

**SEQUOIA HEALTHCARE DISTRICT**

Audited Financial Statements and  
Compliance Report

June 30, 2022

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SEQUOIA HEALTHCARE DISTRICT  
AUDITED FINANCIAL STATEMENTS AND  
COMPLIANCE REPORTS

June 30, 2022

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Sequoia Healthcare District  
Redwood City, California

### **Report on the Audit of the Financial Statements**

#### **Opinions**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Sequoia Healthcare District (the District) as of and for the year ended June 30, 2022 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2022 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

#### **Basis for Opinions**

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

#### **Emphasis of Matter**

As discussed in Note 10 to the financial statements, the June 30, 2022 financial statements have been restated to correct certain misstatements. Our opinion is not modified with respect to this matter.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair

To the Board of Directors  
Sequoia Healthcare District

presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's Responsibility 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 opinions. 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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 the 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.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of revenues, expenditures and changes in fund balance - budget and

To the Board of Directors  
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actual – General Fund, the schedule of proportionate share of the net pension liability, schedule of contributions to the pension plan, as listed in the accompanying table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District’s basic financial statements. The schedule of revenues, expenses and changes in fund net position – budget and actual – proprietary fund and schedule of revenues, expenses, and changes in net position – budget and actual – all funds, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financials statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2023 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the District’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.

*Richardson & Company, LLP*

June 19, 2023

**SEQUOIA HEALTHCARE DISTRICT**  
Management's Discussion and Analysis  
June 30, 2022

This section of the Sequoia Healthcare District's (the District) basic financial statements presents management's overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2022. We encourage the reader to consider the information presented here in conjunction with the financial statements as a whole.

**Organization and Business**

The District is a governmental entity legally constituted as a special district under California law, and is located in Redwood City, California. The District identifies local healthcare needs through existing health data and works collaboratively with local agencies to address the needs. District tax revenues are used for programs and activities designed to achieve health, wellness and disease prevention in southern San Mateo County. Communities in the District include Redwood City, San Carlos, Belmont, Woodside, Atherton, Portola Valley and parts of Menlo Park, San Mateo and Foster City.

**Overview of the Basic Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's audited financial statements, which are comprised of the basic financial statements (pages 10-36), required supplementary information (pages 37-40), supplementary information (pages 41-42) and compliance report (pages 43-44). This annual report is prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for States and Local Governments*.

The required financial statements include the Government-wide and Fund Financial Statements, including the government-wide Statement of Net Position and Statement of Activities; Balance Sheet – Governmental Fund and Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund; Statement of Net Position, Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Fund, Statement of Cash Flows – Proprietary Fund; and the Statement of Fiduciary Net Position – Fiduciary Fund and Statement of Changes in Fiduciary Net Position – Fiduciary Fund.

These statements are supported by notes to the financial statements. All sections must be considered together to obtain a complete understanding of the financial picture of the District.

**The Basic Financial Statements**

The Basic Financial Statements comprise the Government-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the District's financial activities and financial position.

The Government-wide Financial Statements provide a longer-term view of the District's activities as a whole and are comprised of the Statement of Net Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of the District as a whole, including all of its capital assets, deferred inflows and outflows of resources and long-term liabilities on the full accrual basis of governmental activities and business-type activities, similar to that used by private companies. The Statement of Activities provides information about all of the District's revenues and all of its expenses, also on the full accrual basis, with an emphasis on measuring net revenues or expenses of the District's programs. The Statement of Activities explains in detail the change in net position for the year.

The Governmental Fund Financial Statements report the District's operations in more detail than the Government-wide statements and focus primarily on the short-term activities of the District's General Fund. The Governmental Fund Financial Statements measure only current revenues, expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts. Major funds account for



**SEQUOIA HEALTHCARE DISTRICT**  
Management's Discussion and Analysis  
June 30, 2022

the major financial activities of the District and are presented individually. Major funds are explained below. Comparisons of budget and actual financial information are presented for the General Fund as required supplementary information along with required supplementary information related to the District's pension plan.

The Proprietary Fund Financial Statements report the operations of the District's Leasing Enterprise Fund. It is reported using the economic resources measurement focus and accrual basis of accounting similar to the government-wide statements. It includes the District's capital assets used for leasing operations.

The Fiduciary Fund Statements provide financial information about the activities of the Pension Trust Fund for which the District acts solely in a fiduciary capacity. The Fiduciary Fund Statements provide information about the assets and liabilities related to the District's pension plan for employees hired by Dignity Health when Sequoia Hospital transferred Sequoia Hospital to Dignity Health under the Development Agreement described in Note 7. The District holds the assets reported in the Pension Trust Fund in trust for the benefit of the plan participants. These statements are separate from, and their balances are excluded from, the District's financial activities.

**Government-wide Financial Analysis**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, governmental activities unrestricted net position was \$45,524,064 at the close of the most recent fiscal year, which is a 58% increase from 2021. The District's unrestricted net position increased due to revenues exceeding expenses by \$13,527,257, including the accrual of a settlement related to a dispute with Dignity Health of \$9,415,067 as described in Note 7, and a restatement to reverse \$3,750,000 of fiscal year 2022 grant expenses accrued in fiscal year 2021. Changes in business-type activities were related to depreciation.

The following table summarizes the changes in the District's Condensed Statements of Net Position:

|   | CONDENSED STATEMENTS OF NET POSITION |                      |                      |              |                          |                   |                    |             |
|---|--------------------------------------|----------------------|----------------------|--------------|--------------------------|-------------------|--------------------|-------------|
|   | Governmental Activities              |                      |                      |              | Business-type Activities |                   |                    |             |
|   | June 30,                             |                      | Change               | %            | June 30,                 |                   | Change             | %           |
| 2022                                      | 2021                                 | 2022                 |                      |              | 2021                     |                   |                    |             |
| <b>ASSETS</b>                             |                                      |                      |                      |              |                          |                   |                    |             |
| Current and other assets                  | \$ 71,789,781                        | \$ 59,083,233        | \$ 12,706,548        | 22%          |                          |                   |                    |             |
| Capital assets, net                       |                                      |                      |                      |              | \$ 295,302               | \$ 363,511        | \$ (68,209)        | -19%        |
| Total assets                              | <u>71,789,781</u>                    | <u>59,083,233</u>    | <u>12,706,548</u>    | <u>22%</u>   | <u>295,302</u>           | <u>363,511</u>    | <u>(68,209)</u>    | <u>-19%</u> |
| <b>DEFERRED OUTFLOWS<br/>OF RESOURCES</b> | <u>3,550,905</u>                     |                      | <u>3,550,905</u>     | <u>100%</u>  |                          |                   |                    |             |
| <b>LIABILITIES</b>                        |                                      |                      |                      |              |                          |                   |                    |             |
| Long-term liabilities                     | 27,547,816                           | 11,885,736           | 15,662,080           | 132%         |                          |                   |                    |             |
| Other liabilities                         | <u>2,268,806</u>                     | <u>6,421,654</u>     | <u>(4,152,848)</u>   | <u>-65%</u>  | <u>3,565</u>             | <u>3,565</u>      |                    | <u>0%</u>   |
| Total liabilities                         | <u>29,816,622</u>                    | <u>18,307,390</u>    | <u>11,509,232</u>    | <u>63%</u>   | <u>3,565</u>             | <u>3,565</u>      |                    | <u>0%</u>   |
| <b>DEFERRED INFLOWS<br/>OF RESOURCES</b>  |                                      | <u>12,029,036</u>    | <u>(12,029,036)</u>  | <u>-100%</u> |                          |                   |                    | <u>100%</u> |
| <b>NET POSITION</b>                       |                                      |                      |                      |              |                          |                   |                    |             |
| Net investment<br>in capital assets       |                                      |                      |                      |              | 291,737                  | 359,946           | (68,209)           | -19%        |
| Unrestricted                              | <u>45,524,064</u>                    | <u>28,746,807</u>    | <u>16,777,257</u>    | <u>58%</u>   |                          |                   |                    |             |
| Total net position                        | <u>\$ 45,524,064</u>                 | <u>\$ 28,746,807</u> | <u>\$ 16,777,257</u> | <u>58%</u>   | <u>\$ 291,737</u>        | <u>\$ 359,946</u> | <u>\$ (68,209)</u> | <u>-19%</u> |

**SEQUOIA HEALTHCARE DISTRICT**  
Management's Discussion and Analysis  
June 30, 2022

**Governmental Activities**

The current and other assets of governmental activities increased \$12,706,548 or 22% in 2022. The increase includes an increase in cash and investments of \$6,327,602 and a settlement agreement with Dignity Health described in Note 7 to the financial statements that includes interest receivable of \$140,577 and a long-term receivable of \$7,425,067, offset by a reduction in the fair value of investments of \$836,225 due to changes in market rates. The increase in cash was from net income that included \$2,000,000 of the Dignity Health Settlement received in cash, tax revenue exceeding the budgeted amount by \$1,922,391, grants returned by the recipients of \$1,221,204 and expenses coming in under budget by \$1,012,237.

The long-term liabilities, consisting of a net pension liability of \$27,525,164 and long-term compensated absences of \$22,652, increased \$15,662,080 or 132% from 2021 to 2022. This increase was primarily due to an increase in the net pension liability of \$15,639,428 due to changes in market rates causing a decline in the fair value of the pension plan's investments. The unrealized loss will not be realized if the investments are held to maturity. The change in the value of investments also resulted in the deferred items related to the pension plan changing from deferred inflows of resources to deferred outflows of resources as the change will be taken into pension expense over the next four years.

Other liabilities, consisting of accounts payable, grants payable and the current portion of compensated absences, decreased \$4,152,848 in 2022. This is mainly due to grants payable declining from \$5,624,547 to \$2,141,435, including grants of \$3,750,000 for fiscal year 2022 that were inadvertently accrued at June 30, 2021, and accounts payable declining from \$797,107 to \$87,948. This decline was due to payables outstanding at June 30, 2021 that were related to grants that were reclassified to grants payable in 2022.

As discussed above, governmental activity unrestricted net position increased \$16,777,257 or 58% due to the changes described above.

**Business-type Activities**

Capital assets and the investment in capital assets both decreased \$68,209 during 2022 due to depreciation taken on capital assets.

