



Annual Financial Report
June 30, 2020

Sequoia Healthcare District

SEQUOIA HEALTHCARE DISTRICT

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Independent Auditor's Report

Board of Directors
Sequoia Healthcare District
Redwood City, California

Report on the Financial Statements

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 (District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2020, 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.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Proprietary Fund and all funds budgetary comparison information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Proprietary Fund and all funds budgetary comparison information are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 financial statements or to 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 Proprietary Fund and all funds budgetary comparison information are 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 December 30, 2020, 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Menlo Park,
California December
30, 2020

SEQUOIA HEALTHCARE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2020

INTRODUCTION

This report presents Management's analysis of Sequoia Healthcare District's (District) financial condition and activities as of and for the year ending June 30, 2020. Management's Discussion and Analysis (MDA) is intended to serve as an introduction to the District's basic financial statements.

This information should be read in conjunction with the District's audited financial statements.

The information in the MDA includes the following elements:

- Organization and Business
- Overview of Basic Financial Statements
- Financial Analysis
- Capital Assets
- Economic Factors and Future Plans
- Request for Information

ORGANIZATION AND BUSINESS

Sequoia Healthcare 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 and collaboratively develops solutions. 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.

FINANCIAL HIGHLIGHTS

- The government-wide total assets and deferred outflows of the District exceeded the total liabilities and deferred inflows by \$26.5 million (net position). There was an increase in cash and investments in the amount of \$6.5 million mainly due to timing of the payment of the grants and lesser expenses in the current year.
- Net Position increased by \$5.0 million. The increase is due to an increase in the property tax collections in the current fiscal year.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District's basic financial statements comprise the Government-wide Statement of Net Position and Statement of Activities; the Governmental Fund Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance; and the Proprietary Fund Statement of Net Position, Statement of Revenues, Expenses and Changes in Fund Net Position, and Statement of Cash Flows; the Fiduciary Fund Statement of Net Position and Changes in Net Position; and the Notes to Financial Statements.

SEQUOIA HEALTHCARE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2020

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents financial information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole.

Governmental Funds - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

Proprietary Funds - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position*. In fact, the District's enterprise funds are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

SEQUOIA HEALTHCARE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2020

THE DISTRICT AS A WHOLE

During the year, the District's net position increased by \$5.0 million. The net position includes \$26.5 million in unrestricted net position.

Tables 1 and 2 provide summarized Government-wide comparative information.

Table 1
Condensed Statement of Net Position
(in thousands)

	Governmental Activities		Business-Type Activities	
	2020	2019	2020	2019
Current and Other Assets	\$ 54,837	\$ 48,707	\$ -	\$ -
Capital Assets - Net	-	-	410	457
Total Assets	54,837	48,707	410	457
Liabilities	24,895	25,292	4	5
Deferred Inflows from Pension Activities	3,407	1,894	-	-
Invested in Capital Assets	-	-	406	452
Unrestricted	26,535	21,521	-	-
Total Net Position	\$ 26,535	\$ 21,521	\$ 406	\$ 452

Results of Operations

The following table shows changes in the District's net position for the year. The net position classifications are on the fund basis showing the Board Assignments.

SEQUOIA HEALTHCARE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2020

Table 2
Condensed Statement of Activities
(in thousands)

	Governmental Activities		Business-Type Activities	
	2020	2019	2020	2019
Revenues				
Lease Income	\$ -	\$ -	\$ 45	\$ 53
Tax	14,586	13,744	-	-
Investment	529	330	-	-
Pension Reimbursement	2,282	807	-	-
Total Revenues	17,397	14,881	45	53
Expenses				
Administrative	301	889	-	-
Pension	2,282	807	-	-
Property	-	-	137	178
Grant	4,798	5,306	-	-
Program	4,433	4,106	-	-
Total Expenses	11,814	11,108	137	178
Transfers	(47)	(61)	47	61
Change in Net Position	5,536	3,712	(45)	(64)
Net Position Beginning of Year	21,521	17,809	452	516
Net Position End of Year	\$ 27,057	\$ 21,521	\$ 407	\$ 452

The District's total revenues and support of \$17.4 million for the year and total expenses of \$12.0 million resulted in an increase of \$5.0 million.

The District's revenues and support are currently generated from three main categories: tax income (the District is apportioned a fraction of the 1 percent property Ad Valorem tax collected by the County of San Mateo), interest earned from investments, and a profit sharing arrangement with Sequoia Hospital. Revenues also include pension income of \$2.7 million, which is reimbursed by Dignity Health for funding of Sequoia Healthcare District's Employee Pension Plan. Note that an expense offset for the same amount is included on the expenses; therefore, pension activity has no bottom line impact.

