Agenda Item No. 4a
Board of Directors Meeting
January 29, 2020

Annual Financial Report
June 30, 2019

Sequoia Healthcare District

SEQUOIA HEALTHCARE DISTRICT

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JUNE 30, 2019

CPAs & BUSINESS ADVISORS

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, 2019, 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.

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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, 2019, 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 January 14, 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.

Eide Bailly LLP

Palo Alto, California
January 14, 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, 2019. 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 $21.9 million (net position). There was an increase in cash and investments in the amount of $1.9 million mainly due to timing of the payment of the grants.
- Net Position increased by $3.6 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.

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 giving rise to the change 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.

THE DISTRICT AS A WHOLE

During the year, the District's net position increased by $3.6 million. The net position includes $21.5 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	
	2018-2019	2017-2018	2018-2019	2017-2018
Current and Other Assets	$ 48,707	$ 48,412	$ -	$ -
Capital Assets - Net	-	-	457	523
Total Assets	48,707	48,412	457	523
Liabilities	25,292	27,616	5	7
Deferred Inflows from Pension Activities	1,893	2,987	-	-
Invested in Capital Assets	-	-	452	516
Unrestricted	21,521	17,809	-	-
Total Net Position	$ 21,521	$ 17,809	$ 452	$ 516

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.

Table 2
Condensed Statement of Activities
(in thousands)

	Governmental Activities		Business-Type Activities	
	2018-2019	2017-2018	2018-2019	2017-2018
Revenues				
Lease Income	$ -	$ -	$ 53	$ 50
Tax	13,744	12,751	-	-
Investment	330	87	-	-
Pension Reimbursement	807	813	-	-
Total Revenues	14,881	13,651	53	50
Expenses				
Administrative	889	862	-	-
Pension	807	813	-	-
Property	-	-	178	112
Grant	5,306	5,245	-	-
Program	4,106	4,066	-	-
Total Expenses	11,108	10,986	178	112
Transfers	(61)	(12)	61	12
Change in Net Position	3,712	2,653	(64)	(50)
Net Position Beginning of Year	17,809	15,156	516	566
Net Position End of Year	$ 21,521	$ 17,809	$ 452	$ 516

The District's total revenues and support of $14.9 million for the year and total expenses of $11.3 million resulted in an increase of $3.6 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 $.8 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 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 addition, a new program called 70 Strong that had been implemented 3 years ago to support older adults in the community through a partnership with Peninsula Family Services was brought in-house this year, expecting to save the District close to $500,000 in future expenses. 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 $65,000) 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 $4.3 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.
- 70 Strong (budget $651,000) 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 $1,244,000 due to the increase in property values within the County of San Mateo.

CAPITAL ASSETS

During fiscal year 2019, 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 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.

STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and Cash Equivalents	$ 13,263,515	$ -	$ 13,263,515
Investments	10,563,722	-	10,563,722
Receivables	390	-	390
Prepaid Items	500,000	-	500,000
Dignity Health Pension Reimbursement	24,378,931	-	24,378,931
Capital Assets - Non Depreciable	-	138,927	138,927
Capital Assets - Depreciable, Net	-	317,580	317,580
Total Assets	48,706,558	456,507	49,163,065
Liabilities			
Accounts Payable	33,514	-	33,514
Grants Payable	2,773,247	-	2,773,247
Deposit Payable	-	4,965	4,965
Net Pension Liability	22,485,573	-	22,485,573
Total Liabilities	25,292,334	4,965	25,297,299
Deferred Inflows of Resources			
Deferred Inflows from Pension Activities	1,893,358	-	1,893,358
Net Position			
Net Investment in Capital Assets	-	451,542	451,542
Unrestricted	21,520,866	-	21,520,866
Total Net Position	$ 21,520,866	$ 451,542	$ 21,972,408