The following table summarizes the changes in the District's Condensed Statement of Activities:

**SEQUOIA HEALTHCARE DISTRICT**  
**Management's Discussion and Analysis**  
**June 30, 2022**

CONDENSED STATEMENTS OF ACTIVITIES

|   | Governmental Activities |                      |                      |             | Buisness-type Activities |                   |                    |             |
|---|-------------------------|----------------------|----------------------|-------------|--------------------------|-------------------|--------------------|-------------|
|   | June 30,                |                      | Change               | %           | June 30,                 |                   | Change             | %           |
|   | 2022                    | 2021                 |                      |             | 2022                     | 2021              |                    |             |
| <b>REVENUES</b>                               |                         |                      |                      |             |                          |                   |                    |             |
| Program revenues:                             |                         |                      |                      |             |                          |                   |                    |             |
| Charges for services                          |                         |                      |                      |             | \$ 20,900                | \$ 35,800         | \$ (14,900)        | -42%        |
| Operating grants and contributions            | \$ 1,500,000            | \$ 1,500,000         |                      | 0%          |                          |                   |                    |             |
| General revenues:                             |                         |                      |                      |             |                          |                   |                    |             |
| Property taxes                                | 15,922,391              | 15,279,586           | \$ 642,805           | 4%          |                          |                   |                    |             |
| Investment earnings (loss)                    | (512,526)               | 195,422              | (707,948)            | -362%       |                          |                   |                    |             |
| Intergovernmental revenue                     | 678,202                 |                      | 678,202              | 100%        |                          |                   |                    |             |
| Settlement agreement revenue                  | 9,415,067               |                      | 9,415,067            | 100%        |                          |                   |                    |             |
| Other revenues                                | 1,221,604               |                      | 1,221,604            | 100%        |                          |                   |                    |             |
| Total revenues                                | <u>28,224,738</u>       | <u>16,975,008</u>    | <u>11,249,730</u>    | <u>66%</u>  | <u>20,900</u>            | <u>35,800</u>     | <u>(14,900)</u>    | <u>-42%</u> |
| <b>EXPENSES</b>                               |                         |                      |                      |             |                          |                   |                    |             |
| Grants to community                           |                         |                      |                      |             |                          |                   |                    |             |
| non-profit organizations                      | 12,152,281              | 12,341,735           | (189,454)            | -2%         |                          |                   |                    |             |
| Grant administration                          | 437,053                 | 329,587              | 107,466              | 33%         |                          |                   |                    |             |
| Grant administration, compensated absences    | 62,075                  |                      | 62,075               | 100%        |                          |                   |                    |             |
| Insurance                                     | 146,341                 | 125,129              | 21,212               | 17%         |                          |                   |                    |             |
| Investment and banking fees                   | 30,160                  | 23,683               | 6,477                | 27%         |                          |                   |                    |             |
| Legal   | 168,085                 | 319,954              | (151,869)            | -47%        |                          |                   |                    |             |
| Office supplies and maintenance               | 3,953                   | 2,817                | 1,136                | 40%         |                          |                   |                    |             |
| Pension expense                               | 1,500,000               | 1,500,000            | -                    | 0%          |                          |                   |                    |             |
| Public relations                              | 104,040                 | 87,505               | 16,535               | 19%         |                          |                   |                    |             |
| Property                                      |                         |                      |                      |             | 182,602                  | 115,037           | 67,565             | 59%         |
| Total expenses                                | <u>14,603,988</u>       | <u>14,730,410</u>    | <u>(126,422)</u>     | <u>-1%</u>  | <u>182,602</u>           | <u>115,037</u>    | <u>67,565</u>      | <u>59%</u>  |
| Change in net position before transfers       | 13,620,750              | 2,244,598            | 11,376,152           | 507%        | (161,702)                | (79,237)          | (82,465)           | 104%        |
| Internal transfers                            | (93,493)                | (32,739)             | (60,754)             | 186%        | 93,493                   | 32,739            | 60,754             | 186%        |
| Change in net position                        | <u>13,527,257</u>       | <u>2,211,859</u>     | <u>11,315,398</u>    | <u>512%</u> | <u>(68,209)</u>          | <u>(46,498)</u>   | <u>(21,711)</u>    | <u>47%</u>  |
| Net position, beginning of year               | 28,746,807              | 26,534,948           | 2,211,859            | 8%          | 359,946                  | 406,444           | (46,498)           | -11%        |
| Restatement                                   | 3,250,000               |                      | 3,250,000            | 100%        |                          |                   |                    |             |
| Net position, beginning of year - as restated | <u>31,996,807</u>       | <u>26,534,948</u>    | <u>5,461,859</u>     | <u>21%</u>  | <u>359,946</u>           | <u>406,444</u>    | <u>(46,498)</u>    | <u>-11%</u> |
| Net position, end of year                     | <u>\$ 45,524,064</u>    | <u>\$ 28,746,807</u> | <u>\$ 16,777,257</u> | <u>58%</u>  | <u>\$ 291,737</u>        | <u>\$ 359,946</u> | <u>\$ (68,209)</u> | <u>-19%</u> |

**Governmental Activities:**

Revenues of governmental activities increased \$11,249,730 or 66% in 2022. This includes an increase in property tax revenue of \$642,805 or 4%, an increase in intergovernmental revenue of \$678,202 due to a COVID-19 grant received from the state, settlement revenue from Dignity health of \$9,415,067, and grants returned by recipients of \$1,221,604 reported as other revenue. However, a decline in investment earnings of \$707,948 or 362% occurred due to the unrealized loss from market rate changes.

Expenses of governmental activities decreased by \$126,422 or 1% in 2022. This includes a \$189,454 or 2% decline in grants made, an increase in grant administration of \$107,466 or 33% due to board approved salary increases and a \$28,300 payment to a consultant, a \$62,075 increase in compensated absences expense that was accrued for the first time in 2022, a decline in legal fees due to less activity on the dispute with Dignity health, and smaller increases in insurance, banking fees and public relations expenses.

The change in net position increased \$11,315,398 or 512% due to the changes described above.

# SEQUOIA HEALTHCARE DISTRICT

## Management's Discussion and Analysis

June 30, 2022

### **Business-type Activities:**

Charges for services of business-type activities, which represents rental income, declined \$14,900 or 100% due to the loss of a tenant during the year.

Expenses of business-type activities increased \$67,565 or 59%, mainly due to a \$5,390 increase in property insurance due to a credit received in 2021, a \$21,711 or 47% increase in depreciation due to a correction of accumulated depreciation on certain assets, a \$19,865 or 65% increase in maintenance due to a roof repair, and a \$16,147 or 92% increase in utilities due to the service provider having billing issues during 2021 and catching up billings during 2022.

### **Analyses of Major Funds**

#### Governmental Fund

The District's governmental fund, the General Fund, has assets that consist of the same assets as governmental activities, with the exception of the Dignity Health pension reimbursement asset of \$23,974,259 that does not represent current financial resources and is not reported in the General Fund. The changes in the General Fund's assets are described in the governmental activities section above.

The General Fund's liabilities consist of accounts payable and grants payable. Changes in these liabilities are described in the governmental activities section above.

The long-term settlement receivable and interest receivable on the Dignity Health Settlement were not received in the District's 60 day availability period so they were offset with deferred inflows of resources for unavailable revenue and recognized in the governmental activities statements.

The unassigned fund balance in the District's General Fund amounted to \$38,030,495 in 2022, an increase of \$9,283,688 or 32% from 2021. The General Fund revenues are identical to the revenues of the governmental activities described above with the exception of the \$7,555,644 Dignity Health settlement and interest on the settlement that were not received in the District's availability period that were reported as deferred outflows and not recognized as revenue. The expenditures of the General Fund are identical to the expenses of the governmental activities described above with the exception of the \$62,075 increase in the compensated absences liability that is not paid from current financial resources and, therefore, not reported as expenditures in the General Fund. A reconciliation of the net position and changes in net position between the governmental fund and governmental activities statements can be found on the bottom of pages 12 and 13 of the financial statements.

#### Proprietary Fund

The proprietary fund consists of the District's Leasing Enterprise Fund. The balances in this fund are identical to the balances described in the business-type activities section above.

### **General Fund Budget**

The District annually adopts a budget for the General Fund. The draft budget is prepared by the Chief Executive Officer and is submitted to and approved by the Board of Directors by June 30.

As shown on page 36 of the financial statements, the 2022 budgeted revenues and expenditures were \$15,683,000 and \$15,554,150, respectively. There were no changes between the originally adopted budget and final budget. Actual revenues were \$20,669,094 or \$4,986,094 higher than the budgeted amount. This was mainly due to property taxes coming in \$1,922,391 higher than budget, an unbudgeted \$678,202

# SEQUOIA HEALTHCARE DISTRICT

## Management's Discussion and Analysis

June 30, 2022

COVID-19 grant being received from the state, \$2,000,000 of the Dignity Health settlement being received in the District's availability period and recognized in the General Fund and \$1,221,604 of unused grants being returned by recipients. Actual expenditures were \$14,541,913 or \$1,012,237 lower than the budget due to administration services, grants and program expenses being under budget by \$39,568, \$697,232 and \$275,437, respectively. The grants were under budget due to COVID-19 grant requests declining faster than expected.

### **Capital Assets**

GASB Statement No. 34 requires the District to record all its capital assets. The District's capital assets consist of land, building improvements, tenant improvements, equipment and furniture. The only change in capital assets was depreciation. Details on capital assets can be found in Note 4.

### **Debt Administration**

The District does not utilize long-term debt to fund operations.

### **Economic Outlook and Future Plans**

The District will continue to collect revenues from property taxes, which have steadily increased over the years, often coming in higher than budgeted, and will receive settlement revenue from Dignity Health in the amount of \$510,000 per year through December 1, 2047. An additional \$510,000 per year will be deposited into a joint account by Dignity Health through December 1, 2047 under the settlement agreement that will be managed by a joint committee established between the District and Sequoia Hospital that may be used for District programs. As a result, we anticipate a steady stream of income that will allow us to provide a minimum of \$15 million a year in community support in the year ahead without having to significantly reduce current reserves.

District reserves are currently higher than management and the Board would like. This is due primarily to the steady increase of unexpected revenues discussed above, combined with reduced opportunities for significant short and long-term investments caused by the uncertainty of the pandemic. The District management and staff have gathered local health data to determine the most pressing health care needs facing District residents. A profound need for increasing access to oral health care for indigent community members has been identified, and the District is looking to invest an additional \$3-5 million to address this unmet need over the next two years. A Letter of Intent is in the process of being drafted, that would initiate a partnership with Ravenswood Family Health Center to operate a new brick-and-mortar dental clinic in the District Building on Veterans in Redwood City. The District would then purchase a new building within District boundaries to house the District office, and possibly several non-profit health services providers if plans for the dental clinic move forward.

It is likely that District resources will continue to be necessary to support oral health services beyond the initial \$3-\$5 million investment. District staff is also exploring opportunities to address a critical unmet need for more mental health services in a substantial way.

### **Contacting the District's Financial Management**

These financial statements are intended to provide citizens, taxpayers, and other stakeholders with a general overview of the District's finances. Questions about this report should be directed to the Sequoia Healthcare District, 525 Veteran's Boulevard, Redwood City, California 94063.