The increase in operational expenses is due to activity in each of the following expense categories:

- **Administrative:** The pension expense is offset by pension income, which results in no bottom line impact.
- **Grants and Programs:** Grants to non-profit and local government health agencies comprised the majority of the District's expenses for the year. The District supports various health programs and services aimed at improving the health and well-being of the local community. Of these, two grants represented significant funding to local entities. They include Samaritan House Free Medical Clinic and Ravenswood Family Health Center, each receiving close to \$1 million dollars. In addition, funds were set aside for ongoing special projects or urgent community health needs that surfaced over the

SEQUOIA HEALTHCARE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

year. County or non-profit agencies that received these funds include San Mateo Dental Center at Fair Oaks, Sonrisas Dental Clinic, Boys and Girls Club for a Psychotherapist, LifeMoves for an LVN, and Peninsula Volunteers to support Lyft rides for seniors. In March 2020, the District created a Covid-19 Emergency grants program to help non-profit partners meet an unprecedented demand for crucial safety-net services resulting from the Pandemic.”) The District also provided grants ranging from \$10,000 to \$100,000 to 70 local non-profits that provide a variety of health services in the community and in schools.

In addition to providing grants, Sequoia Healthcare District operates three signature programs and employs staff to oversee the management of these programs. The three programs are:

- HeartSafe (budget \$100,000) which originally provided lifesaving equipment including AEDs, Code Blue Towers and Lucas Devices throughout the District, but now focuses on providing free CPR and emergency preparedness training for residents as well as heart screenings at area high schools.
- Healthy School Initiative (budget \$4.5 million) which offers a comprehensive school health model to area school districts providing resources related to school nursing, wellness programs, improved nutritional programs, increased physical education and fitness as well as mental health services.
- Sequoia Strong (budget \$170,000) a program aimed at reducing isolation and improving health for seniors offering free or low-cost resources on a variety of health topics.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report in the required supplementary section.

Significant revenues were related to our property taxes. Taxes were above the anticipated amounts by 2,085,949 due to the increase in property values within the County of San Mateo.

CAPITAL ASSETS

During fiscal year 2020, there were no major capital additions.

ECONOMIC FACTORS AND FUTURE PLANS

The Sequoia Healthcare District will continue to obtain revenues from property tax and may also share income over expenses from Sequoia Hospital. As a result, we anticipate a steady stream of income that will allow us to provide a minimum of \$12.5 million a year in community support in the years ahead without having to significantly reduce current reserves.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances and demonstrate the District's accountability for the monies it receives. If you have any questions about this report or need additional information, please contact Sequoia Healthcare District, 525 Veterans Boulevard Redwood City, CA 94063.

SEQUOIA HEALTHCARE DISTRICT

**STATEMENT OF NET POSITION
JUNE 30, 2020**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and Cash Equivalents	\$ 13,852,686	\$ -	\$ 13,852,686
Investments	16,437,991	-	16,437,991
Receivables	1,823	-	1,823
Prepaid Items	584,656	-	584,656
Dignity Health Pension Reimbursement	23,961,156	-	23,961,156
Capital Assets - Non Depreciable	-	138,927	138,927
Capital Assets - Depreciable, Net	-	271,082	271,082
Total Assets	<u>54,838,312</u>	<u>410,009</u>	<u>55,248,321</u>
Liabilities			
Accounts Payable	441,625	-	441,625
Grants Payable	3,900,583	-	3,900,583
Deposit Payable	-	3,565	3,565
Net Pension Liability	20,553,083	-	20,553,083
Total Liabilities	<u>24,895,291</u>	<u>3,565</u>	<u>24,898,856</u>
Deferred Inflows of Resources			
Deferred Inflows from Pension Activities	3,408,073	-	3,408,073
Net Position			
Net Investment in Capital Assets	-	406,444	406,444
Unrestricted	26,534,948	-	26,534,948
Total Net Position	<u>\$ 26,534,948</u>	<u>\$ 406,444</u>	<u>\$ 26,941,392</u>

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

SEQUOIA HEALTHCARE DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
Community Healthcare Services:						
Grants to Community Non-Profit Organizations	\$ 4,797,918	\$ -	\$ -	\$ (4,797,918)	\$ -	\$ (4,797,918)
Grant Administration	4,433,266	-	-	(4,433,266)	-	(4,433,266)
Administrative Services	300,597	-	-	(300,597)	-	(300,597)
Insurance	154,498	-	-	(154,498)	-	(154,498)
Investment and Banking Fees	24,623	-	-	(24,623)	-	(24,623)
Legal	227,774	-	-	(227,774)	-	(227,774)
Office Supplies and Maintenance	9,286	-	-	(9,286)	-	(9,286)
Pension Expense	2,282,225	-	2,282,225	-	-	-
Public Relations	106,075	-	-	(106,075)	-	(106,075)
Total Governmental Activities	12,336,262	-	2,282,225	(10,054,037)	-	(10,054,037)
Business-Type Activities:						
Leasing	137,463	45,200	-	-	(92,263)	(92,263)
Total Business-Type Activities	137,463	45,200	-	-	(92,263)	(92,263)
Total Primary Government	\$ 12,473,725	\$ 45,200	\$ 2,282,225	(10,054,037)	(92,263)	(10,146,300)
General Revenues:						
Property Taxes				14,585,949	-	14,585,949
Interest and Investment Earnings				529,336	-	529,336
Internal Transfers				(47,165)	47,165	-
Subtotal - General Revenue				15,068,120	47,165	15,115,285
Change in Net Position				5,014,083	(45,098)	4,968,985
Net Position - Beginning of Year				21,520,865	451,542	21,972,407
Net Position - End of Year				\$ 26,534,948	\$ 406,444	\$ 26,941,392

