SVHCD AUDIT COMMITTEE

AGENDA

TUESDAY, November 22, 2022

4:00 p.m. Regular Session

TO BE HELD VIA ZOOM VIDEOCONFERENCE

To Participate via Zoom Videoconferencing,
use the link below:

https://sonomavalleyhospital-org.zoom.us/j/93898543011?pwd=OTFDdUdocmY1ckZNZFRyemp6V2NiZz09

Enter the Meeting ID: 938 9854 3011
Password: 471654

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1-669-900-9128 or 1-669-219-2599
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Password: 471654

In compliance with the Americans Disabilities Act, if you require special accommodations to participate in a District meeting, please contact Interim District Clerk Stacey Finn at sfinn@sonomavalleyhospital.org or (707) 935.5005 at least 48 hours prior to the meeting.		
AGENDA ITEM	**RECOMMENDATION**	
MISSION STATEMENT *The mission of the SVHCD is to maintain, improve, and restore the health of everyone in our community.*		
1. CALL TO ORDER/ANNOUNCEMENTS	*Boerum*	
2. PUBLIC COMMENT SECTION *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.*	*Boerum*	
3. MINUTES 01.05.22	*Boerum*	Action
4. SVHCD AUDITED FINANCIAL STATEMENTS FOR JUNE 30, 2022	*Armanino LLP*	Action
5. ADJOURN	*Boerum*	

SVHCD
AUDIT COMMITTEE MEETING
MINUTES
TUESDAY, JANUARY 5, 2022
Via Zoom Teleconference

Present	Excused	Staff	Public
Bill Boerum, via Zoom Joshua Rymer, via Zoom Art Grandy, via Zoom Graham Smith, via Zoom		John Hennelly, CEO, via Zoom Ken Jensen, CFO, via Zoom Sarah Dungan, Controller, via Zoom Jenny Fontes, via Zoom	Elizabeth Marek, Armanino, via Zoom

AGENDA ITEM	DISCUSSION	ACTIONS	FOLLOW-UP
MISSION & VISION STATEMENT *The mission of SVHCD is to maintain, improve and restore the health of everyone in our community.*			
1. CALL TO ORDER/ANNOUNCEMENTS	*Boerum*		
	Called to order at 6:00 pm		
2. PUBLIC COMMENT SECTION	*Boerum*		
	None		
3. Minutes 10.26.21	*Boerum*	**MOTION:** by Rymer to approve, 2nd by Grandy. All in favor.	
4. SVHCD SINGLE AUDIT REPORT 2021 FOR U.S. DEPT. HHS			
	Ms. Marek said the Single Audit Report is a Federal compliance audit. Actually this was in the form of two separate Opinion Letters from the firm. If hospitals have expenditures over 750K and have received Federal funding such as grants, they are subject to an additional single audit. If the hospital expends the funds that were received recently, they may be subject to a single audit again. Sonoma Valley Hospital had received $5,723,511 in Federal Provider Relief Funds disbursed by the Health Resources and Services Administration (HRSA)		

	under the Health and Human Services Administration (HHS). These funds largely represented lost revenues due to the pandemic. Ms. Marek reviewed the Single Audit Report. She reported there were no deficiencies in internal control to be considered material weaknesses and the hospital complied in all material respects.		
5. ADJOURN	*Boerum*		
	Meeting adjourned at 6:43 p.m.		

Sonoma Valley Health Care District

Financial Statements
and Supplementary Information

June 30, 2022 and 2021

TABLE OF CONTENTS

DRAFT

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2022 and 2021, 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.

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, 2022 and 2021, 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.

Basis of Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Sonoma Valley Health Care District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Footnote 2, the District has implemented Governmental Accounting Standards Board ("GASB") 87, Leases during the year ending June 30, 2022. The June 30, 2021 financial statements have not been restated for the impact of GASB 87. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Sonoma Valley Health Care District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 12 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information on pages 40 - 41, 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 LLP
San Ramon, California

November 22, 2022

Sonoma Valley Health Care District
Management's Discussion and Analysis (Unaudited)
As of, and for the Years Ended, June 30, 2022, 2021 and 2020

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, 2022 and 2021 . The District operates Sonoma Valley Hospital (the "hospital") located in Sonoma, California. Management's discussion and analysis 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 2022 by approximately $586,000 or 2% and increased in 2021 by approximately $5,078,000 or 17%.
- Cash and cash equivalents decreased in 2022 by approximately $1,344,000 or 13% and decreased in 2021 by approximately $372,000 or 3%. The decrease in 2022 was due to a reduction in Inter-Governmental Transfer ("IGT") payments received during the year as well as an increase in payments for operating expenses. The decrease in 2021 was due to an increase in payments for operating expenses over net revenues collected.
- Net patient accounts receivable increased in 2022 by approximately $415,000 or 9% and increased in 2021 by approximately $960,000 or 24%. The increase in 2022 is attributable to the increase in net revenue from increased volumes, particularly in the 4th quarter of 2022. The increase in 2021 was due to an increase in net revenue, primarily driven by the reduction in volumes and net revenue the hospital experienced due to the COVID-19 pandemic in 2020.
- The District reported operating losses in both 2022 ($8,022,000) and 2021 ($7,618,000). The operating loss in 2022 increased by approximately $403,000 or 5% from the operating loss reported in 2021. The increase in the operating loss in 2022 is due to an increase in operating expenses over net revenue.