SEQUOIA HEALTHCARE DISTRICT

STATEMENT OF NET POSITION

June 30, 2022

|  | Governmental<br>Activities | Business-Type<br>Activities | Total                |
|--|----------------------------|-----------------------------|----------------------|
| <b>ASSETS</b>                                    |                            |                             |                      |
| Cash and cash equivalents                        | \$ 19,104,015              |                             | \$ 19,104,015        |
| Investments                                      | 20,954,005                 |                             | 20,954,005           |
| Interest receivable                              | 105,577                    |                             | 105,577              |
| Interest receivable - Dignity Health settlement  | 140,577                    |                             | 140,577              |
| Interest receivable - Dignity Health settlement  | 96,281                     |                             | 96,281               |
| Dignity Health settlement receivable             | 7,415,067                  |                             | 7,415,067            |
| Dignity Health pension reimbursement             | 23,974,259                 |                             | 23,974,259           |
| Capital assets - non depreciable                 |                            | \$ 138,927                  | 138,927              |
| Capital assets - depreciable, net                |                            | 156,375                     | 156,375              |
| TOTAL ASSETS                                     | <u>71,789,781</u>          | <u>295,302</u>              | <u>72,085,083</u>    |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>            |                            |                             |                      |
| Pension plan                                     | 3,550,905                  |                             | 3,550,905            |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES             | <u>3,550,905</u>           |                             | <u>3,550,905</u>     |
| <b>LIABILITIES</b>                               |                            |                             |                      |
| Accounts payable and other liabilities           | 87,948                     |                             | 87,948               |
| Grants payable                                   | 2,141,435                  |                             | 2,141,435            |
| Deposits payable                                 |                            | 3,565                       | 3,565                |
| Noncurrent liabilities:                          |                            |                             |                      |
| Compensated absences - due within one year       | 39,423                     |                             | 39,423               |
| Compensated absences - due in more than one year | 22,652                     |                             | 22,652               |
| Net pension liability                            | 27,525,164                 |                             | 27,525,164           |
| TOTAL LIABILITIES                                | <u>29,816,622</u>          | <u>3,565</u>                | <u>29,820,187</u>    |
| <b>NET POSITION</b>                              |                            |                             |                      |
| Investment in capital assets                     |                            | 291,737                     | 291,737              |
| Unrestricted                                     | 45,524,064                 |                             | 45,524,064           |
| TOTAL NET POSITION                               | <u>\$ 45,524,064</u>       | <u>\$ 291,737</u>           | <u>\$ 45,815,801</u> |

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

SEQUOIA HEALTHCARE DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2022

| Functions/Programs   | Expenses             | Program Revenues                     |  | Net (Expenses) Revenues and<br>Changes in Net Position |                             |                      |
|--|----------------------|--------------------------------------|--|--|-----------------------------|----------------------|
|  |                      | Charges for<br>Services and<br>Sales | Operating<br>Grants and<br>Contributions | Governmental<br>Activities                             | Business-Type<br>Activities | Total                |
| <b>Governmental Activities:</b>                              |                      |                                      |  |  |                             |                      |
| Community Healthcare Services:                               |                      |                                      |  |  |                             |                      |
| Grants to community non-profit organizations                 | \$ 12,152,281        |                                      |  | \$ (12,152,281)  |                             | \$ (12,152,281)      |
| Grant administration   | 437,053              |                                      |  | (437,053)  |                             | (437,053)            |
| Grant administration, compensated absences                   | 62,075               |                                      |  | (62,075)   |                             | (62,075)             |
| Insurance  | 146,341              |                                      |  | (146,341)  |                             | (146,341)            |
| Investment and banking fees                                  | 30,160               |                                      |  | (30,160)   |                             | (30,160)             |
| Legal  | 168,085              |                                      |  | (168,085)  |                             | (168,085)            |
| Office supplies and maintenance                              | 3,953                |                                      | \$ 1,500,000                             | (3,953)  |                             | (3,953)              |
| Pension expense  | 1,500,000            |                                      |  |  |                             |                      |
| Public relations   | 104,040              |                                      |  | (104,040)  |                             | (104,040)            |
| <b>TOTAL GOVERNMENTAL ACTIVITIES</b>                         | <b>14,603,988</b>    |                                      | <b>1,500,000</b>                         | <b>(13,103,988)</b>                                    |                             | <b>(13,103,988)</b>  |
| <b>Business-Type Activities:</b>                             |                      |                                      |  |  |                             |                      |
| Leasing  | 182,602              | \$ 20,900                            |  |  | \$ (161,702)                | (161,702)            |
| <b>TOTAL BUSINESS-TYPE ACTIVITIES</b>                        | <b>182,602</b>       | <b>20,900</b>                        |  |  | <b>(161,702)</b>            | <b>(161,702)</b>     |
| <b>TOTAL PRIMARY GOVERNMENT</b>                              | <b>\$ 14,786,590</b> | <b>\$ 20,900</b>                     | <b>\$ 1,500,000</b>                      | <b>(13,103,988)</b>                                    | <b>(161,702)</b>            | <b>(13,265,690)</b>  |
| <b>General Revenues:</b>                                     |                      |                                      |  |  |                             |                      |
| Property taxes   |                      |                                      |  | 15,922,391   |                             | 15,922,391           |
| Interest and investment earnings (loss)                      |                      |                                      |  | (512,526)  |                             | (512,526)            |
| Intergovernmental revenues                                   |                      |                                      |  | 678,202  |                             | 678,202              |
| Settlement agreement revenue                                 |                      |                                      |  | 9,415,067  |                             | 9,415,067            |
| Other revenues   |                      |                                      |  | 1,221,604  |                             | 1,221,604            |
| Internal transfers   |                      |                                      |  | (93,493)   | 93,493                      |                      |
| <b>SUBTOTAL GENERAL REVENUE</b>                              |                      |                                      |  | <b>26,631,245</b>                                      | <b>93,493</b>               | <b>26,724,738</b>    |
| <b>CHANGE IN NET POSITION</b>                                |                      |                                      |  | <b>13,527,257</b>                                      | <b>(68,209)</b>             | <b>13,459,048</b>    |
| Net position at beginning of year,<br>as previously reported |                      |                                      |  | 28,746,807   | 359,946                     | 29,106,753           |
| Restatement  |                      |                                      |  | 3,250,000  |                             | 3,250,000            |
| Net position at beginning of year, as restated               |                      |                                      |  | 31,996,807   | 359,946                     | 32,356,753           |
| <b>NET POSITION AT END OF YEAR</b>                           |                      |                                      |  | <b>\$ 45,524,064</b>                                   | <b>\$ 291,737</b>           | <b>\$ 45,815,801</b> |

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

SEQUOIA HEALTHCARE DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUND

June 30, 2022

|   | <u>General Fund</u>  |
|---|----------------------|
| <b>ASSETS</b>   |                      |
| Cash and cash equivalents   | \$ 19,104,015        |
| Investments   | 20,954,005           |
| Interest receivable   | 105,577              |
| Interest receivable - Dignity Health settlement   | 140,577              |
| Due from other governments  | 96,281               |
| Dignity Health settlement receivable  | 7,415,067            |
| <b>TOTAL ASSETS</b>   | <b>\$ 47,815,522</b> |
| <b>LIABILITIES</b>  |                      |
| Accounts payable  | \$ 87,948            |
| Grants payable  | 2,141,435            |
| <b>TOTAL LIABILITIES</b>  | <b>2,229,383</b>     |
| <b>DEFERRED INFLOWS OF RESOURCES</b>  |                      |
| Unavailable revenue   | 7,555,644            |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>  | <b>7,555,644</b>     |
| <b>FUND BALANCE</b>   |                      |
| Unassigned  | 38,030,495           |
| <b>TOTAL FUND BALANCE</b>   | <b>38,030,495</b>    |
| <b>TOTAL LIABILITIES AND FUND BALANCE</b>   | <b>\$ 47,815,522</b> |
| Amounts reported for governmental activities in the statement of net position:  |                      |
| Total fund balance - governmental funds   | \$ 38,030,495        |
| Deferred outflows of resources on the pension plan are not reported in governmental funds.  | 3,550,905            |
| Reimbursement receivable from Dignity Health for the pension plan.  | 23,974,259           |
| Compensated absences, which are not due and payable in the current period, are not reported in the General Fund.  | (62,075)             |
| Long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the governmental fund. | 7,555,644            |
| Net pension liability, deferred outflows and deferred inflows of resources related to the pension plan are not reported in governmental funds.          | (27,525,164)         |
| <b>Total net position - Governmental Activities</b>   | <b>\$ 45,524,064</b> |

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



SEQUOIA HEALTHCARE DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN  
FUND BALANCE - GOVERNMENTAL FUND

For the Year Ended June 30, 2022

|  | <u>General Fund</u>  |
|--|----------------------|
| REVENUES   |                      |
| Tax revenue  | \$ 15,922,391        |
| Investment income (loss)   | (654,481)            |
| Intergovernmental revenue  | 678,202              |
| Interest income  | 1,378                |
| Pension reimbursement  | 1,500,000            |
| Settlement agreement revenue   | 2,000,000            |
| Other revenue  | <u>1,221,604</u>     |
| TOTAL REVENUES   | <u>20,669,094</u>    |
| EXPENDITURES   |                      |
| Community Healthcare Services  |                      |
| Administrative services  | 437,053              |
| Grant expenses   | 7,437,363            |
| Other grants   | 4,714,918            |
| Insurance  | 146,341              |
| Investment and banking fees  | 30,160               |
| Legal  | 168,085              |
| Office supplies and maintenance  | 3,953                |
| Pension contribution   | 1,500,000            |
| Public relations   | <u>104,040</u>       |
| TOTAL EXPENDITURES   | <u>14,541,913</u>    |
| EXCESS (DEFICIENCY) OF<br>REVENUES OVER EXPENDITURES   | 6,127,181            |
| OTHER FINANCING SOURCES (USES)   |                      |
| Transfers out  | <u>(93,493)</u>      |
| NET CHANGE IN FUND BALANCE   | 6,033,688            |
| Fund balance at beginning of year, as previously reported  | 28,746,807           |
| Restatement  | <u>3,250,000</u>     |
| Fund balance at beginning of year, as restated   | <u>31,996,807</u>    |
| FUND BALANCE AT END OF YEAR  | <u>\$ 38,030,495</u> |
| Total net change in fund balance - Governmental Funds  | \$ 6,033,688         |
| Amounts reported for Governmental Activities in the Statement of Activities are different because:   |                      |
| Revenue in the statement of activities that do not provide current financial resources are not reported as revenue in the governmental fund. This amount is the change in unavailable revenue. | 7,555,644            |
| Compensated absences expense is not recognized in the governmental funds, but is recognized in the government-wide statements  | <u>(62,075)</u>      |
| CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES  | <u>\$ 13,527,257</u> |

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

SEQUOIA HEALTHCARE DISTRICT

STATEMENT OF NET POSITION - PROPRIETARY FUND

June 30, 2022

|                                    | <u>Business-Type<br/>Activities -<br/>Leasing Fund</u> |
|------------------------------------|--|
| <b>ASSETS</b>                      |  |
| Noncurrent assets:                 |  |
| Capital assets - non depreciable   | \$ 138,927   |
| Capital assets - depreciable - net | <u>156,375</u>   |
| TOTAL ASSETS                       | <u>295,302</u>   |
| <br><b>LIABILITIES</b>             |  |
| Noncurrent liabilities:            |  |
| Deposits payable                   | <u>3,565</u>   |
| <br><b>NET POSITION</b>            |  |
| Investment in capital assets       | <u>291,737</u>   |
| TOTAL NET POSITION                 | <u><u>\$ 291,737</u></u>                               |

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

SEQUOIA HEALTHCARE DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
FUND NET POSITION - PROPRIETARY FUND

For the Year Ended June 30, 2022

|                                   | Business-Type<br>Activities -<br><u>Leasing Fund</u> |
|-----------------------------------|--|
| OPERATING REVENUES                |  |
| Rental income                     | <u>\$ 20,900</u>                                     |
| OPERATING EXPENSES                |  |
| Administrative services           | 26,366   |
| Depreciation                      | 68,209   |
| Insurance                         | 3,827  |
| Maintenance and supplies          | 50,539   |
| Utilities                         | 33,661   |
| TOTAL OPERATING EXPENSES          | <u>182,602</u>                                       |
| OPERATING LOSS BEFORE TRANSFER    | (161,702)  |
| Transfers in                      | <u>93,493</u>  |
| CHANGE IN NET POSITION            | (68,209)   |
| Net position at beginning of year | <u>359,946</u>                                       |
| NET POSITION AT END OF YEAR       | <u>\$ 291,737</u>                                    |