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

SEQUOIA HEALTHCARE DISTRICT

GOVERNMENTAL FUND BALANCE SHEET JUNE 30, 2020

	<u>General Fund</u>
Assets	
Cash and Cash Equivalents	\$ 13,852,686
Investments	16,437,991
Receivables	1,823
Prepaid Items	584,656
Total Assets	<u>\$ 30,877,156</u>
Liabilities	
Accounts Payable	\$ 441,625
Grants Payable	3,900,583
Total Liabilities	<u>4,342,208</u>
Fund Balance	
Assigned for Construction	4,300,000
Unassigned	22,234,948
Total Fund Balance	<u>26,534,948</u>
Total Liabilities and Fund Balance	<u>\$ 30,877,156</u>
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Total Fund Balance - Governmental Funds	\$ 26,534,948
Net pension liability, deferred outflows and deferred inflows related to pensions	(23,961,156)
Reimbursement receivable from Dignity Health for pensions	23,961,156
Total Net Position - Governmental Activities	<u>\$ 26,534,948</u>

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

SEQUOIA HEALTHCARE DISTRICT

**GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND
BALANCES
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>General Fund</u>
Revenues	
Tax Revenue	\$ 14,585,949
Investment Income	519,060
Interest Income	10,276
Pension Reimbursement	2,700,000
Total Revenues	<u>17,815,285</u>
Expenditures	
Community Healthcare Services	
Administrative Services	300,597
Grant Expenses	4,797,918
Insurance	154,498
Investment and Banking Fees	24,623
Legal	227,774
Office Supplies and Maintenance	9,286
Pension Contribution	2,700,000
Other Grants	4,433,266
Public Relations	106,075
Total Expenditures	<u>12,754,037</u>
Excess of Revenue Over Expenditures	5,061,248
Other Financing Sources (Uses)	
Transfers Out	(47,165)
Net Change in Fund Balance	5,014,083
Fund Balance - Beginning of Year	21,520,865
Fund Balance - End of Year	<u>\$ 26,534,948</u>
 Total Net Change in Fund Balances - Governmental Funds	 \$ 5,014,083

**Amounts Reported for Governmental Activities in the Statement
of Activities are Different Because:**

Pension expense is recognized on the government-wide financial statements but only current year's pension contributions are recognized on the governmental funds. (417,775)

The difference between the contributions and actual pension expense reimbursable by Dignity Health is recognized on the government-wide statement of activities. 417,775

Change in Net Position of Governmental Activities	<u><u>\$ 5,014,083</u></u>
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The accompanying notes are an integral part of these financial statements.

SEQUOIA HEALTHCARE DISTRICT

**STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2020**

	Business-Type Activities - Leasing Fund
Assets	
Noncurrent Assets:	
Capital Assets - Non Depreciable	\$ 138,927
Capital Assets - Depreciable, Net	<u>271,082</u>
Total Assets	<u>410,009</u>
Liabilities	
Noncurrent Liabilities:	
Deposits Payable	<u>3,565</u>
Net Position	
Net Investment in Capital Assets	406,444
Total Net Position	<u>\$ 406,444</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, 2020**

	Business-Type Activities - Leasing Fund
Operating Revenues	
Rental Income	\$ 45,200
Operating Expenses	
Administrative Services	28,200
Depreciation	46,498
Insurance	2,114
Maintenance and Supplies	33,136
Utilities	27,515
Total Operating Expenses	<u>137,463</u>
Operating Loss Before Transfers	(92,263)
Transfers In	<u>47,165</u>
Change in Net Position	(45,098)
Net Position - Beginning	<u>451,542</u>
Net Position - Ending	<u><u>\$ 406,444</u></u>

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

SEQUOIA HEALTHCARE DISTRICT

**STATEMENT OF FIDUCIARY NET POSITION
 PROPRIETARY FUND
 JUNE 30, 2020**

	Business-Type Activities - Leasing Fund
Cash Flows from Operating Activities:	
Cash Received from Tenants as Rent	\$ 45,200
Cash Paid to Tenants as Deposits	(1,400)
Cash Paid to Suppliers	(90,965)
Net Cash Used for Operating Activities	<u>(47,165)</u>
 Cash Flows from Capital Financing Activities	
Cash Paid for the Purchase of Capital Assets	-
Net Cash Used for Capital Financing Activities	<u>-</u>
 Cash Flows from Noncapital Financing Activities	
Transfers from the General Fund	47,165
Net Cash Provided from Noncapital Financing Activities	<u>47,165</u>
 Net Increase in Cash and Cash Equivalents	-
 Cash and Cash Equivalents - Beginning of Year	<u>-</u>
 Cash and Cash Equivalents - End of Year	<u>\$ -</u>
 Reconciliation of Net Income to Net Cash Used In Operating Activities	
Loss from Operations	\$ (92,263)
Depreciation	46,498
Adjustments to Reconcile Net Income to Net Cash Used In Operating Activities	
Decrease in Tenant Deposits	(1,400)
Net Cash Used by Operating Activities	<u>\$ (47,165)</u>