Operational Changes and Future Plans

In 2022 the hospital continued to deal with and manage through the challenges created by the COVID-19 pandemic. Despite these challenges, the hospital experienced continued growth in 2022, particularly with patient volumes in the outpatient setting to the point they exceeded pre-pandemic levels in a number of key areas. Regaining volume on the inpatient side has been more challenging as inpatient volumes continue to be lower than what the hospital had been running pre-pandemic. COVID-19 has continued to create challenges in effectively managing resources and operating expenses, and the hospital still had to incur significant costs related to COVID-19 test processing, testing supplies, entrance screeners to screen all staff, patients, and visitors. The hospital also had to rely more heavily on registry and traveler staff due to the ongoing nursing and healthcare worker shortage that also resulted from the fallout of the pandemic.

The hospital continued to focus efforts on growing their affiliation with UCSF to enhance quality and overall services. In September 2021 the hospital and UCSF hired a Director of Information Systems Technology, further expanding the alignment and shared resources between Sonoma Valley Hospital and UCSF. Through this affiliation, the hospital has been able to enhance and strengthen IT security and also leverage UCSF in assisting with the implementation of our new Electronic Medical Record. In March of 2022, the health care district, along with UCSF, recruited and hired a new CFO. The CFO is also a UCSF employee. Senior leadership of Sonoma Valley Hospital and UCSF formed a Joint Operating Committee in 2022. This committee focuses on identifying opportunities to create collaborative programs, establishing a pipeline to assist in physician recruitment, and the overall enhancement and growth of services through the affiliation.

In December 2021 the Sonoma Valley Health Care District Board of Directors approved hospital management to move forward with the implementation of Epic, which is a new Electronic Medical Record, and in June 2022, the project was officially started. This transition will significantly improve the coordination of care for patients in the community as Epic will allow for a much more efficient and streamlined way to share clinical information with other facilities and providers. The new Electronic Medical Record will also enhance and simplify multiple front and back-end processes that will generate additional revenue capture. The project is estimated to be complete and operational in December 2022.

The CT project, which is the 1st phase of the Outpatient Diagnostic Center, was initially projected to be completed in early 2021 but had been delayed due to uncontrollable factors attributable to COVID-19 as well as unforeseen structural issues discovered during the construction. The project was completed this summer and the hospital gained occupancy to operationalize in August 2022. The work on the MRI project, which is the 2nd phase of the Outpatient Diagnostic Center, has begun and is estimated to be completed during fiscal year 2024.

In November 2021, Sonoma Valley Health Care District residents voted to approve a ballot measure that extended the parcel tax, which was set to expire in June 2022. The ballot measure, which supports Sonoma Valley Hospital, was passed by an overwhelming majority by the residents of the district. The new measure renews the yearly tax of $250 per parcel and was extended for 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.

Using this annual report

The District's financial statements consist of three statements—statement of net position, a statement of revenues, expenses and change 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 change in net position

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. 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 net position. The District's net position increased by approximately $585,670, or 2% in 2022 from 2021 and increased by approximately $5,078,000, or 17% in 2021 from 2020, as shown in Table 2.

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Table 1: Statements of Net Position

	2022	2021	2020
ASSETS			
Current assets			
Cash and cash equivalents	$ 9,338,887	$ 10,682,617	$ 11,054,230
Patient accounts receivable, net of allowance for doubtful accounts of $1,426,077 and $1,440,049 in 2022 and 2021, respectively	5,295,597	4,880,570	3,920,682
Estimated third-party payor settlements	168,520	191,797	94,987
Property tax receivable	6,477,689	6,745,740	7,195,321
Other receivables	1,533,590	1,517,831	1,272,442
Inventories	1,037,597	934,048	864,337
Prepaid expenses and other current assets	828,300	871,738	764,658
Total current assets	24,680,180	25,824,341	25,166,657
Fixed assets			
Capital assets, net	52,121,397	52,581,236	49,267,897
Right-of-use lease assets, net	1,429,057	-	-
Total fixed assets	53,550,454	52,581,236	49,267,897
Noncurrent investments			
Restricted for debt service	5,754,812	5,935,165	5,528,299
Total noncurrent investments	5,754,812	5,935,165	5,528,299
Total assets	$ 83,985,446	$ 84,340,742	$ 79,962,853
LIABILITIES AND NET POSITION			
Current liabilities			
Accounts payable and accrued expenses	$ 6,511,304	$ 6,065,424	$ 4,968,824
Accrued payroll and related liabilities	2,560,559	3,482,666	3,389,085
Deferred tax revenue	6,285,090	6,581,749	7,109,173
Line of credit	5,473,734	5,473,734	5,473,734
Bonds payable, current portion	2,159,000	1,862,000	1,743,000
Capital lease obligations, current portion	174,908	263,030	82,652
Lease obligations, current portion	393,336	-	-
Notes payable, current portion	45,648	186,787	252,342
Total current liabilities	23,603,579	23,915,390	23,018,810
Long-term liabilities			
Accrued workers' compensation liability	945,000	973,000	707,000
Bonds payable, net of current portion	22,730,000	24,664,000	26,526,000
Capital lease obligations, net of current portion	71,314	354,392	171,018
Lease obligations, net of current portion	1,046,818	-	-
Notes payable, net of current portion	608,487	39,383	223,090
Total long-term liabilities	25,401,619	26,030,775	27,627,108
Total liabilities	49,005,198	49,946,165	50,645,918
Net position			
Net investment in capital assets	20,858,306	19,737,910	14,796,061
Restricted			
For debt service	5,754,812	5,935,165	5,528,299
Total restricted	5,754,812	5,935,165	5,528,299
Unrestricted	8,367,130	8,721,502	8,992,575
Total net position	34,980,248	34,394,577	29,316,935
Total liabilities and net position	$ 83,985,446	$ 84,340,742	$ 79,962,853