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

SEQUOIA HEALTHCARE DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

		Program Revenues		Net (Expenses) Revenues and Changes in Net Position		
Functions/Programs	Expenses	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	$ 5,242,138	$ -	$ -	$ (5,242,138)	$ -	$ (5,242,138)
Grant Administration	63,902	-	-	(63,902)	-	(63,902)
Administrative Services	492,611	-	-	(492,611)	-	(492,611)
Insurance	148,891	-	-	(148,891)	-	(148,891)
Investment and Banking Fees	36,032	-	-	(36,032)	-	(36,032)
Legal	113,308	-	-	(113,308)	-	(113,308)
Office Supplies and Maintenance	12,452	-	-	(12,452)	-	(12,452)
Pension Expense	806,642	-	806,642	-	-	-
Public Relations	86,374	-	-	(86,374)	-	(86,374)
Other Outgo	4,105,775	-	-	(4,105,775)	-	(4,105,775)
Total Governmental Activities	11,108,125	-	806,642	(10,301,483)	-	(10,301,483)
Business-Type Activities:						
Leasing	177,984	52,600	-	-	(125,384)	(125,384)
Total Business-Type Activities	177,984	52,600	-	-	(125,384)	(125,384)
Total Primary Government	$ 11,286,109	$ 52,600	$ 806,642	(10,301,483)	(125,384)	(10,426,867)
	General Revenues:					
	Property Taxes			13,743,556	-	13,743,556
	Interest and Investment Earnings			330,092	-	330,092
	Internal Transfers			(60,731)	60,731	-
	Subtotal - General Revenue			14,012,917	60,731	14,073,648
	Change in Net Position			3,711,434	(64,653)	3,646,781
	Net Position - Beginning of Year			17,809,432	516,195	18,325,627
	Net Position - End of Year			$ 21,520,866	$ 451,542	$ 21,972,408

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

SEQUOIA HEALTHCARE DISTRICT

GOVERNMENTAL FUND
BALANCE SHEET
JUNE 30, 2019

		General Fund
Assets		
Cash and Cash Equivalents	$	13,263,515
Investments		10,563,722
Receivables		390
Prepaid Items		500,000
Total Assets	$	24,327,627
Liabilities		
Accounts Payable	$	33,514
Grants Payable		2,773,247
Total Liabilities		2,806,761
Fund Balance		
Assigned for Construction		4,300,000
Unassigned		17,220,866
Total Fund Balance		21,520,866
Total Liabilities and Fund Balance	$	24,327,627
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Total Fund Balance - Governmental Funds	**$**	**21,520,866**
Net pension liability, deferred outflows and deferred inflows related to pensions		(24,378,931)
Reimbursement receivable from Dignity Health for pensions		24,378,931
Total Net Position - Governmental Activities	**$**	**21,520,866**

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, 2019

	General Fund
Revenues	
Tax Revenue	$ 13,743,556
Investment Income	311,104
Interest Income	18,988
Pension Reimbursement	2,700,000
Total Revenues	16,773,648
Expenditures	
Community Healthcare Services	
Administrative Services	492,611
Grant Expenses	5,306,040
Insurance	148,891
Investment and Banking Fees	36,032
Legal	113,308
Office Supplies and Maintenance	12,452
Pension Contribution	2,700,000
Other Grants	4,105,775
Public Relations	86,374
Total Expenditures	13,001,483
Excess of Revenue Over Expenditures	3,772,165
Other Financing Sources (Uses)	
Transfers Out	(60,731)
Net Change in Fund Balance	3,711,434
Fund Balance - Beginning of Year	17,809,432
Fund Balance - End of Year	$ 21,520,866
Total Net Change in Fund Balances - Governmental Funds	**$ 3,711,434**
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.	(1,893,358)
The difference between the contributions and actual pension expense reimbursable by Dignity Health is recognized on the government-wide statement of activities.	1,893,358
Change in Net Position of Governmental Activities	**$ 3,711,434**

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

SEQUOIA HEALTHCARE DISTRICT

STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2019

		Business-Type Activities - Leasing Fund
Assets		
Noncurrent Assets:		
Capital Assets - Non Depreciable	$	138,927
Capital Assets - Depreciable, Net		317,580
Total Assets		456,507
Liabilities		
Noncurrent Liabilities:		
Deposits Payable		4,965
Net Position		
Net Investment in Capital Assets		451,542
Total Net Position	$	451,542

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, 2019

		Business-Type Activities - Leasing Fund
Operating Revenues		
Rental Income	$	52,600
Operating Expenses		
Administrative Services		10,992
Depreciation		94,160
Insurance		1,734
Maintenance and Supplies		40,158
Utilities		30,940
Total Operating Expenses		177,984
Operating Loss Before Transfers		(125,384)
Transfers In		60,731
Change in Net Position		(64,653)
Net Position - Beginning		516,195
Net Position - Ending	$	451,542