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

SEQUOIA HEALTHCARE DISTRICT

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2020**

	Pension Trust Fund
Assets	
Money Market Fund	\$ 95,776
Mutual Funds	62,195,328
Total Assets	<u>\$ 62,291,104</u>
Net Position Restricted for Pensions	<u>\$ 62,291,104</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, 2020**

	Pension Trust Fund
Additions	
Contributions - Employer	\$ 2,700,000
Investment Earnings:	
Net Increase in Fair Value of Investment	4,344,493
Interest and Dividends	1,385,211
Total Investment Earnings	<u>5,729,704</u>
Total Additions	<u>8,429,704</u>
Deductions	
Benefit Payment	7,013,077
Administrative Expenses	136,928
Total Deductions	<u>7,150,005</u>
Change in Net Position	1,279,699
Net Position Restricted for Pensions	
Beginning of Year	<u>61,011,405</u>
End of Year	<u>\$ 62,291,104</u>

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

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Sequoia Healthcare District (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 enhancing access to healthcare services and by supporting and encouraging programs and activities designed to achieve health, wellness, and disease prevention.

Basis of Presentation

The District's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

These Standards require that the financial statements described below be presented.

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 each segment of 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.

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.

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

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 and current liabilities generally are included on the balance sheet. 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, when applicable.

Proprietary Funds Proprietary funds are accounted for using the flow of 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 flow of 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, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. 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.

In Addition, the District Reported a 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.

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

Basis of Accounting - Measurement Focus

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, and exclude fiduciary activity. 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.

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.

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

Proprietary Funds Proprietary funds are accounted for using the flow of 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 flow of 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 considered to be 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, 2020 are stated at fair value. Fair value is generally estimated based on quoted market prices at year-end.

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 not capitalized, but 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, 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</u>
Land and Building Improvements	15-20
Equipment and Furniture	3-5
Leasehold Improvements	Life of Lease
Improvements to Common Areas	3-5

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

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. The District received approximately 82% in 2020 of its financial support from property taxes. 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.

Pensions

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.

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

New Accounting Pronouncements

The District is currently analyzing its accounting practices to determine the potential impact of the following pronouncements, with implementation dates as amended by Statement No. 95:

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. GASB Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The new standard is effective for periods beginning after December 15, 2019. Application of this statement is effective for the District's year ending June 30, 2021.

In June 2017, the GASB issued Statement No. 87, *Leases*. GASB Statement No. 87 establishes a single model for lease accounting and requires reporting of certain lease assets, liabilities, and deferred inflows that currently are not reported. The new standard is effective for periods beginning after June 15, 2021. Application of this statement is effective for the District's year ending June 30, 2022.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. GASB Statement No. 89 requires that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred and no longer included in the historical cost of capital assets. The new standard is effective for periods beginning after December 15, 2020. Application of this statement is effective for the District's year ending June 30, 2022.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. GASB Statement No. 90 establishes standards for reporting a government's majority equity interest in a legally separate organization. The new standard is effective for periods beginning after December 15, 2019. Application of this statement is effective for the District's year ending June 30, 2021.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. GASB Statement No. 91 clarifies the definition of conduit debt and establishes new recognition, measurement, and disclosure requirements. The new standard is effective for periods beginning after December 15, 2021. Application of this statement is effective for the District's year ending June 30, 2023.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. GASB Statement No. 92 addresses a variety of topics related to postemployment benefits and other issues. The new standard is effective for periods beginning after June 15, 2021. Application of this statement is effective for the District's year ending June 30, 2022.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. GASB Statement No. 93 addresses the accounting and financial reporting effects of replacement of interbank offering rates with other reference rates in agreements which reference an interbank offering rate. The new standard is effective for periods beginning after June 15, 2021. Application of this statement is effective for the District's year ending June 30, 2022.

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. GASB Statement No. 94 establishes standards for public-private and public-public partnerships (PPPs) and availability payment arrangements. A PPP is an arrangement in which a government contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An availability payment arrangement is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The new standard requires reporting of related assets and deferred inflows that currently are not reported and is effective for periods beginning after June 15, 2022. Application of this statement is effective for the District's year ending June 30, 2023.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. GASB Statement No. 96 defines such arrangements as contracts that convey control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. The standard clarifies measurement and recognition of capitalizable costs, intangible assets, and subscription liabilities for such arrangements and also requires additional disclosures related to such arrangements. The new standard is effective for periods beginning after June 15, 2022. Application of this statement is effective for the District's year ending June 30, 2023.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. GASB Statement No. 97 clarifies the criteria used in determining whether a fiduciary component unit exists and clarifies financial reporting for Internal Revenue Code section 457 deferred compensation plans. The new standard is effective for periods beginning after June 15, 2021. Application of this statement is effective for the District's year ending June 30, 2022.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2020 are classified in the accompanying financial statements as follows:

Governmental Activities	\$ 30,290,677
Fiduciary Fund	62,291,104
Total Deposits and Investments	<u>\$ 92,581,781</u>

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

Deposits and investments as of June 30, 2020, consist of the following:

Cash on Hand and in Banks	\$	13,852,686
Investments		16,437,991
Money Market Funds		95,776
Mutual Funds		62,195,328
Total Deposits and Investments	\$	<u>92,581,781</u>

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 considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents consist principally of money market accounts and short term certificates of deposit.

