969	-
Contributions to Prima Medical Foundation	-	(133,171)	(452,439)
Investment income	24,912	111,196	99,989
Other income, net	996,855	661,394	246,028
Total nonoperating income (expenses), net	<u>6,772,704</u>	<u>13,789,285</u>	<u>5,078,660</u>
Capital contributions	<u>5,923,121</u>	<u>2,461,360</u>	<u>1,995,220</u>
Changes in net position	5,077,642	9,237,650	4,238,453
Net position, beginning of year	<u>29,316,935</u>	<u>20,079,285</u>	<u>15,840,832</u>
Net position, end of year	<u>\$ 34,394,577</u>	<u>\$ 29,316,935</u>	<u>\$ 20,079,285</u>

\*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 and emergency room 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.

Sonoma Valley Health Care District  
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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;

	<u>FY 2021</u>	<u>FY 2020</u>	<u>FY 2019</u>
Medicare	25.6 %	26.8 %	30.5 %
Medicare HMO	9.0 %	8.3 %	8.4 %
Medi-Cal	1.6 %	1.8 %	1.6 %
Medi-Cal Managed Care	21.8 %	22.4 %	21.3 %
Commercial insurance	30.6 %	31.6 %	28.1 %
Workers compensation	3.1 %	2.8 %	1.9 %
Capitated	0.1 %	0.2 %	0.5 %
Other government	1.8 %	1.5 %	1.4 %
Self pay - other	<u>6.4 %</u>	<u>4.6 %</u>	<u>6.3 %</u>
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

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 2021 increased by \$605,000, or 9% as compared to 2020. In 2020 the operating loss increased by \$4,178,000 or over 100% as compared to 2019. The major components of those changes in operating loss are:

- Total operating revenues increased by \$2,318,000 or 5% in 2021. Total operating revenues decreased by \$11,403,000 or 20% in 2020 compared to 2019. The increase in 2021 is from the slow recovery of outpatient and emergency service volumes from the COVID-19 pandemic.

Sonoma Valley Health Care District  
Management's Discussion and Analysis (Unaudited)  
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- Salaries and wages and benefits increased in 2021 by \$673,000 or 2%. Salaries, wages, and benefits increased during 2021 in clinical departments related to the increase of outpatient and emergency service volumes and was offset by the decrease in administrative salaries from the CEO, CFO, and CMO being employed by UCSF as of January 2021. 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.
- Purchased services increased in 2021 by \$638,000 or 14% compared to 2020 and decreased in 2020 by \$278,000 or 6% compared to 2019. The increase in 2021 is from the outsourcing of COVID-19 test processing, CEO recruitment costs, and an increase of information technology security costs in response to the cyber-attack.
- Medical Professional fees increased in 2021 by 384,000 or 7% from 2020 due to the increase in use and hourly cost (due to COVID-19) of nursing and clinical registry. Medical professional fees decreased in 2020 by \$1,251,000 or 19% primarily due to a significant reduction in nurse registry costs from 2019.
- Nonmedical professional fees increased in 2021 by \$465,000, or 153% from 2020 due to the CEO, CFO, and CMO being employed by UCSF as part of our affiliation agreement. This increase in cost was offset by a savings in administrative salaries, wages, and benefits. Nonmedical 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.
- Supplies increased in 2021 by \$546,000 or 9% from 2020 due to the increased outpatient and emergency room volumes and the cost of COVID-19 testing supplies. Supplies decreased in 2020 by \$779,000 or 11% from 2019 primarily due to a decrease in patient volumes due to COVID-19.
- Facilities and equipment increased in 2021 by 22,000 or 4% from 2020 due to an increase of costs related to equipment leased in the pharmacy. Facilities and equipment decreased in 2020 by \$47,000 or 7% from 2019 due to a reduction in rents and leases.
- Other expenses increased in 2021 by \$7,000 or less than 1% compared to 2020. Other expenses increased in 2020 by \$20,000 or 1% compared to 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.

Sonoma Valley Health Care District  
Management's Discussion and Analysis (Unaudited)  
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Parcel taxes remained consistent in both 2021 and 2020. In 2021 interest expense decreased by \$174,000 or 12% due to the payoff of notes and lease obligations. In 2020 interest expense decreased by \$410,000 or 22% from 2019 due to the payoff of several notes and lease obligations. Furthermore, in 2020 nonoperating revenues include the onetime gain on sale of land of \$2,005,000 and provider relief funds from the CARES Act of \$5,573,000.