Receivables

In 2022, estimated third party cost report settlements decreased by approximately $23,000 or 12% compared to 2021. The decrease in 2022 is due to the less outstanding balances due from third-parties. Property tax receivable decreased by approximately $268,000 or 4% from 2021. Other receivables increased by $16,000 or 1% from 2021, and increased by $245,000 or 19% in 2021 from 2020. The majority of the balance sitting in other receivables relates to the hospital's insurance claim resulting from the cyberattack in November 2020.

Capital assets

At the end of 2022 and 2021, the District had approximately $52,121,000 and $52,581,000, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 10 to the financial statements.

Right-of-use Lease Assets and Obligations

Effective July 1, 2021, the District implemented Governmental Accounting Standards Board ("GASB") 87 which required the recognition of certain lease assets and liabilities in the amount of $1,652,113. Amortization expense related to the right-of-use assets was $223,056 for the year ended June 30, 2022.

Debt

At June 30, 2022 and 2021, the District had approximately $25,789,000 and $27,370,000, respectively, in bonds, equipment notes payable and notes payable outstanding as detailed in Notes 14 and 15 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, 2024. The District had unused credit on the line of $26,000 as of June 30, 2022 and 2021.

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

In 2022 the District's operating loss increased by $403,000 or 5% from 2021. In 2021 the operating loss increased by $605,000 or 9% from 2020, as shown in Table 2 below:

	2022	2021	2020
Operating revenues			
Net patient service revenue	$ 49,882,545	$ 48,979,099	$ 46,618,700
Capitation revenue	218,140	245,100	287,390
	50,100,685	49,224,199	46,906,090
Operating expenses			
Salaries and wages	23,150,818	23,740,884	23,077,573
Employee benefits	5,488,972	5,575,741	5,565,682
Purchased services	5,464,343	5,227,906	4,589,543
Professional fees, medical	6,426,196	5,802,960	5,418,479
Professional fees, non-medical	2,042,947	770,008	304,758
Supplies	7,569,438	6,665,341	6,119,489
Facilities and equipment	398,062	644,186	622,096
Utilities	1,589,238	1,353,824	1,188,966
Insurance	614,358	540,199	466,482
Depreciation and amortization	3,006,014	3,056,269	3,108,248
Other expenses	2,371,883	3,465,064	3,457,769
Total operating expenses	58,122,269	56,842,382	53,919,085
Loss from operations	(8,021,584)	(7,618,183)	(7,012,995)
Nonoperating income (expenses)			
General obligation bond tax assessment revenues	2,521,572	3,259,264	3,264,864
Parcel tax assessment revenues	3,784,676	3,777,872	3,771,152
General obligation bond interest	(838,430)	(1,083,722)	(1,151,759)
Interest expense	(275,108)	(207,077)	(312,663)
Gain on sale of assets	-	4,600	2,005,303
Provider relief funds	1,377,724	-	5,572,969
Contributions to Prima Medical Foundation	121,360	-	(133,171)
Investment income	19,312	24,912	111,196
Other income, net	1,011,410	996,855	661,394
Total nonoperating income (expenses), net	7,722,516	6,772,704	13,789,285
Capital contributions	884,739	5,923,121	2,461,360
Changes in net position	585,671	5,077,642	9,237,650
Net position, beginning of year	34,394,577	29,316,935	20,079,285
Net position, end of year	$ 34,980,248	$ 34,394,577	$ 29,316,935

*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. Net patient service revenue represents payments made by government programs, insurance companies and patients and is not the gross billed charges.