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, 2020, the District's deposits with financial institutions were covered by FDIC up to \$309,708 and \$13,071,380 were collateralized as described above.

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

General Authorizations

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

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
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 Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase 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

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.

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

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:

Governmental - Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 36 Months	37-48 Months	49-60 Months	61-72 Months
Money Market Fund	\$ 1,214,145	\$ 1,214,145	\$ -	\$ -	\$ -	\$ -	\$ -
Certificate of Deposit	1,489,233	-	1,075,403	-	-	413,830	-
U.S Treasuries	9,880,461	588,073	2,137,027	1,398,360	1,441,930	3,581,712	733,359
U.S Agencies	400,125	-	400,125	-	-	-	-
Corporate Bonds	3,454,027	707,767	677,251	521,085	1,434,563	113,361	-
Total	<u>\$ 16,437,991</u>	<u>\$ 2,509,985</u>	<u>\$ 4,289,806</u>	<u>\$ 1,919,445</u>	<u>\$ 2,876,493</u>	<u>\$ 4,108,903</u>	<u>\$ 733,359</u>
Pension - Investment Type							
Money Market Fund	\$ 95,776	\$ 95,776	\$ -	\$ -	\$ -	\$ -	\$ -
Mutual Funds	62,195,328	62,195,328	-	-	-	-	-
Total	<u>\$ 62,291,104</u>	<u>\$ 62,291,104</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Fair Value Measurements

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.

SEQUOIA HEALTHCARE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

Investment Type	Fair Value	Fair Value Investments Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money Market Fund	\$ 1,214,145	\$ -	\$ 1,214,145	\$ -
Certificate of Deposit	1,489,233	-	1,489,233	-
U.S Treasuries	9,880,461	9,880,461	-	-
U.S Agencies	400,125	-	400,125	-
Corporate Bonds	3,454,027	-	3,454,027	-
Money Market Fund	95,776	-	95,776	-
Mutual Funds	62,195,328	-	62,195,328	-
Total	\$ 78,729,095	\$ 9,880,461	\$ 68,848,634	\$ -

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 actual rating as of the year-end for each investment type:

Investment Type	Fair Value	Not Rated Or Required To Be Rated	S&P Rating as of Year End			
			AAA	AA	A	BBB
Money Market Fund	\$ 1,214,145	\$ 1,214,145	\$ -	\$ -	\$ -	\$ -
Certificate of Deposit	1,489,233	1,489,233	-	-	-	-
U.S Treasuries	9,880,461	-	-	9,880,461	-	-
U.S Agencies	400,125	-	-	400,125	-	-
Corporate Bonds	3,454,027	-	2,101,707	772,406	72,233	507,681
Money Market Fund	95,776	95,776	-	-	-	-
Mutual Funds	62,195,328	62,195,328	-	-	-	-
Total	\$ 78,729,095	\$ 62,291,104	\$ 2,101,707	\$ 1,172,531	\$ 72,233	\$ 507,681

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

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 coverages and settled claims have not exceeded this commercial coverage in any of the three preceding years.

Coverage is provided as follows:

Company Name	Type of Coverage	Limits
BETA Healthcare Group	Comprehensive Liability	\$ 5,000,000
BETA Healthcare Group	D & O Liability	5,000,000
Driver Alliant Insurance Services, Inc.	Property	1,000,000
State Compensation Insurance Fund	Workers' Compensation	1,000,000

NOTE 4 – CAPITAL ASSETS

Activity in capital assets for the year ended June 30, 2020 was as follows:

	Beginning Balance June 30, 2019	Current Year Additions	Current Year Deletions	Ending Balance June 30, 2020
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	87,332	4,806	-	92,138
Buildings and Improvements	1,625,454	28,298	-	1,653,752
Tenant Improvements	215,113	7,308	-	222,421
Equipment	70,136	6,086	-	76,222
Furniture	28,260	-	-	28,260
Total Accumulated Depreciation	2,026,295	46,498	-	2,072,793
Capital Assets - Net	\$ 456,507	\$ (46,498)	\$ -	\$ 410,009

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

NOTE 5 – PENSION PLAN

Prior to October 1, 1996, the District maintained two pension plans, a defined contribution plan and a defined benefit plan. The defined contribution plan was formed under Internal Revenue Service code section 457(b) and is titled the Master Deferred Compensation Plan. The defined benefit plan is titled the Sequoia Healthcare District Employee Pension Plan.

Deferred Contribution Plan

The Master Deferred Compensation Plan allowed covered employees to contribute a portion of their pre-tax earnings to the plan. These contributions, deferrals and the earnings on these deferrals remain in the plan, and are not taxable to the participants until they are withdrawn. The assets of the plan are invested in group annuity contracts held by and in the name of a trust established for this purpose. The District was not required to make contributions to the plan and all contributions to the plan are made by the employees only.

The Sequoia Healthcare District Pension Plan

Plan Description

The Sequoia Healthcare District Employee Pension Plan (Plan), adopted on January 1, 1959, as amended is a defined benefit plan. In 1996 the District sold its hospital to Catholic Health West, Inc. and all employees of the District employed by the hospital became employees of Catholic Health West, Inc. 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. Catholic Health West, Inc.'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 Catholic Health West, Inc. The District remains contingently liable for funding of the plan in the event of default by Catholic Health West, Inc. Benefits are administered by Vanguard Retirement Services. The plan is closed for new entrants. Currently the plan has 990 participants with 696 retirees currently receiving benefits and 294 not receiving benefits.