**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 \$5,923,000 in 2021 and \$2,461,000 in 2020; an increase of \$3,462,000 in 2021 over 2020. Capital grants and gifts increased by \$466,000 in 2020 over 2019.

**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 2021 and 2020, the District had \$52,581,000 and \$49,268,000, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 8 to the financial statements. In 2021 and 2020, the District purchased new equipment and made capital improvements costing \$6,370,000 and \$3,085,000, respectively.

**Debt**

At June 30, 2021 and 2020, the District had \$27,370,000 and \$28,998,000, 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 \$5,500,000, maturing on January 31, 2022. The District had unused credit on the line of \$26,000 as of June 30, 2021.

**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, 2021 and 2020

	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 10,682,617	\$ 11,054,230
Patient accounts receivable, net of allowance for doubtful accounts of \$1,440,049 and \$920,518 in 2021 and 2020, respectively	4,880,570	3,920,682
Estimated third-party payor settlements	191,797	94,987
Property tax receivable	6,745,740	7,195,321
Other receivables	1,517,831	1,272,442
Inventories	934,048	864,337
Prepaid expenses and other current assets	871,738	764,658
Total current assets	25,824,341	25,166,657
Capital assets, net	52,581,236	49,267,897
Noncurrent investments		
Restricted for debt service	5,935,165	5,528,299
Total noncurrent investments	5,935,165	5,528,299
Total assets	\$ 84,340,742	\$ 79,962,853
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable and accrued expenses	\$ 6,065,424	\$ 4,968,824
Accrued payroll and related liabilities	3,482,666	3,389,085
Deferred tax revenue	6,581,749	7,109,173
Line of credit	5,473,734	5,473,734
Bonds payable, current portion	1,862,000	1,743,000
Capital lease obligations, current portion	263,030	82,652
Notes payable, current portion	186,787	252,342
Total current liabilities	23,915,390	23,018,810
Long-term liabilities		
Accrued workers' compensation liability	973,000	707,000
Bonds payable, net of current portion	24,664,000	26,526,000
Capital lease obligations, net of current portion	354,392	171,018
Notes payable, net of current portion	39,383	223,090
Total long-term liabilities	26,030,775	27,627,108
Total liabilities	49,946,165	50,645,918
Net position		
Net investment in capital assets	19,737,910	14,796,061
Restricted		
For debt service	5,935,165	5,528,299
Expendable for capital assets	-	-
Total restricted	5,935,165	5,528,299
Unrestricted	8,721,502	8,992,575
Total net position	34,394,577	29,316,935
Total liabilities and net position	\$ 84,340,742	\$ 79,962,853

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating revenues		
Net patient service revenue	\$ 48,979,099	\$ 46,618,700
Capitation revenue	<u>245,100</u>	<u>287,390</u>
Total operating revenues	<u>49,224,199</u>	<u>46,906,090</u>
Operating expenses		
Salaries and wages	23,740,884	23,077,573
Employee benefits	5,575,741	5,565,682
Purchased services	5,227,906	4,589,543
Professional fees, medical	5,802,960	5,418,479
Professional fees, non-medical	770,008	304,758
Supplies	6,665,341	6,119,489
Facilities and equipment	644,186	622,096
Utilities	1,353,824	1,188,966
Insurance	540,199	466,482
Depreciation and amortization	3,056,269	3,108,248
Other expenses	<u>3,465,064</u>	<u>3,457,769</u>
Total operating expenses	<u>56,842,382</u>	<u>53,919,085</u>
Loss from operations	<u>(7,618,183)</u>	<u>(7,012,995)</u>
Nonoperating income (expenses)		
General obligation bond tax assessment revenues	3,259,264	3,264,864
Parcel tax assessment revenues	3,777,872	3,771,152
General obligation bond interest	(1,083,722)	(1,151,759)
Interest expense	(207,077)	(312,663)
Contributions to Prima Medical Foundation	-	(133,171)
Investment income	24,912	111,196
Gain on sale of assets	4,600	2,005,303
Provider relief funds	-	5,572,969
Other income, net	<u>996,855</u>	<u>661,394</u>
Total nonoperating income, net	<u>6,772,704</u>	<u>13,789,285</u>
Capital contributions	<u>5,923,121</u>	<u>2,461,360</u>
Change in net position	5,077,642	9,237,650
Net position, beginning of year	<u>29,316,935</u>	<u>20,079,285</u>
Net position, end of year	<u>\$ 34,394,577</u>	<u>\$ 29,316,935</u>