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

Payor mix - Percentage of total cash collections;

	FY 2022	FY 2021	FY 2020
Medicare	24.8 %	25.6 %	26.8 %
Medicare HMO	10.9 %	9.0 %	8.3 %
Medi-Cal	1.0 %	1.6 %	1.8 %
Medi-Cal Managed Care	17.5 %	21.8 %	22.4 %
Commercial insurance	34.5 %	30.6 %	31.6 %
Workers compensation	3.3 %	3.1 %	2.8 %
Capitated	0.1 %	0.1 %	0.2 %
Other government	3.4 %	1.8 %	1.5 %
Self pay - other	4.5 %	6.4 %	4.6 %
	100.0 %	100.0 %	100.0 %

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

Operating losses

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

The operating loss for 2022 increased by approximately $403,000, or 5% as compared to 2021. In 2021 the operating loss increased by $605,000 or 9% as compared to 2020. The major components of those changes in operating loss are:

- Total operating revenues increased by $876,000 or 2% in 2022. Total operating revenues increased by $2,318,000 or 5% in 2021 compared to 2020. The increase in 2022 is due to the continued recovery of outpatient and emergency service volumes from the COVID-19 pandemic.

- Salaries and wages and benefits decreased in 2022 by $677,000 or 2%. Salaries, wages, and benefits increased during 2022 in clinical departments related to the increase in patient volumes, particulary in outpatient department and emergency services. The increase in cost was more 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 increased in 2021 by $673,000 or 2% due to the significant decrease in overall salaries, wages, and benefits resulting from the COVID-19 pandemic in 2020.

- Purchased services increased in 2022 by $236,000 or 5% compared to 2021 and increased in 2021 by $638,000 or 14% compared to 2020. The increase in 2022 is due to a full year of costs related to outsourcing of COVID-19 test processing and an increase of information technology security costs.

- Medical Professional fees increased in 2022 by $623,000 or 11% from 2021 due to the increase in usage of nursing and clinical registry. Medical professional fees increased in 2021 by $384,000 or 7% primarily due to the increase in use and hourly cost (due to COVID-19) of nursing and clinical registry.

- Non-medical professional fees increased in 2022 by $1,273,000, or 165% from 2021. The primary driver of this increase is due to the CEO, CFO, and CMO, and IT Director being employed by UCSF as part of our affiliation agreement. This increase in cost was offset by a savings in salaries, wages, and benefits, as these costs were included in administrative salaries up until January of 2021. Nonmedical professional fees decreased in 2021 by $465,000 or 153% from 2020 due to the same classification change as noted above, which was effective January 2021.

- Supplies increased in 2022 by $904,000 or 14% from 2021. The primary driver in this increase is COVID-19 as the hospital had significant increases in supply costs - both related to testing for COVID-19 as well as incurring incremental costs due to the ongoing supply chain issues caused by the pandemic. Laboratory supply costs increased $340,000 or 54% in 2022 from 2021. Also contributing to this increase is continued growth in patient volumes year over year, specifically with outpatient, emergency, and procedural volumes. Supplies increased in 2021 by $546,000 or 9% from 2020 primarily due to regained patient volumes that were lost in 2020 due to COVID-19, and also increase costs related to COVID-19 testing supplies.

- Facilities and equipment increased in 2022 by $246,000 or 38% from 2021 due to a new audit standard that restates equipment leases. Facilities and equipment increased in 2021 by $22,000 or 4% from 2020 due to an increase in costs related to equipment leased in the pharmacy.

- Other expenses decreased in 2022 by $1,093,000 or 32% compared to 2021 due to a reduction in the IGT matching fee, which decreased by $1,167,000 in 2022 from 2021. Other expenses increased in 2021 by $7,000 or less than 1% compared to 2020.

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.

Parcel taxes in 2022 of $3,800,000 remained consistent to 2021. In 2022 interest expense increased by $68,000 or 33% due to a new audit standard that requires the recognition of interest expense of the lease obligation of specific operating leases held by the hospital. Also contributing to the increase is the change in interest rates during the 4th quarter of 2022, which increase interest expense on the hospital's line of credit. In 2021 interest expense decreased by $174,000 or 12% due to the payoff of notes and lease obligations. Furthermore, in 2022 nonoperating revenues include provider relief funds from the CARES Act of $1,378,000.

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 $885,000 in 2022 and $5,923,000 in 2021; a decrease of $5,038,000 in 2022 compared to 2021. Capital grants and gifts increased by $3,462,000 in 2021 over 2020.

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.

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, 2022 and 2021

	2022	2021
ASSETS		
Current assets		
Cash and cash equivalents	$ 9,338,887	$ 10,682,617
Patient accounts receivable, net of allowance for uncollectible accounts of $1,426,077 and $1,440,049 in 2022 and 2021, respectively	5,295,597	4,880,570
Estimated third-party payor settlements	168,520	191,797
Property tax receivable	6,477,689	6,745,740
Other receivables	1,533,590	1,517,831
Inventories	1,037,597	934,048
Prepaid expenses and other current assets	828,300	871,738
Total current assets	24,680,180	25,824,341
Fixed Assets		
Capital assets, net	52,121,397	52,581,236
Right-of-use lease assets, net	1,429,057	-
Total fixed assets	53,550,454	52,581,236
Noncurrent investments		
Restricted for debt service	5,754,812	5,935,165
Total noncurrent investments	5,754,812	5,935,165
Total assets	$ 83,985,446	$ 84,340,742
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable and accrued expenses	$ 6,511,304	$ 6,065,424
Accrued payroll and related liabilities	2,560,559	3,482,666
Deferred tax revenue	6,285,090	6,581,749
Line of of credit	5,473,734	5,473,734
Bonds payable, current portion	2,159,000	1,862,000
Capital lease obligations, current portion	174,908	263,030
Lease obligations, current portion	393,336	-
Notes payable, current portion	45,648	186,787
Total current liabilities	23,603,579	23,915,390
Long-term liabilities		
Accrued workers' compensation liability	945,000	973,000
Bonds payable, net of current portion	22,730,000	24,664,000
Capital lease obligations, net of current portion	71,314	354,392
Notes payable, net of current portion	608,487	39,383
Lease obligations, net of current portion	1,046,818	-
Total long-term liabilities	25,401,619	26,030,775
Total liabilities	49,005,198	49,946,165
Net position		
Net investment in capital assets	20,858,306	19,737,910
Restricted		
Restricted for debt service	5,754,812	5,935,165
Total restricted	5,754,812	5,935,165
Unrestricted	8,367,130	8,721,502
Total net position	34,980,248	34,394,577
Total liabilities and net position	$ 83,985,446	$ 84,340,742