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

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 to retire. 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, 2020, are summarized as follows:

Benefit formula	2% at 65
Benefit vesting schedule	10 Years 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 contributions for the Plan is 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 employee required contributions. For the year ended June 30, 2020, contributions recognized as part of pension expense were \$2,700,000.

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, 2020, using an annual actuarial valuation as of January 1, 2019 rolled forward to June 30, 2020 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 liabilities in the June 30, 2020 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	January 1, 2020
Measurement Date	June 30, 2020
Actuarial Cost Method	Projected Unit Credit (all plan benefits frozen)
Actuarial Assumptions	
Discount Rate	6.50%
Investment Rate of Return	6.50%
Mortality	GAM94 Basic Tables
Post Retirement Benefit Increase	None

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

Discount Rate

The discount rate used to measure the total pension liability was 6.50%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, the actuary stress tested plan that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, the Plan would not run out of assets. Therefore, the current 6.50% discount rate is adequate and the use of the municipal bond rate calculation 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 Asset Allocation	Geometric Rates of Return (a)
Domestic Equities	25%	4.53%
International Equities	25%	4.93%
Fixed Income	27%	1.47%
TIPS	8%	1.29%
Global Tactical Asset Allocation	15%	3.10%
Total	<u>100%</u>	

(a) An expected inflation of 2.75% was used.

SEQUOIA HEALTHCARE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

Changes in the Net Pension Liability

The changes in the Net Pension Liability for the Plan are:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2019	\$ 83,496,573	\$ 60,487,074	\$ 23,009,499
Changes in the year:			
Service cost	-	-	-
Interest on the total pension liability	5,359,332	-	5,359,332
Differences between actual and expected experience	1,022,548	-	1,022,548
Changes in assumptions	1,125,508	-	1,125,508
Changes in benefit terms	(1,115,722)	-	(1,115,722)
Contribution - employer	-	2,700,000	(2,700,000)
Contribution - employee	-	-	-
Net investment income	-	6,285,010	(6,285,010)
Administrative expenses	-	(136,928)	136,928
Benefit payments	(7,013,077)	(7,013,077)	-
Net changes			
Balance at June 30, 2020			

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:

	1% Decrease	Current Discount Rate	1% Increase
	5.50%	6.50%	7.50%
Net Pension Liability	\$ 26,824,121	\$ 20,553,083	\$ 15,082,740

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. These rates of return are net of administrative expenses:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net differences between projected and actual earnings on plan investments	\$ -	\$ 3,408,073
Total	\$ -	\$ 3,408,073

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

The amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Deferred Inflows of Resources
2021	\$ 1,654,354
2022	939,354
2023	337,352
2024	477,013
	<u>\$ 3,408,073</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 6 – AMOUNTS DUE FROM CATHOLIC HEALTH WEST, INC.

As described above, the District is liable for pensions but seeks reimbursement for the unfunded liability through annual contributions made by Catholic Health West, Inc. to the District. The contributions from Catholic Health West, Inc. are designed to fully fund the pension liability. Therefore, the District recorded a receivable for the net amount resulting from recognizing the pension liability and related referrals in the amount of \$23,961,156 as of June 30, 2020.

NOTE 7 – RELATED PARTY TRANSACTIONS ECONOMIC RETURN

Pursuant to the Development Agreement executed on December 7, 2007 with Catholic Healthcare West (now known as Dignity Health), the District is entitled to an economic return on its contribution which equals 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). The District shall be entitled to an economic return pursuant to the Return Formula through December 7, 2047.

During the fiscal year ended June 30, 2020, the District did not receive any funds from Dignity Health based on the Return Formula Payable for fiscal year ended June 30, 2019.