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

SEQUOIA HEALTHCARE DISTRICT

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND

For the Year Ended June 30, 2022

|   | <u>Business-Type<br/>Activities -<br/>Leasing Fund</u> |
|---|--|
| CASH FLOWS FROM OPERATING ACTIVITIES  |  |
| Cash received from tenants as rent  | \$ 20,900  |
| Cash paid to suppliers  | <u>(114,393)</u>                                       |
| NET CASH USED FOR OPERATING ACTIVITIES  | (93,493)   |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES   |  |
| Transfers from the General Fund   | <u>93,493</u>  |
| NET CASH PROVIDED FROM NONCAPITAL FINANCING ACTIVITIES  | <u>93,493</u>  |
| Net increase in cash and cash equivalents   |  |
| Cash and cash equivalents at beginning of year  | <u>                    </u>                            |
| CASH AND CASH EQUIVALENTS AT END OF YEAR  | <u>\$ -</u>  |
| Reconciliation of net income (loss) from operations to net cash used for operating activities |  |
| Net loss from operations  | \$ (161,702)   |
| Depreciation  | <u>68,209</u>  |
| NET CASH USED BY OPERATING ACTIVITIES   | <u>\$ (93,493)</u>                                     |

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

SEQUOIA HEALTHCARE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUND

June 30, 2022

|  | <u>Pension Trust<br/>Fund</u> |
|--|-------------------------------|
| ASSETS   |                               |
| Money market fund                                | \$ 146,787                    |
| Mutual funds                                     | 51,482,973                    |
| Investment in insurance company separate account | <u>3,862,533</u>              |
| TOTAL ASSETS                                     | <u>55,492,293</u>             |
| NET POSITION                                     |                               |
| Restricted for pensions                          | <u>55,492,293</u>             |
| TOTAL NET POSITION                               | <u><u>\$ 55,492,293</u></u>   |

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

SEQUOIA HEALTHCARE DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -  
 FIDUCIARY FUND  
 For the Year Ended June 30, 2022

|                                   | <u>Pension Trust<br/>Fund</u> |
|-----------------------------------|-------------------------------|
| Additions                         |                               |
| Contributions - employer          | \$ 1,500,000                  |
| Investment earnings               | (11,075,492)                  |
| TOTAL ADDITIONS                   | <u>(9,575,492)</u>            |
| Deductions                        |                               |
| Benefit payment                   | 7,782,208                     |
| Administrative expenses           | 144,808                       |
| TOTAL DEDUCTIONS                  | <u>7,927,016</u>              |
| CHANGE IN NET POSITION            | (17,502,508)                  |
| Net position at beginning of year | <u>72,994,801</u>             |
| NET POSITION AT END OF YEAR       | <u><u>\$ 55,492,293</u></u>   |

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

SEQUOIA HEALTHCARE DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The financial statements of the Sequoia Healthcare District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The most significant accounting policies of the District are described below.

Reporting Entity: Sequoia Healthcare District, formerly known as Sequoia Hospital District (the Hospital), was established in 1947 in accordance with the provisions of the Health and Safety Code of the State of California. The District is a governmental entity legally constituted as a special district under California law, and is located in Redwood City, California.

The District's primary mission as adopted by the Board is to improve the quality of life for District residents by enhancing access to healthcare services and by supporting and encouraging programs and activities designed to achieve health, wellness, and disease prevention.

Basis of Presentation - Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government. These statements include the financial activities of the overall District. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. Fiduciary Funds are excluded from the government-wide financial statements.

The Statement of Activities presents a comparison between direct expenses and program revenues for the business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Basis of Presentation - Fund Financial Statements: Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

Governmental Funds: All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, deferred outflows of resources, current liabilities and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund

SEQUOIA HEALTHCARE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting, when applicable.

Proprietary Funds: Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in total net position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

Fiduciary Funds: Fiduciary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Fund Financial Statements: The District's major governmental and proprietary funds are identified and presented separately in the fund financial statements. Major funds are defined as funds that have either assets plus deferred outflows of resources, liabilities plus deferred inflows of resources, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the combined totals of governmental and proprietary funds. The General Fund is always a major fund. The District may also select other funds it believes should be presented as major funds.

The District reported the following major funds in the accompanying financial statements:

General Fund: The general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Proprietary Fund: The Leasing Enterprise Fund accounts for the operation, maintenance and capital improvement projects for the building which are funded by rental income.

Fiduciary Fund: The Pension Trust Fund is used to account for the assets held by the District under a trust agreement to make payments for pension benefits.

Government-Wide Financial Statements: The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the District and for each governmental function. The government-wide statements exclude fiduciary activities. Direct expenses are those that are specifically associated with a service, program, or department and are, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.



## SEQUOIA HEALTHCARE DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2022

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net position should be reported as restricted when constraints placed on net position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Fund Financial Statements: Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The District has no non-major funds.

Governmental Funds: All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Proprietary Funds: Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

Fiduciary Funds: Fiduciary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Cash and Cash Equivalents: The District's cash and cash equivalents are defined as cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments: Investments held at June 30, 2022 are stated at fair value.

Prepaid Items: Certain payments to vendors and certain grants reflect costs applicable to future accounting periods and are recorded as prepaid costs in both government-wide and fund financial statements. Prepaid costs of governmental funds are offset by a nonspendable portion of fund balance to indicate they do not represent resources available for future appropriation.

SEQUOIA HEALTHCARE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dignity Health Pension Reimbursement Receivable: As discussed in Note 6, Dignity Health agreed to reimburse the District for all costs related to the retirement plan of former District employees when it purchased a hospital from the District. Consequently, a receivable from Dignity Health was reported for the unfunded liability less deferred outflows of resources of the plan of \$23,974,259 at June 30, 2022.

Capital Assets and Depreciation: The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed as incurred. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position. Donated capital assets are recorded at the acquisition value. The valuation basis for capital assets is historical cost, or where historical cost is not available, at estimated historical cost based on replacement cost.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

|                                | <u>Lives of Assets (in years)</u> |
|--------------------------------|-----------------------------------|
| Land and Building Improvements | 15-20                             |
| Equipment and Furniture        | 3-5                               |
| Leasehold Improvements         | Life of Lease                     |
| Improvements to Common Areas   | 3-5                               |

Grants Payable: The District's grants program provides funding to local community and school-based programs that promote the District's mission to enhance the lives and health of District residents. The program is organized into community-based and school-based funding categories. Grants are recognized as expenditures in the year all eligibility requirements are met. The community-based grants are generally paid semi-annually and are approved in June for the following fiscal year or years. The portion of the grant for the fiscal year is recognized as an expenditure and grants payable at year-end, regardless of whether spent by the recipient. School-based grants are managed on a cost-reimbursement basis and are recognized after a signed grant agreement is in place and the recipient has incurred qualifying expenditures.

Compensated Absences: The District provides paid time off (PTO) to full-time and part-time employees that is eligible to be used for vacations and up to three consecutive days off for illness, injury or for the employee to receive medical care, treatment or diagnosis. PTO is payable upon termination of employment. PTO accrues beginning the first day of the month following the beginning of employment with the District and is accrued at 6.45 to 9.53 hours per pay period for full-time employees and 3.22 to 4.77 hours per pay period for part-time employees, depending on the length of service, up to a maximum of 320 hours. Employees may request up to 100 hours be cashed out at the approval of the Chief Executive Officer.

The District also offers Extended Sick Leave (ESL) to cover illnesses exceeding three consecutive work days beginning on the 90<sup>th</sup> day of employment. Employees accrue 2.40 ESL hours per pay period up to a maximum of 120 hours. ESL hours are not payable upon the termination of employees; therefore, ESL

SEQUOIA HEALTHCARE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

hours are not accrued as part of the compensated absences liability. The General fund is used to liquidate compensated absences.

Leases: The District has a policy to recognize lease assets and liabilities for leases with an initial term of greater than one year and a present value greater than the District's capital asset recognition threshold. The District currently does not have any leases that meet this definition.

Pension Plan: For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the District's retirement plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the plan's administrators. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources: In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense until then.

In addition to liabilities, the Statement of Net Position (or the Balance Sheet) reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position (or fund balance) that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for its pension activities.

Fund Balance: In the fund financial statements, the governmental fund reports unassigned balances.

Nonspendable Funds: Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The nonspendable fund balance reported is the balance of prepaid items reported on the balance sheet.

Unassigned Funds: Unassigned fund balance is the residual classification of the District's funds and includes all spendable amounts that have not been restricted, committed, or assigned to specific purposes. The District's reserve policy establishes an emergency reserve fund of \$5 million, which is considered a designation of unassigned fund balance under GASB Statement No. 54.

Net Position: The government-wide financial statements report net position. Net position is categorized as the investment in capital assets, restricted, and unrestricted.

Investment in Capital Assets: This category groups all capital assets into one component of net position. The outstanding balance of debt and accounts payable that are attributable to the acquisition, construction, or improvement of the assets reduces the balance in this category. The District had no outstanding debt.

Restricted Net Position: This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The District had no restricted net position.

Unrestricted Net Position: This category represents net position of the District not restricted for any project or other purpose.

SEQUOIA HEALTHCARE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

When both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

Property Tax Revenue: The District has the authority to collect taxes on property within its political subdivision. Taxes are received from the County of San Mateo, which has responsibility for their collection. Secured property taxes attach as an enforceable lien on property as of January 1 and are levied July 1. Taxes are payable in two installments due November 1 (delinquent on December 10) and February 1 (delinquent on April 10). Unsecured property taxes are payable in one installment on or before August 31. The County of San Mateo bills and collects the taxes for the District. Tax revenues are recognized by the District when received within the availability period.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

New Pronouncements: In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. A lease is defined 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. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the lease guidance, unless specifically excluded in this Statement. The District implemented this statement during the year ended June 30, 2022. There was no effect on beginning fund balance and net position due to the implementation of this Statement because the District has no leases payable and the leases receivable are less than one year in life and did not meet the recognition criteria of this Statement.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*. This Statement 1) defines the term SBITA; 2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; 3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs to a SBITA; and 4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITA are based on the standards established in Statement No. 87, *Leases*, as amended. This statement is effective for fiscal years beginning after June 15, 2022.

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections, an Amendment of GASB Statement No. 62*. This Statement prescribes the accounting and financial reporting for each type of accounting change, including changes in accounting principles, changes in accounting estimates and changes to or within the financial reporting entity, and error corrections. This Statement requires changes in accounting principles and error corrections to be reported retroactively by restating prior periods; requires changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period; and requires changes in accounting estimates to be reported

SEQUOIA HEALTHCARE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of new pronouncements in absence of specific transition provisions in the new pronouncement. This Statement also requires the aggregate amount of adjustments to and restatements of beginning net position, fund balance or fund net position, as applicable, to be displayed by reporting unit in the financial statements. Furthermore, this Statement requires information presented in required supplementary information or supplementary information to be restated for error corrections, if practicable, but not for changes in accounting principles. The provisions of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. This statement requires that liabilities for compensated absences be recognized for leave that has not been used that is attributable to services already rendered, accumulates and is more likely than not to be used for time off or paid in cash or settled through noncash means and leave that has been used but not paid in cash or settled through noncash means. Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in the liability for compensated absences. This Statement requires that a liability for certain types of compensated absences, including parental leave, military leave and jury duty leave, not be recognized until the leave commences. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources. Governments are allowed to disclose the net change in the liability if identified as such in the footnotes to the financial statements. The provisions of this Statement are effective for years beginning after December 15, 2023.