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, 2022 and 2021

	2022	2021
Operating revenues		
Net patient service revenue	$ 49,882,545	$ 48,979,099
Capitation revenue	218,140	245,100
Total operating revenues	50,100,685	49,224,199
Operating expenses		
Salaries and wages	23,150,818	23,740,884
Employee benefits	5,488,972	5,575,741
Purchased services	5,464,343	5,227,906
Professional fees, medical	6,426,196	5,802,960
Professional fees, non-medical	2,042,947	770,008
Supplies	7,569,438	6,665,341
Facilities and equipment	398,062	644,186
Utilities	1,589,238	1,353,824
Insurance	614,358	540,199
Depreciation and amortization	3,006,014	3,056,269
Other expenses	2,371,883	3,465,064
Total operating expenses	58,122,269	56,842,382
Loss from operations	(8,021,584)	(7,618,183)
Nonoperating income (expenses)		
General obligation bond tax assessment revenues	2,521,572	3,259,264
Parcel tax assessment revenues	3,784,676	3,777,872
General obligation bond interest	(838,430)	(1,083,722)
Interest expense	(275,108)	(207,077)
Contributions to Prima Medical Foundation	121,360	-
Investment income	19,312	24,912
Gain on sale of assets	-	4,600
Provider relief funds	1,377,724	-
Other income, net	1,011,410	996,855
Total nonoperating income, net	7,722,516	6,772,704
Capital contributions	884,739	5,923,121
Change in net position	585,671	5,077,642
Net position, beginning of year	34,394,577	29,316,935
Net position, end of year	$ 34,980,248	$ 34,394,577

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, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Cash received from patients and third-parties	$ 49,798,059	$ 48,187,609
Cash payments to contractors, vendors and suppliers	(25,945,720)	(23,434,913)
Cash payments to employees and benefit programs	(29,503,632)	(29,043,309)
Net cash used in operating activities	(5,651,293)	(4,290,613)
Cash flows from noncapital financing activities		
Noncapital grants, contributions and other	2,284,251	735,958
Contribution from Prima Medical Foundation	121,360	-
District tax revenues	3,756,072	3,700,029
Net cash provided by noncapital financing activities	6,161,683	4,435,987
Cash flows from capital and related financing activities		
Purchase of capital assets	(1,714,632)	(5,845,442)
Principal payments on note payable	(180,522)	(249,262)
Principal payments on capital lease obligations	(371,200)	(160,928)
Principal payments on lease obligations	(211,959)	-
Principal payments on bond payable	(1,637,000)	(1,743,000)
Interest paid on long-term debt	(1,344,779)	(1,319,300)
Proceeds from sale of capital assets	-	514
Tax revenue related to general obligation bonds	2,521,568	3,259,264
Capital grants and gifts	884,739	5,923,121
Net cash used in capital financing activities	(2,053,785)	(135,033)
Cash flows from investing activities		
Purchases of investments	180,353	(406,866)
Interest received from investments	19,312	24,912
Net cash provided by (used in) investing activities	199,665	(381,954)
Net decrease in cash and cash equivalents	(1,343,730)	(371,613)
Cash and cash equivalents, beginning of year	10,682,617	11,054,230
Cash and cash equivalents, end of year	$ 9,338,887	$ 10,682,617

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, 2022 and 2021

	2022	2021
Reconciliation of loss from operations to net cash and cash equivalents used in operating activities		
Loss from operations	$ (8,021,584)	$ (7,618,183)
Adjustments to reconcile loss from operations to net cash and cash equivalents used in operating activities		
Depreciation and amortization	3,006,014	3,056,269
Provision for doubtful accounts	2,000,000	1,370,000
Changes in operating assets and liabilities		
Patient accounts receivable, net	(2,325,903)	(2,309,780)
Estimated third-party payor settlements	23,277	(96,810)
Accounts payable and accrued expenses	(186,721)	1,398,417
Other operating assets and liabilities	(146,376)	(90,526)
Net cash used in operating activities	$ (5,651,293)	$ (4,290,613)

Supplemental schedule of noncash investing and financing activities

Acquisition of capital assets financed with long-term debt	$ -	$ 524,680
Right-of-use lease assets recorded under GASB 87	$ 1,652,113	$ -
Lease obligation liability recorded under GASB 87	$ (1,652,113)	$ -

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

1. NATURE OF OPERATIONS

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

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

The District 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.