Required Supplementary Information

SEQUOIA HEALTHCARE DISTRICT

GENERAL FUND - BUDGETARY COMPARISON SCHEDULE

	Budgetary Amounts		Actual	Variance
	Original	Final		Positive (Negative)
Revenues				
Tax Revenue	\$ 12,500,000	\$ 12,500,000	\$ 14,585,949	\$ 2,085,949
Investment Income	150,000	150,000	519,060	369,060
Interest Income	8,500	8,500	10,276	1,776
Pension Income	2,700,000	2,700,000	2,700,000	-
Total Revenues	15,358,500	15,358,500	17,815,285	2,456,785
Expenditures				
Administration Expense	260,000	260,000	237,298	22,702
Board Health Insurance	60,000	60,000	20,023	39,977
Employee Health Insurance	65,000	65,000	85,776	(20,776)
Employee Retirement Benefit	20,000	20,000	20,125	(125)
Investment Fees	45,000	45,000	24,550	20,450
Office Supplies/Equipment Maintenance	11,000	11,000	9,286	1,714
Purchased Services	30,000	30,000	10,495	19,505
Accounting Fees	20,000	20,000	21,600	(1,600)
Board Expense	7,500	7,500	11,004	(3,504)
Association/Membership Fees	33,000	33,000	8,111	24,889
delete---Public Relations (part of Communications)	38,000	38,000	44,090	(6,090)
Communications & Public Relations	50,000	50,000	61,985	(11,985)
Web Site/IT	2,700,000	2,700,000	2,700,000	-
Pension Plan Expense	30,000	30,000	28,574	1,426
Insurance/D&O	8,300	8,300	12,089	(3,789)
Election Fees	100,000	100,000	227,774	(127,774)
LAFCO Fees	200	200	73	127
Legal Fees	98,000	98,000	92,213	5,787
Bank Fees	947,953	947,953	947,953	-
Grant Expenses	25,000	25,000	14,300	10,700
delete---Children's Health Initiative	160,000	160,000	160,000	-
delete---SFSU Nursing Program	1,000,000	1,000,000	513,985	486,015
Samaritan House Medical Clinic	2,600,000	3,000,000	3,000,000	-
Other Grants	-	-	100,158	(100,158)
San Mateo Medical Center	-	-	52,354	(52,354)
Ravenswood-Belle Haven Clinic	-	-	89,813	(89,813)
Community Grants Program	-	-	(1,000,000)	1,000,000
Part of FFI approved budget- LifeMoves LVN (Maple Street Shelter)	-	-	668,250	(668,250)
Part of FFI approved budget - Peninsula Volunteers LYFT program	170,000	170,000	75,338	94,662
Part of FFI approved budget- BGCP Psychotherapist	1,929,301	1,929,301	155,000	1,774,301
Mission Hospice	25,000	25,000	3,892	21,108
Covid-19 Emergency Funds	100,000	100,000	76,830	23,170
Sequoia Strong	4,500,000	4,500,000	4,281,098	218,902
Total Expenditures	15,033,254	15,433,254	12,754,037	2,679,217
Excess (Deficiency) of Revenues Over Expenditures	325,246	(74,754)	5,061,248	5,136,002
Other Financing Sources (Uses)				
Transfer to Proprietary Fund	-	-	(47,165)	(47,165)
Net Change In Fund Balances	325,246	(74,754)	5,014,083	5,088,837
Fund Balance - Beginning of Year	21,520,865	21,520,865	21,520,865	-
Fund Balance - End of Year	\$ 21,846,111	\$ 21,446,111	\$ 26,534,948	\$ 5,088,837

See note to required supplementary information.

SEQUOIA HEALTHCARE DISTRICT

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

Fiscal year	2020	2019	2018	2017	2016	2015*
Measurement date	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015
Total Pension Liability						
Service cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest on total pension liability	5,359,332	5,456,742	5,752,000	5,794,000	5,597,000	5,633,000
Differences between expected and actual experience	1,022,548	-	(55,000)	-	(378,000)	-
Changes in assumptions	1,125,508	-	(1,016,000)	-	4,532,000	-
Changes in benefits	(1,115,722)	-	-	-	-	-
Benefit payments, including refunds of employee contributions	(7,013,077)	(6,808,169)	(6,387,000)	(6,414,000)	(6,238,000)	(6,035,000)
Net change in total pension liability	(621,411)	(1,351,427)	(1,706,000)	(620,000)	3,513,000	(402,000)
Total pension liability - beginning	83,496,573	84,848,000	86,554,000	87,174,000	83,661,000	84,063,000
Total pension liability - ending	\$ 82,875,162	\$ 83,496,573	\$ 84,848,000	\$ 86,554,000	\$ 87,174,000	\$ 83,661,000
Plan fiduciary net position						
Contributions - employer	\$ 2,700,000	\$ 2,700,000	\$ 3,800,000	\$ 3,800,000	\$ 2,600,000	\$ 2,600,000
Net decrease in fair value of investment	-	-	-	-	-	-
Net investment income	6,285,010	2,773,074	5,789,000	7,188,000	(83,000)	487,000
Benefit payments	(7,013,077)	(6,238,000)	(6,387,000)	(6,414,000)	(6,238,000)	(6,035,000)
Administrative expenses	(136,928)	(114,000)	(95,000)	(88,000)	(108,000)	(92,000)
Net change in plan fiduciary net position	1,835,005	(878,926)	3,107,000	4,486,000	(3,829,000)	(3,040,000)
Plan fiduciary net position - beginning	60,487,074	61,366,000	58,259,000	53,773,000	57,602,000	60,642,000
Plan fiduciary net position - ending	\$ 62,322,079	\$ 60,487,074	\$ 61,366,000	\$ 58,259,000	\$ 53,773,000	\$ 57,602,000
Net pension liability - ending	\$ 20,553,083	\$ 23,009,499	\$ 23,482,000	\$ 28,295,000	\$ 33,401,000	\$ 26,059,000
Plan's fiduciary net position as a percentage of total pension liability	75.2%	72.4%	72.3%	67.3%	61.7%	68.9%
Covered Payroll	None	None	None	None	None	None

* Information not available prior to the implementation of the pension standards in 2015.