The District is currently analyzing the impact of the required implementation of these new statements.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits and investments as of June 30, 2022 were as follows:

|  |                                     |                      |
|--|-------------------------------------|----------------------|
| Governmental Activities                          | \$                                  | 40,058,020           |
| Fiduciary Fund                                   |                                     | <u>55,492,293</u>    |
|  | Total                               | <u>\$ 95,550,313</u> |
| Cash in banks                                    | \$                                  | 19,104,015           |
| Investments:                                     |                                     |                      |
| Money market funds                               |                                     | 146,787              |
| Mutual funds                                     |                                     | 53,184,904           |
| Investment in insurance company separate account |                                     | 3,862,533            |
| Certificates of deposit                          |                                     | 380,701              |
| U.S. treasuries                                  |                                     | 13,927,675           |
| U.S. agencies                                    |                                     | 196,773              |
| Corporate bonds                                  |                                     | <u>4,746,925</u>     |
|  | Total investments                   | <u>76,446,298</u>    |
|  | Total bank deposits and investments | <u>\$ 95,550,313</u> |

SEQUOIA HEALTHCARE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2022

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

The investment in insurance company separate account is a Pension Trust Fund asset. It is described as an open-end, commingled real estate account available to retirement plans by the sponsor, Principal Life Insurance Company.

Policies and Practices: The District invests in individual investments. Individual investments are evidenced by specific identifiable securities instruments, or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. The District's investments are carried at fair value, as required by generally accepted accounting principles. The District adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

The District is in compliance with the Board approved Investment Policy and California Government Code requirements.

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit.) The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agencies' deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. As of June 30, 2022, the District's deposits with financial institutions that were covered by FDIC insurance totaled \$326,167 and \$19,054,544 were collateralized as described above.

Investment Policy: Limitations as they relate to interest rate risk and concentration of credit risk are indicated in the schedules below:

| Authorized<br>Investment Type           | Maximum<br>Remaining<br>Maturity | Maximum<br>Percentage<br>of Portfolio | Maximum<br>Investment<br>In One Issuer |
|---|----------------------------------|---------------------------------------|--|
| Local agency bonds, notes, warrants     | 5 Years                          | None                                  | None                                   |
| Registered state bonds, notes, warrants | 5 Years                          | None                                  | None                                   |
| U. S. Treasury obligations              | 5 Years                          | None                                  | None                                   |
| U.S. agency securities                  | 5 Years                          | None                                  | None                                   |
| Banker's acceptances                    | 180 days                         | 40%                                   | 30%                                    |
| Commercial paper                        | 270 days                         | 15%                                   | 10%                                    |
| Negotiable certificates of deposits     | 5 Years                          | 30%                                   | None                                   |
| Repurchase agreements                   | 1 year                           | None                                  | None                                   |
| Reverse purchase agreements             | 92 days                          | 20% of base                           | None                                   |
| Medium-term notes                       | 5 years                          | 30%                                   | None                                   |
| Mutual funds                            | N/A                              | 20%                                   | 10%                                    |
| Money market mutual funds               | N/A                              | 20%                                   | 10%                                    |
| Mortgage pass-through securities        | 5 years                          | 20%                                   | None                                   |
| County pooled investment funds          | N/A                              | None                                  | None                                   |
| Local Agency Investment Fund (LAIF)     | N/A                              | None                                  | \$65M                                  |
| Joint powers authority pools            | N/A                              | None                                  | None                                   |

SEQUOIA HEALTHCARE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2022

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

**Interest Rate Risk:** Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

**Segmented Time Distribution:** Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investments by maturity:

| Investment Type                 | Total                | Investment Maturities in Months |                      |                     |                   | Not Stated          |
|---------------------------------|----------------------|---------------------------------|----------------------|---------------------|-------------------|---------------------|
|                                 |                      | 12 Months or Less               | 13-36 Months         | 37-60 Months        | 61 Months or More |                     |
| <b>Governmental Activities:</b> |                      |                                 |                      |                     |                   |                     |
| Mutual funds                    | \$ 1,701,931         | \$ 1,701,931                    |                      |                     |                   |                     |
| Certificates of deposit         | 380,701              |                                 | \$ 380,701           |                     |                   |                     |
| U.S. treasuries                 | 13,927,675           | 1,999,040                       | 7,718,595            | \$ 4,210,040        |                   |                     |
| U.S. agencies                   | 196,773              | 196,773                         |                      |                     |                   |                     |
| Corporate bonds                 | 4,746,925            | 648,205                         | 3,222,158            | 584,779             | \$ 291,783        |                     |
|                                 | <u>20,954,005</u>    | <u>4,545,949</u>                | <u>11,321,454</u>    | <u>4,794,819</u>    | <u>291,783</u>    |                     |
| <b>Pension Trust Fund:</b>      |                      |                                 |                      |                     |                   |                     |
| Money market fund               | 146,787              | 146,787                         |                      |                     |                   |                     |
| Mutual funds                    | 51,482,973           | 51,482,973                      |                      |                     |                   |                     |
| Insurance separate account      | 3,862,533            |                                 |                      |                     |                   | \$ 3,862,533        |
|                                 | <u>55,492,293</u>    | <u>51,629,760</u>               |                      |                     |                   | <u>3,862,533</u>    |
| <b>Total</b>                    | <u>\$ 76,446,298</u> | <u>\$ 56,175,709</u>            | <u>\$ 11,321,454</u> | <u>\$ 4,794,819</u> | <u>\$ 291,783</u> | <u>\$ 3,862,533</u> |

**Credit Risk:** Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the rating as of year-end for each investment type:

|                                    | Lower of Moody's or S&P Rating as of Year End |                   |                     |                   |                   |                   |                   | Total             |                      |
|------------------------------------|---|-------------------|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------------|
|                                    | Aaa/AAA                                       | Aa1/AA+           | Aa2/AA<br>Aa3/AA-   | A1/A+             | A2/A              | A3/A-             | Baa1/BBB+         |                   | Baa2/BBB             |
| U.S. treasuries                    |   |                   | \$ 13,927,675       |                   |                   |                   |                   |                   | \$13,927,675         |
| U.S. agencies                      |   | \$ 196,773        |                     |                   |                   |                   |                   |                   | 196,773              |
| Corporate bonds                    | \$ 293,416                                    |                   | 700,447             | \$ 291,783        | \$ 943,103        | \$ 949,814        | \$ 935,369        | \$ 632,993        | 4,746,925            |
| <b>Total</b>                       | <u>\$ 293,416</u>                             | <u>\$ 196,773</u> | <u>\$14,628,122</u> | <u>\$ 291,783</u> | <u>\$ 943,103</u> | <u>\$ 949,814</u> | <u>\$ 935,369</u> | <u>\$ 632,993</u> | <u>18,871,373</u>    |
| <b>Not rated:</b>                  |   |                   |                     |                   |                   |                   |                   |                   |                      |
| Money market funds                 |   |                   |                     |                   |                   |                   |                   |                   | 146,787              |
| Mutual funds                       |   |                   |                     |                   |                   |                   |                   |                   | 53,184,904           |
| Insurance company separate account |   |                   |                     |                   |                   |                   |                   |                   | 3,862,533            |
| Certificates of deposit            |   |                   |                     |                   |                   |                   |                   |                   | <u>380,701</u>       |
| <b>Total investments</b>           |   |                   |                     |                   |                   |                   |                   |                   | <u>\$ 76,446,298</u> |

**Concentration of Credit Risk:** The investment in the insurance company separate account by the Pension Trust Fund represents a concentration in one issuer greater than 5% of total investments.

SEQUOIA HEALTHCARE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2022

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Fair Value Measurement: The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

|                                       | Total               | Fair Value Measurements Using                                 |   |   |
|---------------------------------------|---------------------|---|---|---|
|                                       |                     | Quoted Prices in Active Market for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments by fair value level:      |                     |   |   |   |
| Money market funds                    | \$ 146,787          |   | \$ 146,787                                    |   |
| Mutual funds                          | 53,184,904          |   | 53,184,904                                    |   |
| Certificates of deposit               | 380,701             |   | 380,701                                       |   |
| U.S. treasuries                       | 13,927,675          |   | 13,927,675                                    |   |
| U.S. agencies                         | 196,773             |   | 196,773                                       |   |
| Corporate bonds                       | 4,746,925           |   | 4,746,925                                     |   |
| Total investments by fair value level | <u>72,583,765</u>   | <u>\$ -</u>   | <u>\$ 72,583,765</u>                          | <u>\$ -</u>                               |
| Measured at net asset value:          |                     |   |   |   |
| Insurance company separate account    | <u>3,862,533</u>    |   |   |   |
| Total                                 | <u>\$76,446,298</u> |   |   |   |

NOTE 3 – RISK MANAGEMENT

The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruptions; errors and omissions; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. There were no changes in insurance coverage and settled claims have not exceeded this commercial coverage in any of the three preceding years.



SEQUOIA HEALTHCARE DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2022

NOTE 3 – RISK MANAGEMENT (Continued)

Coverage is provided as follows:

| Company Name                      | Type of Coverage         | Limits       | Deductible   |
|-----------------------------------|--------------------------|--------------|--------------|
| BETA Healthcare Group             | General Liability        | \$ 5,000,000 | \$ 10,000    |
| BETA Healthcare Group             | D & O Liability          | 5,000,000    | 10,000-50000 |
| BETA Healthcare Group             | Auto and Physical Damage | 5,000,000    | 1,000        |
| Alliant Insurance Services, Inc.  | Property                 | 100,000,000  | 1,000-50,000 |
| State Compensation Insurance Fund | Workers' Compensation    | 2,000,000    | None         |

NOTE 4 – CAPITAL ASSETS

Activity in capital assets for the year ended June 30, 2022 was as follows:

|   | Balance at<br>June 30, 2021 | Additions   | Retirements | Reclassifications | Balance at<br>June 30, 2022 |
|---|-----------------------------|-------------|-------------|-------------------|-----------------------------|
| Capital asset not being depreciated         |                             |             |             |                   |                             |
| Land  | \$ 138,927                  |             |             |                   | \$ 138,927                  |
| Capital assets, being depreciated           |                             |             |             |                   |                             |
| Land improvements                           | 227,568                     |             |             |                   | 227,568                     |
| Buildings and improvements                  | 1,796,712                   |             |             |                   | 1,796,712                   |
| Tenant improvements                         | 215,113                     |             |             |                   | 215,113                     |
| Equipment                                   | 76,222                      |             |             |                   | 76,222                      |
| Furniture                                   | 28,260                      |             |             |                   | 28,260                      |
| Total capital assets, being depreciated     | 2,343,875                   |             |             |                   | 2,343,875                   |
| Less accumulated depreciation               |                             |             |             |                   |                             |
| Land improvements                           | (96,944)                    | \$ (36,003) |             | \$ (24,885)       | (157,832)                   |
| Buildings and improvements                  | (1,682,050)                 | (30,685)    |             |                   | (1,712,735)                 |
| Tenant improvements                         | (229,729)                   |             |             | 14,616            | (215,113)                   |
| Equipment                                   | (82,308)                    | (1,521)     |             | 10,269            | (73,560)                    |
| Furniture                                   | (28,260)                    |             |             |                   | (28,260)                    |
| Total accumulated depreciation              | (2,119,291)                 | (68,209)    |             |                   | (2,187,500)                 |
| Total capital assets being depreciated, net | 224,584                     | (68,209)    |             |                   | 156,375                     |
| Capital assets, net                         | \$ 363,511                  | \$ (68,209) | \$ -        | \$ -              | \$ 295,302                  |