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. Statement no. 76 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Accounting Standards Board (GASB) 87

In June 2017, the GASB issued Statement No. 87, Leases. GASB 87 increases the usefulness of governmental financial statements by requiring recognition of certain lease assets and liabilities for all leases, including those that previously were classified as operating leases and recognized as income by lessors and expenditures by lessees. GASB 87 replaces the previous lease accounting methodology and establishes a single model for lease accounting based on the foundational principle that leases are a financing of the right to use an underlying asset.

GASB 87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB 87 applies to all contracts meeting this definition of a lease, unless specifically excluded. GASB 87 requires a lessee to recognize a lease liability and an intangible asset representing the lessee's right to use the leased asset at the commencement of the lease. GASB 87 requires the lessee to measure its lease liability as the present value of all payments expected to be made during the lease term.

The lessee will generally report amortization expense for the lease assets over the shorter of the term of the lease or the useful life of the underlying asset. Amortization expense of $223,056 for the year ending June 30, 2022 is reported within depreciation and amortization expense. As of July 1, 2021, the Foundation recorded right-of-use lease assets and associated liabilities of $1,652,113; see Notes 9 and 10.

GASB 87 was effective as of July 1, 2021, with restatement of financial statements for all prior periods presented, unless such restatement is not practicable. The District has chosen not to restate the June 30, 2021 financial statements, as it is not practicable to do so, noting that the impact of the implementation of GASB 87 right-of-use assets and corresponding lease obligation balances was approximately $378,000.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary fund accounting and financial statement presentation (continued)

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.

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. Estimated net receivables from all Medicare and Medi-Cal programs combined account for approximately 37% of net patient accounts receivable at both June 30, 2022 and 2021.

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, 2022 and 2021 , the District recorded an allowance for uncollectible accounts receivable for amounts due directly from patients totaling $1,426,077 and $1,440,049, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

The District maintains a portion of its cash and cash equivalents 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

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.

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, 2022 and 2021, 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, 2022 and 2021 , 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 service

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2022 and 2021 , 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Risk management (continued)

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.

Statements of revenues, expenses and change 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:

	2022	2021
Medicare	24.8 %	25.6 %
Medicare HMO	10.9 %	9.0 %
Medi-Cal	1.0 %	1.6 %
Medi-Cal Managed Care	17.5 %	21.8 %
Commercial Insurance	34.5 %	30.6 %
Workers Compensation	3.3 %	3.1 %
Capitated	0.1 %	0.1 %
Self-pay-other	4.5 %	6.4 %
Other government	3.4 %	1.8 %

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 voted to renew the parcel tax at the same yearly amount of $250, but extended 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:

	2022	2021
Designated for hospital operations	$ 3,784,676	$ 3,777,872
Levied for hospital operations and debt service payments	2,521,572	3,259,264
	$ 6,306,248	$ 7,037,136

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property tax revenues (continued)

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

Grants and contributions

The District receives grants as well as contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating income.

During the year ending June 30, 2022, the District received payments from the U.S. Department of Public Health and Human Services ("HHS") Provider Relief Fund. The Provider Relief Fund payments were recognized in the current year based upon lost revenues reported to HHS in the inital filing for period 1. See Note 6.

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. AFFILIATION AGREEMENT WITH UCSF HEALTH

The District has entered into an affiliation agreement with UCSF Health dated August 20, 2018 to share best practices, increase patient, family and community satisfaction with patient care and create over time a comprehensive, sustainable and intgrated health care network to serve the needs of the Sonoma Community.

3. AFFILIATION AGREEMENT WITH UCSF HEALTH (continued)

The District and UCSF Health have formed a Joint Operations Committee ("JOC") that is responsible for coordinating activites and discussing and negotiating any agreements necessary to support the affilaiton agreement. Effective Janaury 1, 2021, the District and UCSF Health entered into a first amendment of the affiliation agreement which extended the initial term of the agreement to commence on the effective date of the first amendment and to end on the 5th anniversary of such date. The first amendment also redefines the structure and authority of the JOC and adds a management services section whereby certain executive leadership roles are directly employed by UCSF Health and shall manage the District in accorance with the term of the affiliation agreement.

4. CASH DEPOSITS

At June 30, 2022 and 2021, the District's cash deposits had carrying amounts of $9,338,887 and $10,682,617, respectively, and bank balances of $9,696,423 and $11,140,756, respectively.

5. NET PATIENT SERVICE REVENUES

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

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. 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, 2022, the District's Medicare cost reports have been audited and final settled by the fiscal intermediary through June 30, 2018.