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Cash received from patients and third-parties	\$ 48,187,609	\$ 49,166,690
Cash payments to contractors, vendors and suppliers	(23,434,913)	(23,292,662)
Cash payments to employees and benefit programs	<u>(29,043,309)</u>	<u>(28,147,363)</u>
Net cash used in operating activities	<u>(4,290,613)</u>	<u>(2,273,335)</u>
Cash flows from noncapital financing activities		
Noncapital grants, contributions and other	735,958	5,531,965
Contribution to Prima Medical Foundation	-	(133,171)
District tax revenues	<u>3,700,029</u>	<u>3,785,106</u>
Net cash provided by noncapital financing activities	<u>4,435,987</u>	<u>9,183,900</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	(5,845,442)	(2,850,272)
Principal payments on note payable	(249,262)	(2,389,683)
Principal payments on capital lease obligations	(160,928)	(369,935)
Payment on line of credit	-	(1,250,000)
Principal payments on bond payable	(1,743,000)	(1,631,000)
Interest paid on long-term debt	(1,319,300)	(1,491,107)
Proceeds from sale of capital assets	514	3,148,367
Tax revenue related to general obligation bonds	3,259,264	3,264,862
Capital grants and gifts	<u>5,923,121</u>	<u>2,461,360</u>
Net cash used in capital financing activities	<u>(135,033)</u>	<u>(1,107,408)</u>
Cash flows from investing activities		
Purchases of investments	(406,866)	(511,820)
Interest received from investments	<u>24,912</u>	<u>111,196</u>
Net cash used in investing activities	<u>(381,954)</u>	<u>(400,624)</u>
Net increase (decrease) in cash and cash equivalents	(371,613)	5,402,533
Cash and cash equivalents, beginning of year	<u>11,054,230</u>	<u>5,651,697</u>
Cash and cash equivalents, end of year	<u>\$ 10,682,617</u>	<u>\$ 11,054,230</u>

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, 2021 and 2020

	2021	2020
Reconciliation of loss from operations to net cash used in operating activities		
Loss from operations	\$ (7,618,183)	\$ (7,012,995)
Adjustments to reconcile loss from operations to net cash used in operating activities		
Depreciation and amortization	3,056,269	3,108,248
Provision for doubtful accounts	1,370,000	2,130,000
Changes in operating assets and liabilities		
Patient accounts receivable, net	(2,309,780)	(219,633)
Estimated third-party payor settlements	(96,810)	350,233
Accounts payable and accrued expenses	1,398,417	(1,018,766)
Other assets and liabilities	(90,526)	389,578
Net cash used in operating activities	\$ (4,290,613)	\$ (2,273,335)

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

Sonoma Valley Health Care District  
Notes to Financial Statements  
June 30, 2021 and 2020

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.

Sonoma Valley Health Care District  
Notes to Financial Statements  
June 30, 2021 and 2020

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 hierarchy 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.

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.

Sonoma Valley Health Care District  
Notes to Financial Statements  
June 30, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 18% and 23% of net patient accounts receivable as of June 30, 2021 and 2020, respectively.

Allowance for uncollectible patient accounts receivable

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, 2021 and 2020, the District recorded an allowance for uncollectible accounts receivable for amounts due directly from patients totaling \$1,440,049 and \$920,518, 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.

Sonoma Valley Health Care District  
Notes to Financial Statements  
June 30, 2021 and 2020

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.

Sonoma Valley Health Care District  
Notes to Financial Statements  
June 30, 2021 and 2020

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, 2021 and 2020, 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, 2021 and 2020, 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.

Sonoma Valley Health Care District  
Notes to Financial Statements  
June 30, 2021 and 2020

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, 2021 and 2020, 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.



Sonoma Valley Health Care District  
Notes to Financial Statements  
June 30, 2021 and 2020

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 government 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:

	2021	2020
Medicare	25.6 %	26.8 %
Medicare HMO	9.0 %	8.3 %
Medi-Cal	1.6 %	1.8 %
Medi-Cal Managed Care	21.8 %	22.4 %
Commercial Insurance	30.6 %	31.6 %
Workers Compensation	3.1 %	2.8 %
Capitated	0.1 %	0.2 %
Self-pay-other	6.4 %	4.6 %
Other government	1.8 %	1.5 %

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.