NOTE 5 – LONG-TERM LIABILITIES

The following is a summary of long-term liabilities activity for the year ended June 30, 2022:

|                      | Balance<br>June 30, 2021 | Additions | Repayments | Balance<br>June 30, 2022 | Due Within<br>One Year | Due in More<br>Than<br>One Year |
|----------------------|--------------------------|-----------|------------|--------------------------|------------------------|---------------------------------|
| Compensated absences | \$ -                     | \$ 62,075 | \$ -       | \$ 62,075                | \$ 39,423              | \$ 22,652                       |

## SEQUOIA HEALTHCARE DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2022

#### NOTE 6 – PENSION PLANS AND DEFERRED COMPENSATION PLAN

The District maintains two pension plans and a deferred compensation plan. One pension plan titled the Sequoia Healthcare District Employee Pension Plan is a single-employer defined benefit plan offered to District employees prior to September 30, 1996 when the Development Agreement with Catholic Healthcare West, Inc. was approved as described in the Plan Description section below. A second active pension plan called the Sequoia Healthcare District 401(k) Profit Sharing Plan and Trust (the 401(k) Plan) is a defined contribution plan formed under Internal Revenue Code (IRC) section 401(k). The District also has a suspended IRC Section 457(b) deferred compensation plan (the 457 Plan) titled the Master Deferred Compensation Plan.

Section 401k Plan: The 401(k) plan is a single-employer defined contribution pension plan available to all hourly and salaried employees after 250 hours of service during the first three months of employment. The 401(k) Plan is administered by the District. Benefit terms are established and may be amended by the Board of Directors. Employees are allowed to voluntarily contribute to the plan up to IRC limits. The District is required to make 100% safe harbor matching contributions up to the first three percent of participant contributions and 50% of the next two percent of participant contributions, for a maximum contribution of 4%, for employees with at least 1,000 hours of service during a plan year. The District is also allowed to make discretionary contributions to the 401(k) Plan. Employees vest immediately in their own contributions and safe harbor contributions and are subject to a grading vesting schedule for discretionary contributions of 25% after one year of service, 50% after two years of service and 100% after three years of service. Employer and participant contributions to the plan were \$75,757 and \$26,237, respectively, during the year ended June 30, 2022.

Section 457(b) Plan: The Master Deferred Compensation Plan (the Plan) was a single employer deferred compensation plan available to all employees beginning on the first day of the month following the start of employment with the District until it was suspended on September 30, 1996, when the Development Agreement with Catholic Healthcare West, Inc. was signed. The Plan allowed covered employees to voluntarily contribute a portion of their pre-tax earnings to the plan up to the limits specified in the IRC. The District matched contributions to the Plan up to three and one-half percent of the employee's first five percent of contributions. The contributions are fully vested when made by the participant and the District. No employee or employer contributions were made to the Plan during the year ended June 30, 2022.

#### The Sequoia Healthcare District Employee Pension Plan

Plan Description: The Sequoia Healthcare District Employee Pension Plan (Plan), adopted on January 1, 1959, as amended is a single-employer defined benefit plan that covered the District's hospital employees. In 1996 the District sold its hospital to Catholic Healthcare West, Inc. (now Dignity Health) and all employees of the District employed by the hospital became employees of Dignity Health and therefore effective October 1, 1996, all benefit accruals under the plan were suspended indefinitely, provided however that vesting services credit will be paid for participants who are vested. Benefits are distributed to participants when they retire in accordance with the terms of the plan. Dignity Health's agreement with the District is to reimburse the District for all costs related to the pension plan. Because the plan is a governmental pension plan it could not be transferred to Dignity Health. The District remains contingently liable for funding of the plan in the event of default by Dignity Health. Benefits are administered by Vanguard Retirement Services. The plan has been closed to new entrants since October 1, 1996. Currently the plan has 938 participants with 694 retirees currently receiving benefits and 244 not receiving benefits.

SEQUOIA HEALTHCARE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2022

NOTE 6 – PENSION PLANS AND DEFERRED COMPENSATION PLAN (Continued)

**Benefits Provided:** The plan provides service retirement to plan members who were public employees of the District prior to October 1, 1996. Benefits are based on years of credited service, equal to one year of full-time employment salary. Members with ten years of total service are eligible for benefits in retirement. The normal retirement age is 65; however, members are eligible to retire at age 55 with statutorily reduced benefits.

The Plan provisions and benefits in effect at June 30, 2022, are summarized as follows:

|   |                        |
|---|------------------------|
| Benefit formula   | 2% at 65               |
| Benefit vesting schedule                                | 10 Year Service        |
| Benefit payments  | Monthly for Life       |
| Retirement age  | 55-65                  |
| Monthly benefits, as a percent of eligible compensation | 2.00%                  |
| Required employee contribution amount                   | None                   |
| Required employer contribution amount                   | Actuarially Determined |

**Contributions:** Funding of contributions for the Plan are determined annually on an actuarial basis as of January 1 by an actuary. The actuarially determined amount is the estimated amount necessary to finance the costs of benefits earned by employees during the service years, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the full amount and there are no required employee contributions. For the year ended June 30, 2022, contributions recognized as part of pension expense were \$1,500,000.

**Net Pension Liability:** The District's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2022, using an annual actuarial valuation as of January 1, 2022 rolled forward to June 30, 2022 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

**Actuarial Assumptions:** The total pension liability in the January 1, 2022 actuarial valuation was determined using the following actuarial assumptions:

|                                  |  |                 |
|----------------------------------|--|-----------------|
| Valuation date                   |  | January 1, 2022 |
| Measurement date                 |  | June 30, 2022   |
| Actuarial cost method            | Projected Unit Credit (all plan benefits frozen) |                 |
| Actuarial assumptions:           |  |                 |
| Discount rate                    |  | 5.75%           |
| Investment rate of return        |  | 5.75%           |
| Inflation                        |  | 2.75%           |
| Mortality                        | Latest CalPERS experience study                  |                 |
| Mortality improvements           |  | Scale MP-2021   |
| Post retirement benefit increase |  | None            |

**Discount Rate:** The discount rate used to measure the total pension liability was changed from 6.75% to 5.75% in the January 1, 2022 valuation. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, the actuary stress tested the plan. Based on the testing, it

SEQUOIA HEALTHCARE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2022

NOTE 6 – PENSION PLANS AND DEFERRED COMPENSATION PLAN (Continued)

was determined that the Plan would not run out of assets. Therefore, the current 5.75% discount rate is adequate, and the use of a municipal bond rate is not necessary.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, the actuary took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term and the long-term using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

| Asset Class                  | Long-Term<br>Asset<br>Allocation | Geometric<br>Rates of<br>Return (a) |
|------------------------------|----------------------------------|-------------------------------------|
| Broad US Equity              | 28.0%                            | 4.29%                               |
| Broad International Equities | 26.0%                            | 4.67%                               |
| Fixed Income                 | 33.0%                            | 0.78%                               |
| Real Estate                  | 5.0%                             | 4.06%                               |
| TIPS                         | 8.0%                             | -0.08%                              |
| Total                        | 100.00%                          |                                     |

(a) An expected inflation of 2.5% was used.

Changes in Assumptions: The lump sum election for deferred participants was changed from 50% to 30%. The mortality improvement scale was also updated to Scale MP-2021 at June 30, 2022.

SEQUOIA HEALTHCARE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2022

NOTE 6 – PENSION PLANS AND DEFERRED COMPENSATION PLAN (Continued)

Changes in the Net Pension Liability: The changes in the net pension liability for the Plan were:

|  | Increase (Decrease)        |                                |                          |
|--|----------------------------|--------------------------------|--------------------------|
|  | Total Pension<br>Liability | Plan Fiduciary<br>Net Position | Net Pension<br>Liability |
| Balance at June 30, 2021                           | \$ 84,911,512              | \$ 73,025,776                  | \$ 11,885,736            |
| Changes in the year:                               |                            |                                |                          |
| Service cost                                       |                            |                                |                          |
| Interest on the total pension liability            | 4,658,674                  |                                | 4,658,674                |
| Differences between actual and expected experience | 833,202                    |                                | 833,202                  |
| Changes in assumptions                             | 427,252                    |                                | 427,252                  |
| Changes in benefit terms                           |                            |                                |                          |
| Contributions - employer                           |                            | 1,500,000                      | (1,500,000)              |
| Contributions - employee                           |                            |                                |                          |
| Net investment income                              |                            | (11,075,492)                   | 11,075,492               |
| Administrative expenses                            |                            | (144,808)                      | 144,808                  |
| Benefit payments                                   | (7,782,208)                | (7,782,208)                    |                          |
| Net changes  | (1,863,080)                | (17,502,508)                   | 15,639,428               |
| Balance at June 30, 2022                           | \$ 83,048,432              | \$ 55,523,268                  | \$ 27,525,164            |

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the District, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

|                       | Current Discount     |               |                      |
|-----------------------|----------------------|---------------|----------------------|
|                       | 1% Decrease<br>4.75% | Rate<br>5.75% | 1% Increase<br>6.75% |
| Net Pension Liability | \$ 34,264,972        | \$ 27,525,164 | \$ 21,667,585        |

Pension Expense and Deferred Inflows and Outflows of Resources: For the year ended June 30, 2022, the District recognized pension expense of \$1,559,487. At June 30, 2022, the District reported deferred outflows and inflows of resources from the following sources:

|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|---|--------------------------------------|-------------------------------------|
| Net differences between projected and actual earnings on plan investments | \$ 3,550,905                         |                                     |
| Total   | \$ 3,550,905                         | \$ -                                |

SEQUOIA HEALTHCARE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2022

NOTE 6 – PENSION PLANS AND DEFERRED COMPENSATION PLANS (Continued)

The amounts reported as deferred inflows and/or outflows of resources will be recognized as reimbursable pension expense as follows:

| Year Ended<br>June 30 |                     |
|-----------------------|---------------------|
| 2023                  | \$ 111,759          |
| 2024                  | (27,902)            |
| 2025                  | 449,110             |
| 2026                  | <u>3,017,938</u>    |
|                       | <u>\$ 3,550,905</u> |

Pension Plan's Fiduciary Net Position: The Plan's Fiduciary Net Position is reported on these financial statements in the pension trust fund of the District.

NOTE 7 – SETTLEMENT AGREEMENT WITH DIGNITY HEALTH

Pursuant to the Development Agreement executed on December 7, 2007 with Catholic Healthcare West (now known as Dignity Health), the District was entitled to an economic return on its contribution which equaled 50% of annual Sequoia Hospital Operating Earnings Before Interest Expense, Depreciation and Amortization (EBIDA) exceeding an aggregate 9.3% annual Operating EBIDA Margin (the Return Formula) through December 7, 2047.