5. NET PATIENT SERVICE REVENUES (continued)

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, 2022 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:

	2022	2021
Services provided to Medicare patients	$ 160,050,901	$ 138,551,115
Services provided to Medi-Cal patients	50,502,466	46,739,072
Services provided to other patients	84,181,019	65,500,698
Gross patient service revenues	294,734,386	250,790,885
Contractual allowances and allowance for doubtful accounts	(244,851,841)	(201,811,786)
Total net patient service revenue	$ 49,882,545	$ 48,979,099

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 $4,314,418 and IGT expense of $1,652,003 for the year ended June 30, 2022. The District recognized gross revenues of $7,706,425 and IGT expense of $2,818,573 for the year ended June 30, 2021 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.

6. FEDERAL GRANTS - PROVIDER RELIEF FUNDS

As part of the CARES Act, the U.S. Department of Public Health and Human Services ("HHS") is authorized to distribute $178 billion in grants through the Provider Relief Fund, including to hospitals and other healthcare providers on the front lines of the coronavirus response. The Provider Relief Fund is to support healthcare-related expenses or lost revenue attributable to COVID-19 and ensures uninsured individuals can get treatment for COVID-19. The District recognized revenues of $1,377,724 related to Provider Relief Fund payments received from HHS during the year ended June 30, 2022. The recognition of revenue for amounts funded under the Provider Relief Fund grant in the current year is based on the District's calculation of lost revenues as reported in the inital filing with HHS for Period 1.

7. INVESTMENTS RESTRICTED FOR DEBT SERVICE

District investment balances and average maturities were as follows at June 30, 2022:

	Fair Value	Less than 1	1 to 5
Money market mutual fund	$ 5,754,812	$ 5,754,812	$ -

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	$ -

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.

7. 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, 2022 and 2021, 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, 2022 the District had a single money market mutual fund investment.

8. 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, 2022:

	Level 1	Level 2	Level 3	Fair Value
Money market mutual funds	$ 5,754,812	$ -	$ -	$ 5,754,812

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value as of June 30, 2021:

	Level 1	Level 2	Level 3	Fair Value
Money market mutual funds	$ 5,935,165	$ -	$ -	$ 5,935,165

9. PROPERTY TAX RECEIVABLE

Property tax receivable consisted of the following:

	2022	2021
Special parcel tax	$ 3,992,600	$ 3,964,000
Tax for general obligation bond debt service payments	2,485,089	2,781,740
	$ 6,477,689	$ 6,745,740

10. CAPITAL ASSETS

Capital assets activity as of June 30, 2022, consisted of the following:

	Balance, June 30, 2021	Purchases and Transfers	Sales, Transfers, and Retirements	Balance, June 30, 2022
Non-depreciable capital assets				
Land	$ 646,687	$ -	$ -	$ 646,687
Construction in progress	10,133,726	1,728,043	(145,433)	11,716,336
Total non-depreciable capital assets	10,780,413	1,728,043	(145,433)	12,363,023
Depreciable capital assets				
Land improvements	794,811	-	-	794,811
Buildings and improvements	64,743,099	134,956	56,832	64,934,887
Equipment	31,053,754	460,120	(1,140)	31,512,734
	96,591,664	595,076	55,692	97,242,432
Less accumulated depreciation	(54,790,841)	(2,782,958)	89,741	(57,484,058)
Total depreciable capital assets	41,800,823	(2,187,882)	145,433	39,758,374
Total capital assets, net	$ 52,581,236	$ (459,839)	$ -	$ 52,121,397

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

11. RIGHT-OF-USE LEASE ASSETS

Changes in right-of-use asset activity as of June 30, 2022, consisted of the following:

	Balance at July 1, 2021	Additions	Balance at June 30, 2021
Lease obligation assets			
Building	$ -	$ 1,194,167	$ 1,194,167
Equipment	422,905	272,744	695,649
	422,905	1,466,911	1,889,816
Less accumulated amortization	(237,702)	(223,057)	(460,759)
	$ 185,203	$ 1,243,854	$ 1,429,057

12. LEASE OBLIGATION LIABILITY

The District has entered into non-cancellable lease agreements that expire at various dates through February 2027. Rent under the agreements is expensed as incurred over the terms of the underlying leases. As discussed in Footnote 2, the District has not restated the June 30, 2021 financial statements for the right-of-use asset and lease obligation balances under GASB 87 as they have been determined to be immaterial.

Changes in lease obligation liability activity as of June 30, 2022 consisted of the following:

	Balance at July 1, 2021	Additions	Payments	Balance at June 30, 2021
Buildings	$ -	$ 1,194,167	$ (86,863)	$ 1,107,304
Equipment	195,347	262,599	(125,096)	332,850
	$ 195,347	$ 1,456,766	$ (211,959)	$ 1,440,154

Future maturities of capital lease obligations are as follows:

Year ending June 30,	
2023	$ 393,336
2024	355,799
2025	310,163
2026	231,069
2027	148,033
Thereafter	1,754
	$ 1,440,154

13. LINE OF CREDIT

The District had a line of credit agreement with a bank for an amount not to exceed $6,750,000 that matured on January 31, 2022. On this date, the line of credit was extended for an amount not to exceed $5,500,000, with an interest rate of 2.5% plus Term SOFR, maturing on January 31, 2024. 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 $5,500,000 on or before January 31, 2024.