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, 2019

	Business-Type Activities - Leasing Fund
Cash Flows from Operating Activities:	
Cash Received from Tenants as Rent	$ 52,600
Cash Paid to Tenants as Deposits	(1,700)
Cash Paid to Suppliers	(83,824)
Net Cash Used for Operating Activities	(32,924)
Cash Flows from Capital Financing Activities	
Cash Paid for the Purchase of Capital Assets	(27,807)
Net Cash Used for Capital Financing Activities	(27,807)
Cash Flows from Noncapital Financing Activities	
Transfers from the General Fund	60,731
Net Cash Provided from Noncapital Financing Activities	60,731
Net Increase in Cash and Cash Equivalents	-
Cash and Cash Equivalents - Beginning of Year	-
Cash and Cash Equivalents - End of Year	$ -
Reconciliation of Net Income to Net Cash Used In Operating Activities	
Loss from Operations	$ (125,384)
Depreciation	94,160
Adjustments to Reconcile Net Income to Net Cash Used In Operating Activities	
Decrease in Tenant Deposits	(1,700)
Net Cash Used by Operating Activities	$ (32,924)

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

SEQUOIA HEALTHCARE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2019

		Pension Trust Fund
Assets		
Money Market Fund	$	116,613
Mutual Funds		60,894,792
Total Assets	$	61,011,405
Net Position Restricted for Pensions	$	61,011,405

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, 2019

		Pension Trust Fund
Additions		
Contributions - Employer	$	2,700,000
Investment Earnings:		
Net Increase in Fair Value of Investment		1,143,805
Interest and Dividends		2,153,172
Total Investment Earnings		3,296,977
Total Additions		5,996,977
Deductions		
Benefit Payment		6,238,234
Administrative Expenses		113,818
Total Deductions		6,352,052
Change in Net Position		(355,075)
Net Position Restricted for Pensions		
Beginning of Year		61,366,480
End of Year	$	61,011,405

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

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.

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.

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.

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, 2019 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:

	Lives of Assets
Land and Building Improvements	15-20
Equipment and Furniture	3-5
Leasehold Improvements	Life of Lease
Improvements to Common Areas	3-5

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 92% in 2019 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.

New Accounting Pronouncements – Effective This Fiscal Year

The GASB has issued the following accounting pronouncements that will become effective this fiscal year:

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, or FY 2018/2019. This statement did not have an impact on the District's financial statements.

GASB Statement No. 88 – In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve note disclosures related to debt. This Statement requires that all debt disclosures present direct borrowings and direct placements of debt separately from other types of debt. This Statement is effective for reporting periods beginning after June 15, 2018 or FY 2018/2019. The District implemented the provisions of this Statement.

New Accounting Pronouncements – Effective in Future Fiscal Years

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance related to fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or FY 2019/2020. The District is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. 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. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. 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, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or FY 2020/2021. The District is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 89 – In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are to (a) enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (b) to simplify accounting for certain interest costs. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in the financial statements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 or FY 2020/2021. The District is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 90 – In August 2018, GASB issued Statement No. 90, *Majority Equity Interest, an amendment of GASB statement No. 14 and No. 60*. The objectives of this Statement is to improve how majority equity interest is reported. The Statement specifies that a majority equity interest in a legally separate organization should be reported as an investment using the equity method if a government's holding of the equity interest meets the definition of an investment and for all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 or FY 2019/2020. The District is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 91 – In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The objectives of this Statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020 or FY 2021/2022. The District is evaluating the impact of this Statement on the financial statements.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2019 are classified in the accompanying financial statements as follows:

Governmental Activities	$	23,827,237
Fiduciary Fund		61,011,405
Total Deposits and Investments	$	84,838,642

Deposits and investments as of June 30, 2019, consist of the following:

Cash on Hand and in Banks	$	13,263,515
Investments		10,563,722
Money Market Funds		116,613
Mutual Funds		60,894,792
Total Deposits and Investments	$	84,838,642

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, 2019, the District's deposits with financial institutions were covered by FDIC up to $250,000 and $12,160,000 were collateralized as described above.

General Authorizations

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

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment 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 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.