Sonoma Valley Health Care District  
Notes to Financial Statements  
June 30, 2021 and 2020

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. In November 2021, District residents will vote on renewing the parcel tax; the District Board approved a resolution to put a renewal of the tax on the November 2021 ballot. This vote asks the community to renew the tax at the same yearly amount of \$250, but will extend the term from five to ten years.

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:

	2021	2020
Designated for hospital operations	\$ 3,777,872	\$ 3,771,152
Levied for hospital operations and debt service payments	3,259,264	3,264,864
	\$ 7,037,136	\$ 7,036,016

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.

Sonoma Valley Health Care District  
Notes to Financial Statements  
June 30, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2021 and 2020, the District's cash deposits had carrying amounts of \$10,682,617 and \$11,054,230, respectively, and bank balances of \$11,140,756 and \$11,418,826, respectively. All of the bank balances at June 30, 2021 and 2020, 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 inquiries 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.

Sonoma Valley Health Care District  
Notes to Financial Statements  
June 30, 2021 and 2020

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, 2021, the District's Medicare cost reports have been audited and final settled by the fiscal intermediary through June 30, 2018.

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, 2021 the District's Medi-Cal cost reports have been audited and final settled through June 30, 2019.

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:

	<u>2021</u>	<u>2020</u>
Services provided to Medicare patients	\$ 138,551,115	\$ 132,528,038
Services provided to Medi-Cal patients	46,739,072	42,665,195
Services provided to other patients	<u>65,500,698</u>	<u>63,459,126</u>
Gross patient service revenues	250,790,885	238,652,359
Contractual allowances and allowance for doubtful accounts	<u>(201,811,786)</u>	<u>(192,033,659)</u>
Total net patient service revenue	<u>\$ 48,979,099</u>	<u>\$ 46,618,700</u>

Sonoma Valley Health Care District  
Notes to Financial Statements  
June 30, 2021 and 2020

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 \$7,706,425 and IGT expense of \$2,818,573 for the year ended June 30, 2021. The District recognized gross revenues of \$7,010,496 and IGT expense of \$2,827,534 for the year ended June 30, 2020 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 within other expenses.

5. INVESTMENTS RESTRICTED FOR DEBT SERVICE

District investment balances and average maturities were as follows at June 30, 2021:

	Fair Value	Less than 1	1 to 5
Money market mutual fund	\$ 5,935,165	\$ 5,935,165	\$ -

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	\$ -

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.

Sonoma Valley Health Care District  
Notes to Financial Statements  
June 30, 2021 and 2020

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, 2021 and 2020, 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, 2021 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, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Money market mutual funds	<u>\$ 5,935,165</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,935,165</u>

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Money market mutual funds	<u>\$ 5,528,299</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,528,299</u>

7. PROPERTY TAX RECEIVABLES

Property tax receivables consisted of the following:

	<u>2021</u>	<u>2020</u>
Special parcel tax	\$ 3,964,000	\$ 3,886,141
Tax for general obligation bond debt service payments	<u>2,781,740</u>	<u>3,309,180</u>
	<u>\$ 6,745,740</u>	<u>\$ 7,195,321</u>

Sonoma Valley Health Care District  
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8. CAPITAL ASSETS

Capital assets activity as of June 30, 2021, consisted of the following:

	Balance, June 30, 2020	Purchases and Transfers	Sales, Transfers, and Retirements	Balance, June 30, 2021
Non-depreciable capital assets				
Land	\$ 646,687	\$ -	\$ -	\$ 646,687
Construction in progress	<u>4,556,924</u>	<u>5,576,802</u>	<u>-</u>	<u>10,133,726</u>
Total non-depreciable capital assets	<u>5,203,611</u>	<u>5,576,802</u>	<u>-</u>	<u>10,780,413</u>
Depreciable capital assets				
Land improvements	794,811	-	-	794,811
Buildings and improvements	64,576,291	166,808	-	64,743,099
Equipment	<u>30,652,514</u>	<u>626,513</u>	<u>(225,273)</u>	<u>31,053,754</u>
	96,023,616	793,321	(225,273)	96,591,664
Less accumulated depreciation	<u>(51,959,330)</u>	<u>(3,056,269)</u>	<u>224,758</u>	<u>(54,790,841)</u>
Total depreciable capital assets	<u>44,064,286</u>	<u>(2,262,948)</u>	<u>(515)</u>	<u>41,800,823</u>
Total capital assets, net	<u>\$ 49,267,897</u>	<u>\$ 3,313,854</u>	<u>\$ (515)</u>	<u>\$ 52,581,236</u>