SEQUOIA HEALTHCARE DISTRICT

SCHEDULE OF CONTRIBUTIONS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015*</u>
Actuarially determined contribution	\$ 2,700,000	\$ 2,700,000	\$ 3,800,000	\$ 3,800,000	\$ 2,600,000	\$ 2,600,000
Contributions in relation to the actuarially determined contribution	<u>(2,700,000)</u>	<u>(2,700,000)</u>	<u>(3,800,000)</u>	<u>(3,800,000)</u>	<u>(2,600,000)</u>	<u>(2,600,000)</u>
Contribution deficiency (excess)	<u>\$ -</u>					
Covered employee Payroll	None	None	None	None	None	None

* Information not available prior to the implementation of the pension standards in 2015.

SEQUOIA HEALTHCARE DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

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

SEQUOIA HEALTHCARE DISTRICT

**PROPRIETARY FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2020**

	Budgetary Amounts		Actual	Variance
	Original	Final		Positive (Negative)
Operating Revenues				
Rental Income	\$ 58,000	\$ 58,000	\$ 45,200	\$ (12,800)
Operating Expenses				
Administrative Services	-	-	28,200	(28,200)
Depreciation	47,000	47,000	46,498	502
Insurance	2,050	2,050	2,114	(64)
Maintenance and Supplies	40,000	40,000	33,136	6,864
Utilities	33,000	33,000	27,515	5,485
Total Expenses	122,050	122,050	137,463	(15,413)
Operating Loss	(64,050)	(64,050)	(92,263)	(28,213)
Transfer from General Fund	-	-	47,165	47,165
Change in Net Position	(64,050)	(64,050)	(45,098)	18,952
Net Position - Beginning of Year	451,542	451,542	451,542	-
Net Position - End of Year	\$ 387,492	\$ 387,492	\$ 406,444	\$ 18,952

SEQUOIA HEALTHCARE DISTRICT

ALL FUNDS BUDGETARY COMPARISON SCHEDULE YEAR ENDED JUNE 30, 2020

	Budgetary Amounts		Actual	Variance
	Original	Final		Positive (Negative)
Revenues				
Rental Income	\$ 58,000	\$ 58,000	\$ 45,200	\$ (12,800)
Tax Revenue	12,500,000	12,500,000	14,585,949	2,085,949
Investment Income	150,000	150,000	519,060	369,060
Interest Income	8,500	8,500	10,276	1,776
Pension Income	2,700,000	2,700,000	2,700,000	-
Total Revenues	15,416,500	15,416,500	17,860,485	2,443,985
Expenses				
Administration Expense	260,000	260,000	265,498	(5,498)
Board Health Insurance	60,000	60,000	20,023	39,977
Employee Health Insurance	65,000	65,000	85,776	(20,776)
Employee Retirement Benefit	20,000	20,000	20,125	(125)
Investment Fees	45,000	45,000	24,550	20,450
Office Supplies/Equipment Maintenance	84,000	84,000	69,937	14,063
Purchased Services	30,000	30,000	10,495	19,505
Accounting Fees	20,000	20,000	21,600	(1,600)
Board Expense	7,500	7,500	11,004	(3,504)
Association/Membership Fees	33,000	33,000	8,111	24,889
delete---Public Relations (part of Communications)	38,000	38,000	44,090	(6,090)
Communications & Public Relations	50,000	50,000	61,985	(11,985)
Web Site/IT	2,700,000	2,700,000	2,700,000	-
Pension Plan Expense	30,000	30,000	28,574	1,426
Insurance/D&O	10,350	10,350	14,203	(3,853)
Election Fees	100,000	100,000	227,774	(127,774)
LAFCO Fees	200	200	73	127
Legal Fees	98,000	98,000	92,213	5,787
Bank Fees	947,953	947,953	947,953	-
Grant Expenses	25,000	25,000	14,300	10,700
delete---Children's Health Initiative	160,000	160,000	160,000	-
delete---SFSU Nursing Program	1,000,000	1,000,000	513,985	486,015
Samaritan House Medical Clinic	2,600,000	3,000,000	3,000,000	-
Other Grants	-	-	100,158	(100,158)
San Mateo Medical Center	-	-	52,354	(52,354)
Ravenswood-Belle Haven Clinic	-	-	89,813	(89,813)
Community Grants Program	-	-	(1,000,000)	1,000,000
Part of FFI approved budget- LifeMoves LVN (Maple Street	-	-	668,250	(668,250)
Part of FFI approved budget - Peninsula Volunteers LYFT pi	170,000	170,000	75,338	94,662
Part of FFI approved budget- BGCP Psychotherapist	1,929,301	1,929,301	155,000	1,774,301
Mission Hospice	25,000	25,000	3,892	21,108
Covid-19 Emergency Funds	100,000	100,000	76,830	23,170
Sequoia Strong	4,500,000	4,500,000	4,281,098	218,902
Depreciation	47,000	47,000	46,498	502
Total Expenditures	15,155,304	15,555,304	12,891,500	2,663,804
Excess (Deficiency) of Revenue Over Expenses	261,196	(138,804)	4,968,985	5,107,789
Net Position - Beginning of Year	21,972,407	21,972,407	21,972,407	-
Net Position - End of Year	\$ 22,233,603	\$ 21,833,603	\$ 26,941,392	\$ 5,107,789

Report on Internal Control and Compliance



Independent Auditor's 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*

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 Sequoia Healthcare District (District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 30, 2020.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given 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 have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Menlo Park, California
December 30, 2020