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
Money Market Fund	$ 3,009,866	$ 3,009,866	$ -	$ -	$ -
Certificate of Deposit	501,663	-	-	501,663	-
U.S Treasuries	3,486,234	2,362,499	305,070	818,665	-
Municipal Bonds	1,507,816	986,185	521,631	-	-
Corporate Bonds	2,058,143	750,563	713,710	390,854	203,016
Total	$ 10,563,722	$ 7,109,113	$ 1,540,411	$ 1,711,182	$ 203,016
Pension - Investment Type					
Money Market Fund	$ 116,613	$ 116,613	$ -	$ -	$ -
Mutual Funds	60,894,792	60,894,792	-	-	-
Total	$ 61,011,405	$ 61,011,405	$ -	$ -	$ -

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.

		Fair Value Investments Using			
Investment Type	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Uncategorized
U.S Treasuries	$ 3,486,234	$ 3,486,234	$ -	$ -	$ -
Money Market Fund	3,126,479	-	3,126,479	-	-
Municipal Bonds	1,507,816	-	1,507,816	-	-
Corporate Bonds	2,058,143	-	2,058,143	-	-
Mutual Funds	60,894,792	-	-	-	60,894,792
Certificate of Deposit	501,663	-	-	-	501,663
Total	$ 71,575,127	$ 3,486,234	$ 6,692,438	$ -	$ 61,396,455

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:

			S&P Rating as of Year End		
Investment Type	Fair Value	Not Rated Or Required To Be Rated	AAA	AA+	AA
U.S Treasuries	$ 3,486,234	$ -	$ -	$ 3,486,234	$ -
Money Market Fund	3,126,479	3,126,479	-	-	-
Municipal Bonds	1,507,816	-	147,841	401,739	176,542
Corporate Bonds	2,058,143	-	71,444	-	494,262
Mutual Funds	60,894,792	60,894,792	-	-	-
Certificate of Deposit	501,663	501,663	-	-	-
Total	$ 71,575,127	$ 64,522,934	$ 219,285	$ 3,887,973	$ 670,804

	S&P Rating as of Year End				
Investment Type	AA-	A+	A	A-	BBB+
U.S Treasuries	$ -	$ -	$ -	$ -	$ -
U.S Agencies	-	-	-	-	-
Municipal Bonds	781,694	-	-	-	-
Corporate Bonds	355,159	-	654,215	483,063	-
Money Market Fund	-	-	-	-	-
Mutual Funds	-	-	-	-	-
Total	$ 1,136,853	$ -	$ 654,215	$ 483,063	$ -

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, 2019 was as follows:

	Beginning Balance June 30, 2018	Current Year Additions	Current Year Deletions	Ending Balance June 30, 2019
Capital Asset Not Being Depreciated				
Land	$ 138,927	$ -	$ -	$ 138,927
Capital Assets, Being Depreciated				
Land Improvements	144,158	-	-	144,158
Buildings and Improvements	1,859,922	20,200	-	1,880,122
Tenant Improvements	215,113	-	-	215,113
Equipment	68,615	7,607	-	76,222
Furniture	28,260	-	-	28,260
Total Capital Assets, Being Depreciated	2,316,068	27,807	-	2,343,875
Less Accumulated Depreciation				
Land Improvements	77,721	9,611	-	87,332
Buildings and Improvements	1,568,860	56,594	-	1,625,454
Tenant Improvements	213,846	1,267	-	215,113
Equipment	51,783	18,353	-	70,136
Furniture	19,925	8,335	-	28,260
Total Accumulated Depreciation	1,932,135	94,160	-	2,026,295
Capital Assets - Net	$ 522,860	$ (66,353)	$ -	$ 456,507

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.

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, 2019, 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, 2019, 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, 2019, using an annual actuarial valuation as of January 1, 2018 rolled forward to June 30, 2019 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, 2019 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	January 1, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Projected Unit Credit (all plan benefits frozen)
Actuarial Assumptions	
Discount Rate	6.70%
Projected Salary Increase	2.75%
Investment Rate of Return	6.70%
Mortality	GAM94 Basic Tables
Post Retirement Benefit Increase	None

Discount Rate

The discount rate used to measure the total pension liability was 6.70%. 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 6.70% 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	100%	