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	<u>2,722,198</u>	<u>2,068,956</u>	<u>(234,230)</u>	<u>4,556,924</u>
Total non-depreciable capital assets	<u>4,656,404</u>	<u>2,068,956</u>	<u>(1,521,749)</u>	<u>5,203,611</u>
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	<u>31,117,458</u>	<u>873,316</u>	<u>(1,338,260)</u>	<u>30,652,514</u>
	96,440,648	1,015,548	(1,432,580)	96,023,616
Less accumulated depreciation	<u>(50,228,115)</u>	<u>(3,108,248)</u>	<u>1,377,033</u>	<u>(51,959,330)</u>
Total depreciable capital assets	<u>46,212,533</u>	<u>(2,092,700)</u>	<u>(55,547)</u>	<u>44,064,286</u>
Total capital assets, net	<u>\$ 50,868,937</u>	<u>\$ (23,744)</u>	<u>\$ (1,577,296)</u>	<u>\$ 49,267,897</u>

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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, 2021 and 2020.

The District had unused credit on the line of credit of \$26,266 at June 30, 2021 and 2020.

10. LONG-TERM DEBT

The District's long-term debt transactions as of June 30, 2021, consisted of the following:

	<u>Balance, June 30, 2020</u>	<u>Additions</u>	<u>Decreases / Amortization</u>	<u>Balance, June 30, 2021</u>
GO Bond principal	\$ 28,269,000	\$ -	\$ (1,743,000)	\$ 26,526,000
Notes payable	<u>475,432</u>	<u>-</u>	<u>(249,262)</u>	<u>226,170</u>
	<u>\$ 28,744,432</u>	<u>\$ -</u>	<u>\$ (1,992,262)</u>	<u>\$ 26,752,170</u>



Sonoma Valley Health Care District  
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10. LONG-TERM DEBT (continued)

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)	-
	<u>\$ 32,765,265</u>	<u>\$ 1,000,000</u>	<u>\$ (5,020,833)</u>	<u>\$ 28,744,432</u>

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.

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.

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10. LONG-TERM DEBT (continued)

General obligation bonds payable (continued)

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.

On August 10, 2021, the District issued \$15,825,000 in par value 2021 General Obligation Refunding Bonds ("2021 Bonds") to refund in full the outstanding District General Obligations Bonds, Election of 2008, Series B (2010). Interest on the 2021 Bonds is payable semi-annually at a fixed rate of 1.79% with principal payments due annually beginning August 1, 2022 through August 1, 2031. See Subsequent Events, Note 20.

The future maturities of the general obligation bonds principal and interest as presented in the debt service requirements table below includes the new 2021 Bonds and refund of the Series B (2010) bonds that occurred in August 2021. The future principal payments in the debt service requirements table below includes an additional \$225,000 in principal added for costs of issuance and interest from the bond refinance.

Notes payable

The District has four equipment loans totalling \$226,170 and \$475,432 as of June 30, 2021 and 202, respectively, maturing during the years 2022 and 2023.

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 during the year ended June 30, 2020.

Anticipation notes

The District entered into a Tax and Revenue Anticipation Note Agreement 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 April 2020.

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10. LONG-TERM DEBT (continued)

Debt service requirements

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

<u>Year ending June 30,</u>	<u>General Obligation Bonds</u>		<u>Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 1,862,000	\$ 848,184	\$ 183,707	\$ 1,984
2023	2,159,000	599,161	42,463	319
2024	2,277,000	543,827	-	-
2025	2,406,000	484,472	-	-
2026	2,561,000	420,446	-	-
2027 - 2031	<u>15,486,000</u>	<u>992,817</u>	<u>-</u>	<u>-</u>
	<u>\$ 26,751,000</u>	<u>\$ 3,888,907</u>	<u>\$ 226,170</u>	<u>\$ 2,303</u>

Interest costs

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

	<u>2021</u>	<u>2020</u>
Interest cost:		
Paid	\$ 842,159	\$ 987,281
Accrued	<u>448,640</u>	<u>477,141</u>
Total interest expense	<u>\$ 1,290,799</u>	<u>\$ 1,464,422</u>