In November 2021, the District and Dignity Health settled a dispute over the Return Formula where, in place of the Return Formula, the District received a one-time payment of \$2,000,000 from Dignity Health and will receive \$510,000 per year on or before December 1 through December 1, 2047. The amount is allowed to be used at the District's discretion in alignment with the District's strategic plan to support under-served or unmet healthcare needs in the community served by the District. The long-term receivable was discounted at the Wall Street Journal Prime Rate of 3.25% at the settlement date, resulting in the District recognizing a long-term settlement receivable as follows:

| Year Ended<br>June 30 | Principal           | Interest            | Total                |
|-----------------------|---------------------|---------------------|----------------------|
| 2023                  | \$ 269,010          | \$ 240,990          | \$ 510,000           |
| 2024                  | 277,753             | 232,247             | 510,000              |
| 2025                  | 286,780             | 223,220             | 510,000              |
| 2026                  | 296,102             | 213,898             | 510,000              |
| 2027                  | 305,724             | 204,276             | 510,000              |
| 2028-2032             | 1,684,277           | 865,723             | 2,550,000            |
| 2033-2037             | 1,976,350           | 573,650             | 2,550,000            |
| 2038-2042             | <u>2,319,071</u>    | <u>230,929</u>      | <u>2,550,000</u>     |
|                       | <u>\$ 7,415,067</u> | <u>\$ 2,784,933</u> | <u>\$ 10,200,000</u> |

SEQUOIA HEALTHCARE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2022

NOTE 7 – SETTLEMENT AGREEMENT WITH DIGNITY HEALTH (Continued)

In addition to the amount reported as a long-term receivable, the settlement agreement requires Dignity Health to deposit \$510,000 per year on or before December 1 each year through December 1, 2041 into a joint bank account, referred to as the shared settlement account, to be used in the community through collaborative efforts of a joint committee established between the District and Sequoia Hospital.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Legal Contingency: The District is a party to claims and lawsuits arising in the normal course of business. The District’s management does not believe that the ultimate liability, if any, arising from these claims will have a material adverse impact on the financial position of the District.

Grant Contingency: The District received a grant from the State of California that is subject to compliance audits of the expenditures claimed under the grant agreement. The amount of expenditures, if any, which may be disallowed cannot be determined although the District does not expect such amounts, if any, to be material to the financial statements.

Concentration: The District receives a significant majority of its revenue from property tax revenues. A reduction of property tax revenue available to the District would have a significant impact on its operations.

Grants Approved: In June 2022, the Board of Directors approved the following grant amounts for the year ended June 30, 2023:

|                        |                     |
|------------------------|---------------------|
| School Health Grants   | \$ 4,850,000        |
| Community Grants       | 4,050,000           |
| Sonrisas Dental Health | 357,000             |
| Peninsula Volunteers   | <u>98,000</u>       |
|                        | <u>\$ 9,355,000</u> |

NOTE 9 – RELATED PARTY TRANSACTION

A Director of the District is the Executive Director of Redwood City Police Activities League (PAL), an organization that received a \$57,000 grant from the District during the year ended June 30, 2022. Due to the economic interest that the Board member has in PAL, Board members who do not have economic interest in PAL approved the grant.

NOTE 10 – RESTATEMENTS

During the year ended June 30, 2022, the District discovered that a grant recorded as a \$500,000 prepaid expense at June 30, 2020 was inadvertently not reversed into expenditures/expenses on June 30, 2021. In addition, the District accrued \$3,750,000 of community grants for the year ended June 30, 2022 as grants payable at June 30, 2021 that should not have been accrued. Due to the correction of these errors, fund balance in the General Fund and net position in the government-wide statement of activities increased by the net amount of \$3,250,000 at July 1, 2021.

SEQUOIA HEALTHCARE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2022

NOTE 11 – SUBSEQUENT EVENTS

In June 2023, the District’s Board of Directors approved funding for the Oral Health Payment and Access Acceleration (OHAPAA) Learning collaborative with the Health Plan of San Mateo (HPSM) that would accelerate access for adult and pediatric dental care for patients in the Medi-Cal Program using innovative models. Public, private and professional entities (stakeholders) in San Mateo County are coming together to learn how to best accelerate access to high quality dental care through innovative publicly funded medical-dental benefits, alternative payment models, innovative screening technology, and first-time provider enrollment with the HPSM. The stakeholders will share lessons learned and tactical, practical information from one another on planning and implementation of alternative payment models and innovative access to dental care.

Additional Grant Funding: The OHAPAA will be funded by the District, Dignity Health and the HPSM. The District’s funding will be provided through \$410,000 of the 2022-23 Dignity Health settlement funds paid directly to the District and \$510,000 from the 2022-23 shared settlement account, as described in Note 7, for a total of up to \$910,000. The funding for the pilot is expected to provide comprehensive restorative dental care for approximately 350 District residents over a 12-month period from September 2023 through September 2024 by providing an incentive payment to dentists of up to \$2,500 in addition to their usual reimbursement rates.

Election Fees: In June 2023, the District was billed \$186,216 by the County of San Mateo for services provided by the Elections Office for the elections of certain District Board Members in the November 8, 2022 Statewide General Election.

Grants Approved: In June 2023, the Board of Directors approved the following grant amounts for the year ended June 30, 2024:

|                                    |                     |
|------------------------------------|---------------------|
| School Health Grants               | \$ 4,922,515        |
| Community Grants                   | 4,146,000           |
| San Mateo County Health Foundation | 200,000             |
| Peninsula Volunteers               | 60,000              |
| Faro Food                          | <u>50,000</u>       |
|                                    | <u>\$ 9,378,515</u> |



REQUIRED SUPPLEMENTARY INFORMATION

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SEQUOIA HEALTHCARE DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended June 30, 2022

|   | Budgeted Amounts     |                      | Actual<br>Amounts    | Variance<br>With Final<br>Budget<br>Positive<br>(Negative) |
|---|----------------------|----------------------|----------------------|--|
|   | Original             | Final                |                      |  |
| <b>REVENUES</b>   |                      |                      |                      |  |
| Tax revenue   | \$ 14,000,000        | \$ 14,000,000        | \$ 15,922,391        | \$ 1,922,391   |
| Investment income (loss)                                      | 180,000              | 180,000              | (654,481)            | (834,481)  |
| Intergovernmental revenue                                     |                      |                      | 678,202              | 678,202  |
| Interest income   | 3,000                | 3,000                | 1,378                | (1,622)  |
| Pension income  | 1,500,000            | 1,500,000            | 1,500,000            |  |
| Settlement agreement revenue                                  |                      |                      | 2,000,000            | 2,000,000  |
| Other revenue   |                      |                      | 1,221,604            | 1,221,604  |
| <b>TOTAL REVENUES</b>   | <b>15,683,000</b>    | <b>15,683,000</b>    | <b>20,669,094</b>    | <b>4,986,094</b>   |
| <b>EXPENDITURES</b>   |                      |                      |                      |  |
| Administration services                                       | 929,200              | 929,200              | 889,632              | 39,568   |
| Pension plan expense  | 1,500,000            | 1,500,000            | 1,500,000            |  |
| Grants  | 8,134,595            | 8,134,595            | 7,437,363            | 697,232  |
| Program expenses  | 4,990,355            | 4,990,355            | 4,714,918            | 275,437  |
| <b>TOTAL EXPENDITURES</b>                                     | <b>15,554,150</b>    | <b>15,554,150</b>    | <b>14,541,913</b>    | <b>1,012,237</b>   |
| <b>EXCESS (DEFICIENCY) OF<br/>REVENUES OVER EXPENDITURES</b>  | <b>128,850</b>       | <b>128,850</b>       | <b>6,127,181</b>     | <b>5,998,331</b>   |
| <b>OTHER FINANCING SOURCES (USES)</b>                         |                      |                      |                      |  |
| Transfer out  |                      |                      | (93,493)             | (93,493)   |
| <b>NET CHANGE IN FUND BALANCE</b>                             | <b>128,850</b>       | <b>128,850</b>       | <b>6,033,688</b>     | <b>5,904,838</b>   |
| Fund balance at beginning of year<br>- as previously reported | 28,746,807           | 28,746,807           | 28,746,807           |  |
| Restatement   |                      |                      | 3,250,000            |  |
| Fund balance at beginning of year - as restated               | <u>28,746,807</u>    | <u>28,746,807</u>    | <u>31,996,807</u>    |  |
| <b>FUND BALANCE AT END OF YEAR</b>                            | <b>\$ 28,875,657</b> | <b>\$ 28,875,657</b> | <b>\$ 38,030,495</b> | <b>\$ 5,904,838</b>  |

See note to required supplementary information.

SEQUOIA HEALTHCARE DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS (UNAUDITED)