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

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, 2018	$ 84,848,000	$ 61,366,000	$ 23,482,000
Changes in the year:			
Service cost	-	-	-
Interest on the total pension liability	5,456,742	-	5,456,742
Differences between actual and expected experience	-	-	-
Changes in assumptions	-	-	-
Changes in benefit terms	-	-	-
Contribution - employer	-	2,700,000	(2,700,000)
Contribution - employee	-	-	-
Net investment income	-	3,297,000	(3,297,000)
Administrative expenses	-	(114,000)	114,000
Benefit payments	(6,808,169)	(6,238,000)	(570,169)
Net changes	(1,351,427)	(355,000)	(996,427)
Balance at June 30, 2019	$ 83,496,573	$ 61,011,000	$ 22,485,573

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
	5.70%	6.70%	7.70%
Net Pension Liability	$ 29,812,657	$ 22,485,573	$ 16,169,882

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	$ -	$ (1,893,358)
Total	$ -	$ (1,893,358)

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
2020	$ (393,340)
2021	(1,177,340)
2022	(462,340)
2023	139,662
	$ (1,893,358)

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 $24,378,931 as of June 30, 2019.

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, 2019, the District did not receive any funds from Dignity Health based on the Return Formula Payable for fiscal year ended June 30, 2018.

Required Supplementary Information

SEQUOIA HEALTHCARE DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2019

	Budgetary Amounts			Variance
	Original	Final	Actual	Positive (Negative)
Revenues				
Tax Revenue	$ 12,500,000	$ 12,500,000	$ 13,743,556	$ 1,243,556
Investment Income	50,000	50,000	311,104	261,104
Interest Income	5,500	5,500	18,988	13,488
Pension Income	2,700,000	2,700,000	2,700,000	-
Total Revenues	15,255,500	15,255,500	16,773,648	1,518,148
Expenditures				
Administration Expense	290,000	290,000	237,421	52,579
Board Health Insurance	60,000	60,000	54,034	5,966
Employee Health Insurance	65,000	65,000	49,368	15,632
Employee Retirement Benefit	25,000	25,000	16,771	8,229
Investment Fees	35,000	35,000	35,857	(857)
Office Supplies/Equipment Maintenance	11,000	11,000	12,452	(1,452)
Accounting Fees	25,000	25,000	18,000	7,000
Board Expense	7,500	7,500	2,998	4,502
Association/Membership Fees	32,500	32,500	32,725	(225)
Communications	33,000	33,000	32,511	489
Web Site/IT	60,000	60,000	53,863	6,137
Pension Plan Expense	2,700,000	2,700,000	2,700,000	-
Insurance/D&O	30,000	30,000	28,718	1,282
Election Fees	275,000	275,000	193,257	81,743
LAFCO Fees	7,000	7,000	8,210	(1,210)
Legal Fees	40,000	40,000	113,308	(73,308)
Bank Fees	50	50	175	(125)
Grant Expenses	60,000	60,000	63,902	(3,902)
Samaritan House Medical Clinic	947,953	947,953	947,953	-
Other Grants	90,000	90,000	7,983	82,017
Ravenswood-Belle Haven Clinic	700,000	700,000	700,000	-
Community Grants Program	2,400,000	2,400,000	2,386,014	13,986
70 Strong	658,171	367,656	367,656	-
Sequoia Strong	-	244,500	49,546	194,954
TBD Programs	3,288,876	3,288,876	828,684	2,460,192
Living Healthy	50,000	50,000	3,848	46,152
Heart Safe Program	65,000	65,000	74,736	(9,736)
School Health Program	4,300,000	4,300,000	3,981,493	318,507
Total Expenditures	16,256,050	16,210,035	13,001,483	3,208,552
Excess (Deficiency) of Revenues Over Expenditures	(1,000,550)	(954,535)	3,772,165	4,726,700
Other Financing Sources (Uses)				
Transfer to Proprietary Fund	-	-	(60,731)	(60,731)
Net Change In Fund Balances	(1,000,550)	(954,535)	3,711,434	4,665,969
Fund Balance - Beginning of Year	17,809,432	17,809,432	17,809,432	-
Fund Balance - End of Year	$ 16,808,882	$ 16,854,897	$ 21,520,866	$ 4,665,969

See note to Required Supplementary Information.