11. CAPITAL LEASE OBLIGATIONS

Capital lease obligations outstanding are as follows:

<u>Description</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>June 30, 2021</u>
Capital leases - equipment net of interest	December 2018 - February 2024	0%	\$ 935,490	\$ 617,422
Less current portion				<u>(263,030)</u>
				<u>\$ 354,392</u>

Sonoma Valley Health Care District  
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11. CAPITAL LEASE OBLIGATIONS (continued)

<u>Description</u>	<u>June 30, 2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>Outstanding June 30, 2021</u>
Capital leases - equipment	\$ 253,670	\$ 524,680	\$ (160,928)	\$ 617,422

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

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

Year ending June 30,

2022	\$ 263,030
2023	263,030
2024	<u>91,362</u>
	<u>\$ 617,422</u>

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 3.26% and 3.36% for 2021 and 2020, 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 \$481,861 and \$485,876 for 2021 and 2020, respectively.

Sonoma Valley Health Care District  
Notes to Financial Statements  
June 30, 2021 and 2020

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, 2021 and 2020, 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, 2021. A liability is accrued for self-insured workers' compensation claims, including both claims reported and claims incurred but not yet reported of \$973,000 and \$707,000 as of June 30, 2021 and 2020, 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, 2021 and 2020. 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 \$5,923,121 in 2021 and \$2,461,360 in 2020. As of June 30, 2021 the Foundation raised donor restricted contributions totaling \$9,963,112 related to the outpatient diagnostic center capital campaign. At June 30, 2021 and 2020, the Foundation's unaudited cash basis financial statements reported net assets of \$11,269,159 and \$14,437,262, respectively. The Foundation is not considered a component unit of the District because the Foundation is not controlled by the District.

Sonoma Valley Health Care District  
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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 \$- and \$(133,171) for the years ended June 30, 2021 and 2020, 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 July 2025. In 2016, the District began to sublease suites within its leased medical office under sublease agreements expiring through December 2021. Total rental expense for all operating leases amounted to \$733,215 and \$731,723 in 2021 and 2020, respectively. Total rental income during the years ended June 30, 2021 and 2020, amounted to \$152,204 and \$183,697, respectively.

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

<u>Year ending June 30,</u>	<u>Facility and Equipment</u>	<u>Sub-lease Income</u>	<u>Net Lease Commitment</u>
2022	\$ 354,769	\$ (40,209)	\$ 314,560
2023	161,129	-	161,129
2024	93,753	-	93,753
2025	65,730	-	65,730
2026	5,478	-	5,478
	<u>\$ 680,859</u>	<u>\$ (40,209)</u>	<u>\$ 640,650</u>

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.

Sonoma Valley Health Care District  
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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, 2021 and 2020, the District incurred estimated costs of \$264,160 and \$124,953, 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, 2021 and 2020 there were approximately 63 and 83 patient cases under this policy, respectively.

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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 October 21, 2021, the date the financial statements were available to be issued.

On August 10, 2021, the District issued \$15,825,000 in par value 2021 General Obligation Refunding Bonds ("2021 Bonds") to refund in full the outstanding District General Obligations Bonds, Election of 2008, Series B (2010). Interest on the 2021 Bonds is payable semi-annually at a fixed rate of 1.79% with principal payments due annually beginning August 1, 2022 through August 1, 2031. See Note 10.

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, 2021 and 2020

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:

	2021	2020
Community benefits (charity care) allowances	\$ 264,160	\$ 124,953
State Medi-Cal and other public aid programs	46,514,354	42,592,790
Provision for uncollectible accounts	1,370,000	2,130,000
	\$ 48,148,514	\$ 44,847,743

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

	2021	2020
Uncompensated costs of community benefits and uncollectible accounts	\$ 60,240	\$ 7,286
Medi-Cal and other public aid programs	5,981,537	5,376,586
	\$ 6,041,777	\$ 5,383,872

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, 2021 and 2020

Community support

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

	2021	2020
Noncapital gifts and grants included in nonoperating income	\$ 135,773	\$ 71,568
Capital grants and contributions from Sonoma Valley Hospital Foundation	5,787,348	2,368,408
	\$ 5,923,121	\$ 2,439,976
Fundraising expenses included in operating expenses	\$ 35,663	\$ 39,882