For the Year Ended June 30, 2022

|  | 2022                 | 2021                 | 2020                 | 2019                 | 2018                 | 2017                 | 2016                 | 2015                 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Total pension liability:   |                      |                      |                      |                      |                      |                      |                      |                      |
| Service cost   | \$ -                 | \$ -                 | \$ -                 | \$ -                 | \$ -                 | \$ -                 | \$ -                 | \$ -                 |
| Interest on the total pension liability                                    | 4,658,674            | 5,146,186            | 5,359,332            | 5,456,742            | 5,752,000            | 5,794,000            | 5,597,000            | 5,633,000            |
| Differences between expected and actual experience                         | 833,202              |                      | 1,022,548            |                      | (55,000)             |                      | (378,000)            |                      |
| Changes in assumptions   | 427,252              | 4,296,329            | 1,125,508            |                      | (1,016,000)          |                      | 4,532,000            |                      |
| Changes in benefit terms   |                      |                      | (1,115,722)          |                      |                      |                      |                      |                      |
| Benefit payments   | (7,782,208)          | (7,406,165)          | (7,013,077)          | (6,808,169)          | (6,387,000)          | (6,414,000)          | (6,238,000)          | (6,035,000)          |
| Net change in total pension liability                                      | (1,863,080)          | 2,036,350            | (621,411)            | (1,351,427)          | (1,706,000)          | (620,000)            | 3,513,000            | (402,000)            |
| Total pension liability - beginning  | 84,911,512           | 82,875,162           | 83,496,573           | 84,848,000           | 86,554,000           | 87,174,000           | 83,661,000           | 84,063,000           |
| Total pension liability - ending (a)                                       | <u>\$ 83,048,432</u> | <u>\$ 84,911,512</u> | <u>\$ 82,875,162</u> | <u>\$ 83,496,573</u> | <u>\$ 84,848,000</u> | <u>\$ 86,554,000</u> | <u>\$ 87,174,000</u> | <u>\$ 83,661,000</u> |
| Plan fiduciary net position:   |                      |                      |                      |                      |                      |                      |                      |                      |
| Contributions - employer   | \$ 1,500,000         | \$ 1,500,000         | \$ 2,700,000         | \$ 2,700,000         | \$ 3,800,000         | \$ 3,800,000         | \$ 2,600,000         | \$ 2,600,000         |
| Net investment income  | (11,075,492)         | 16,694,529           | 6,285,010            | 2,773,074            | 5,789,000            | 7,188,000            | (83,000)             | 487,000              |
| Administrative expenses  | (144,808)            | (84,667)             | (136,928)            | (114,000)            | (95,000)             | (88,000)             | (108,000)            | (92,000)             |
| Benefit payments   | (7,782,208)          | (7,406,165)          | (7,013,077)          | (6,238,000)          | (6,387,000)          | (6,414,000)          | (6,238,000)          | (6,035,000)          |
| Net change in plan fiduciary net position                                  | (17,502,508)         | 10,703,697           | 1,835,005            | (878,926)            | 3,107,000            | 4,486,000            | (3,829,000)          | (3,040,000)          |
| Plan fiduciary net position - beginning                                    | 73,025,776           | 62,322,079           | 60,487,074           | 61,366,000           | 58,259,000           | 53,773,000           | 57,602,000           | 60,642,000           |
| Plan fiduciary net position - ending (b)                                   | <u>\$ 55,523,268</u> | <u>\$ 73,025,776</u> | <u>\$ 62,322,079</u> | <u>\$ 60,487,074</u> | <u>\$ 61,366,000</u> | <u>\$ 58,259,000</u> | <u>\$ 53,773,000</u> | <u>\$ 57,602,000</u> |
| Net pension liability - ending (a)-(b)                                     | <u>\$ 27,525,164</u> | <u>\$ 11,885,736</u> | <u>\$ 20,553,083</u> | <u>\$ 23,009,499</u> | <u>\$ 23,482,000</u> | <u>\$ 28,295,000</u> | <u>\$ 33,401,000</u> | <u>\$ 26,059,000</u> |
| Plan fiduciary net position as a percentage of the total pension liability | <u>66.86%</u>        | <u>86.00%</u>        | <u>75.20%</u>        | <u>72.44%</u>        | <u>72.32%</u>        | <u>67.31%</u>        | <u>61.68%</u>        | <u>68.85%</u>        |
| Covered-employee payroll - measurement period                              | <u>None</u>          | <u>None</u>          | <u>None</u>          | <u>None</u>          | <u>None</u>          | <u>None</u>          | <u>None</u>          | <u>None</u>          |
| Net pension liability as percentage of covered-employee payroll            | <u>None</u>          | <u>None</u>          | <u>None</u>          | <u>None</u>          | <u>None</u>          | <u>None</u>          | <u>None</u>          | <u>None</u>          |
| Notes to schedule:   |                      |                      |                      |                      |                      |                      |                      |                      |
| Measurement period - fiscal year ended                                     | June 30, 2022        | June 30, 2021        | June 30, 2020        | June 30, 2019        | June 30, 2018        | June 30, 2017        | June 30, 2016        | June 30, 2015        |

Omitted Years: GASB Statement No. 68 was Implemented During the Year Ended June 30, 2015. No information was Available Prior to this Date. Future years will be reported prospectively as they become available.

SEQUOIA HEALTHCARE DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2022

SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN (UNAUDITED)  
Last 10 Years

|   | 2022                | 2021         | 2020         | 2019         | 2018         | 2017         | 2016         | 2015         |
|---|---------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Contactually required contribution (actuarially determined)           | \$ 3,000,000        | \$ 1,500,000 | \$ 2,700,000 | \$ 2,700,000 | \$ 2,700,000 | \$ 3,800,000 | \$ 2,600,000 | \$ 2,600,000 |
| Contributions in relation to the actuarially determined contributions | (1,500,000)         | (1,500,000)  | (2,700,000)  | (2,700,000)  | (2,700,000)  | (3,800,000)  | (2,600,000)  | (2,600,000)  |
| Contribution deficiency (excess)                                      | <u>\$ 1,500,000</u> | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ -</u>  |
| Covered payroll - employer's fiscal year                              | None                | None         | None         | None         | None         | None         | None         | None         |
| Contributions as a percentage of covered payroll                      | None                | None         | None         | None         | None         | None         | None         | None         |
| Notes to schedule:  |                     |              |              |              |              |              |              |              |
| Reporting valuation date: January 1                                   | 2022                | 2021         | 2020         | 2019         | 2018         | 2017         | 2016         | 2015         |
| Reporting measurement date: June 30                                   | 2022                | 2021         | 2020         | 2019         | 2018         | 2017         | 2016         | 2015         |

Change in benefit terms: There were no changes to benefit terms.

Methods and assumptions used to determine contribution rates:

|  |  |          |          |          |                    |               |               |               |
|--|--|----------|----------|----------|--------------------|---------------|---------------|---------------|
| Actuarial method   | Projected unit credit (all plan benefits frozen) |          |          |          |                    |               |               |               |
| Amortized method   | Level dollar amount                              |          |          |          |                    |               |               |               |
| Remaining amortization period  | 9 years  | 10 years | 11 years | 12 years | 13 years           | 14 years      | 15 years      | 16 years      |
| Asset valuation method   | Market value of assets                           |          |          |          |                    |               |               |               |
| Salary increases   | Not applicable (all inactive participants)       |          |          |          |                    |               |               |               |
| Investment rate of return and discount rate used to compute contribution rates | 6.50%  | 6.50%    | 6.50%    | 6.70%    | Not available      | Not available | Not available | Not available |
| Mortality  | 1  |          |          |          | GAM94 Basic Tables |               |               |               |

1 - The latest CalPERS experience study was used for mortality beginning in the 2022 valuation.

Omitted Years: GASB Statement No. 68 was Implemented During the Year Ended June 30, 2015. No information was Available Prior to this Date. Future years will be reported prospectively as they become available.

SEQUOIA HEALTHCARE DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2022

**Budgetary Accounting**

The District Board of Directors establishes budgets for the General Fund. Budgetary control is legally maintained at the fund level for the General Fund. The budget includes appropriations (budgeted expenditures) on a line-item basis and the means of financing them (budgeted revenues).

The District fiscal year is from July 1 through June 30 of the next calendar year and the budget is adopted on a basis consistent with generally accepted accounting principles which is the modified accrual basis of accounting for the General Fund.

SUPPLEMENTARY INFORMATION

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SEQUOIA HEALTHCARE DISTRICT

SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION -  
BUDGET AND ACTUAL – PROPRIETARY FUND

For the Year Ended June 30, 2022

|                                   | Budgeted Amounts  |                   | Actual<br>Amounts | Variance<br>With Final<br>Budget<br>Positive<br>(Negative) |
|-----------------------------------|-------------------|-------------------|-------------------|--|
|                                   | Original          | Final             |                   |  |
| <b>OPERATING REVENUES</b>         |                   |                   |                   |  |
| Rental income                     | \$ 35,800         | \$ 35,800         | \$ 20,900         | \$ (14,900)  |
| <b>OPERATING EXPENSES</b>         |                   |                   |                   |  |
| Administration services           | 28,000            | 28,000            | 26,366            | 1,634  |
| Depreciation                      | 47,000            | 47,000            | 68,209            | (21,209)   |
| Insurance                         | 2,650             | 2,650             | 3,827             | (1,177)  |
| Maintenance and supplies          | 62,000            | 62,000            | 50,539            | 11,461   |
| Utilities                         | 25,000            | 25,000            | 33,661            | (8,661)  |
| TOTAL EXPENSES                    | <u>164,650</u>    | <u>164,650</u>    | <u>182,602</u>    | <u>(17,952)</u>  |
| OPERATING LOSS BEFORE TRANSFER    | (128,850)         | (128,850)         | (161,702)         | (32,852)   |
| Transfer in                       |                   |                   | <u>93,493</u>     | <u>93,493</u>  |
| CHANGE IN NET POSITION            | (128,850)         | (128,850)         | (68,209)          | 60,641   |
| Net position at beginning of year | <u>359,946</u>    | <u>359,946</u>    | <u>359,946</u>    |  |
| NET POSITION AT END OF YEAR       | <u>\$ 231,096</u> | <u>\$ 231,096</u> | <u>\$ 291,737</u> | <u>\$ 60,641</u>   |

SEQUOIA HEALTHCARE DISTRICT

SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION -  
BUDGET AND ACTUAL – ALL FUNDS

For the Year Ended June 30, 2022

|   | Budgeted Amounts     |                      | Actual<br>Amounts    | Variance<br>With Final<br>Budget<br>Positive<br>(Negative) |
|---|----------------------|----------------------|----------------------|--|
|   | Original             | Final                |                      |  |
| <b>REVENUES</b>                                 |                      |                      |                      |  |
| Rental income                                   | \$ 35,800            | \$ 35,800            | \$ 20,900            | \$ (14,900)  |
| Tax revenue                                     | 14,000,000           | 14,000,000           | 15,922,391           | 1,922,391  |
| Investment income (loss)                        | 180,000              | 180,000              | (513,904)            | (693,904)  |
| Intergovernmental revenue                       |                      |                      | 678,202              | 678,202  |
| Interest income                                 | 3,000                | 3,000                | 1,378                | (1,622)  |
| Pension income                                  | 1,500,000            | 1,500,000            | 1,500,000            |  |
| Settlement agreement revenue                    |                      |                      | 9,415,067            | 9,415,067  |
| Other revenue                                   |                      |                      | 1,221,604            | 1,221,604  |
| <b>TOTAL REVENUES</b>                           | <b>15,718,800</b>    | <b>15,718,800</b>    | <b>28,245,638</b>    | <b>12,526,838</b>  |
| <b>EXPENSES</b>                                 |                      |                      |                      |  |
| Administrative services                         | 768,200              | 768,200              | 827,779              | (59,579)   |
| Pension plan expenses                           | 1,500,000            | 1,500,000            | 1,500,000            |  |
| Grants  | 8,134,595            | 8,134,595            | 7,437,363            | 697,232  |
| Program expenses                                | 4,990,355            | 4,990,355            | 4,714,918            | 275,437  |
| Depreciation                                    | 47,000               | 47,000               | 68,209               | (21,209)   |
| Insurance                                       | 180,650              | 180,650              | 150,168              | 30,482   |
| Maintenance and supplies                        | 73,000               | 73,000               | 54,492               | 18,508   |
| Utilities                                       | 25,000               | 25,000               | 33,661               | (8,661)  |
| <b>TOTAL EXPENSES</b>                           | <b>15,718,800</b>    | <b>15,718,800</b>    | <b>14,786,590</b>    | <b>932,210</b>   |
| <b>CHANGE IN NET POSITION</b>                   |                      |                      | <b>13,459,048</b>    | <b>13,459,048</b>  |
| Net position at beginning of year               |                      |                      |                      |  |
| - as previously reported                        | 29,106,753           | 29,106,753           | 29,106,753           |  |
| Restatement                                     |                      |                      | 3,250,000            |  |
| Net position at beginning of year - as restated | <u>29,106,753</u>    | <u>29,106,753</u>    | <u>32,356,753</u>    |  |
| <b>NET POSITION AT END OF YEAR</b>              | <b>\$ 29,106,753</b> | <b>\$ 29,106,753</b> | <b>\$ 45,815,801</b> | <b>\$ 13,459,048</b>                                       |

## COMPLIANCE REPORT

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

To the Board of Directors  
Sequoia Healthcare District  
Redwood City, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Sequoia Healthcare District (the District) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 19, 2023.

**Report on Internal Control Over Financial Reporting**

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

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

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

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations,

To the Board of Directors  
Sequoia Healthcare District

contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

*Richardson & Company, LLP*

June 19, 2023