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 at June 30, 2022 and 2021.

The District had unused credit remaining on the line of credit of $26,266 at June 30, 2022 and 2021.

14. LONG-TERM DEBT

The District's long-term debt transactions as of June 30, 2022, consisted of the following:

	Balance, June 30, 2021	Additions	Decreases / Amortization	Balance, June 30, 2022
GO Bond principal	$ 26,526,000	$ 15,825,000	$ (17,462,000)	$ 24,889,000
Notes payable	226,170	608,487	(180,522)	654,135
	$ 26,752,170	$ 16,433,487	$ (17,642,522)	$ 25,543,135

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

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

14. LONG-TERM DEBT (continued)

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 were 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").

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

In February 2014, the District issued $12,437,000 of additional general obligation bonds (2014 General Obligation Refunding Bonds), bearing interest at 3.78%, 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. The balance of the 2014 General Obligation Refunding Bonds is $9,064,000 and $9,736,000 as of June 30, 2022 and 2021, respectively.

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. The balance of the 2021 Bonds is $15,825,000 as of June 30, 2022. The balance of the 2008 Series B (2010) bonds at June 30, 2021 was $16,790,000.

Notes payable

The District has five equipment loans totalling $654,135 and $226,170 as of June 30, 2022 and 2021, respectively, maturing during the years 2023 and 2024.

14. LONG-TERM DEBT (continued)

Debt service requirements

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

Year ending June 30,	General Obligation Bonds Principal	General Obligation Bonds Interest	Note Payable Principal	Note Payable Interest
2023	$ 2,159,000	$ 599,161	$ 45,648	$ 319
2024	2,277,000	543,827	608,487	-
2025	2,406,000	484,472	-	-
2026	2,561,000	420,446	-	-
2027	2,728,000	351,130	-	-
2028 - 2032	12,758,000	641,688	-	-
	$ 24,889,000	$ 3,040,724	$ 654,135	$ 319

Interest costs

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

	2022	2021
Interest cost:		
Paid	$ 896,139	$ 842,159
Accrued	217,399	448,640
Total interest expense	$ 1,113,538	$ 1,290,799

15. CAPITAL LEASE OBLIGATIONS

Capital lease obligations outstanding are as follows:

Description	Maturity	Interest Rates	Original Issue	June 30, 2022
Capital leases - equipment net of interest	February 2024	0%	$ 522,032	$ 246,222
Less current portion				(174,908)
				$ 71,314

15. CAPITAL LEASE OBLIGATIONS (continued)

Description	June 30, 2021	Increases	Decreases	Outstanding June 30, 2022
Capital leases - equipment	$ 617,422	$ -	$ (371,200)	$ 246,222

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

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

Year ending June 30,	
2023	$ 174,908
2024	71,314
	$ 246,222

16. 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 3.24% and 3.26% for 2022 and 2021, 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 $504,805 and $481,861 for 2022 and 2021, respectively.

17. 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, 2022 and 2021, the District has determined that no accrual is required for such losses under the various medical malpractice policies in place.

18. 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, 2022. A liability is accrued for self-insured workers' compensation claims, including both claims reported and claims incurred but not yet reported of $945,000 and $973,000 as of June 30, 2022 and 2021, 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, 2022 and 2021. It is reasonably possible that the District's estimate could change by a material amount in the near term.

19. 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 $884,739 in 2022 and $5,923,121 in 2021. As of June 30, 2022 the Foundation raised donor restricted contributions totaling $9,304,232 related to the outpatient diagnostic center capital campaign. At June 30, 2022 and 2021, the Foundation's unaudited cash basis financial statements reported net assets of $11,002,333 and $11,269,159, respectively. The Foundation is not considered a component unit of the District because the Foundation is not controlled by the District.

20. 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 from PMF totaled $121,360 for the year ended June 30, 2022. The District did not receive a contribution for the year ended June 30, 2021.

21. COMMITMENTS AND CONTINGENCIES

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.

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.

22. CHARITY CARE

During the years ended June 30, 2022 and 2021, the District incurred estimated costs of $249,737 and $264,160, 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, 2022 and 2021 there were 72 and 63 patient cases under this policy, respectively.

23. SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 22, 2022, the date the financial statements were available to be issued. No subsequent events 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, 2022 and 2021

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:

	2022	2021
Community benefits (charity care) allowances	$ 249,737	$ 264,160
State Medi-Cal and other public aid programs	50,313,730	46,514,354
Provision for uncollectible accounts	2,000,000	1,370,000
	$ 52,563,467	$ 48,148,514

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

	2022	2021
Uncompensated costs of community benefits and uncollectible accounts	$ 23,777	$ 60,240
Medi-Cal and other public aid programs	5,239,498	5,981,537
	$ 5,263,275	$ 6,041,777

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, 2022 and 2021

Community support

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

	2022	2021
Noncapital gifts and grants included in nonoperating income	$ 86,784	$ 135,773
Capital grants and contributions from Sonoma Valley Hospital Foundation	797,955	5,787,348
	$ 884,739	$ 5,923,121
Fundraising expenses included in operating expenses	$ -	$ 35,663