SEQUOIA HEALTHCARE DISTRICT

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

Fiscal year	2019	2018	2017	2016	2015*
Measurement date	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	5,456,742	5,752,000	5,794,000	5,597,000	5,633,000
Differences between expected and actual experience	-	(55,000)	-	(378,000)	-
Changes in assumptions	-	(1,016,000)	-	4,532,000	-
Changes in benefits	-	-	-	-	-
Benefit payments, including refunds of employee contributions	(6,808,169)	(6,387,000)	(6,414,000)	(6,238,000)	(6,035,000)
Net change in total pension liability	(1,351,427)	(1,706,000)	(620,000)	3,513,000	(402,000)
Total pension liability - beginning	84,848,000	86,554,000	87,174,000	83,661,000	84,063,000
Total pension liability - ending	$ 83,496,573	$ 84,848,000	$ 86,554,000	$ 87,174,000	$ 83,661,000
Plan fiduciary net position					
Contributions - employer	$ 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	3,297,000	5,789,000	7,188,000	(83,000)	487,000
Benefit payments	(6,238,000)	(6,387,000)	(6,414,000)	(6,238,000)	(6,035,000)
Administrative expenses	(114,000)	(95,000)	(88,000)	(108,000)	(92,000)
Net change in plan fiduciary net position	(355,000)	3,107,000	4,486,000	(3,829,000)	(3,040,000)
Plan fiduciary net position - beginning	61,366,000	58,259,000	53,773,000	57,602,000	60,642,000
Plan fiduciary net position - ending	$ 61,011,000	$ 61,366,000	$ 58,259,000	$ 53,773,000	$ 57,602,000
Net pension liability - ending	$ 22,485,573	$ 23,482,000	$ 28,295,000	$ 33,401,000	$ 26,059,000
Plan's fiduciary net position as a percentage of total pension liability	73.1%	72.3%	67.3%	61.7%	68.9%
Covered Payroll	None	None	None	None	None

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

SEQUOIA HEALTHCARE DISTRICT

SCHEDULE OF CONTRIBUTIONS

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

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

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.

Supplementary Information

SEQUOIA HEALTHCARE DISTRICT

PROPRIETARY FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2019

	Budgetary Amounts			Variance
	Original	Final	Actual	Positive (Negative)
Operating Revenues				
Rental Income	$ 62,400	$ 62,400	$ 52,600	$ (9,800)
Operating Expenses				
Administration Expense	-	-	10,992	(10,992)
Maintenance - Property	25,000	25,000	40,158	(15,158)
Utilities	33,000	33,000	30,940	2,060
Insurance - Properties	2,050	2,050	1,734	316
Depreciation	47,000	47,000	94,160	(47,160)
Total Expenses	107,050	107,050	177,984	(70,934)
Operating Loss	(44,650)	(44,650)	(125,384)	(80,734)
Transfer from General Fund	-	-	60,731	60,731
Change in Net Position	(44,650)	(44,650)	(64,653)	(20,003)
Net Position - Beginning of Year	516,195	516,195	516,195	-
Net Position - End of Year	$ 471,545	$ 471,545	$ 451,542	$ (20,003)

SEQUOIA HEALTHCARE DISTRICT

ALL FUNDS
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2019

	Budgetary Amounts			Variance
	Original	Final	Actual	Positive (Negative)
Revenues				
Rental Income	$ 62,400	$ 62,400	$ 52,600	$ (9,800)
Tax Revenue	12,500,000	$12,500,000	13,743,556	1,243,556
Investment Income	50,000	50,000	311,104	261,104
Interest Income	5,500	5,500	18,988	13,488
Pension Income	2,700,000	2,700,000	2,700,000	-
Total Revenues	15,317,900	15,317,900	16,826,248	1,508,348
Expenses				
Administration Expense	290,000	290,000	248,413	41,587
Board Health Insurance	60,000	60,000	54,034	5,966
Employee Health Insurance	65,000	65,000	49,368	15,632
Employee Retirement Benefit	25,000	25,000	16,771	8,229
Investment Fees	35,000	35,000	35,857	(857)
Office Supplies/Equipment Maintenance	11,000	11,000	12,452	(1,452)
Accounting Fees	25,000	25,000	18,000	7,000
Board Expense	7,500	7,500	2,998	4,502
Association/Membership Fees	32,500	32,500	32,725	(225)
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LAFCO Fees	7,000	7,000	8,210	(1,210)
Legal Fees	40,000	40,000	113,308	(73,308)
Bank Fees	50	50	175	(125)
Grant Expenses	60,000	60,000	63,902	(3,902)
Samaritan House Medical Clinic	947,953	947,953	947,953	-
Other Grants	90,000	90,000	7,983	82,017
Ravenswood-Belle Haven Clinic	700,000	700,000	700,000	-
Community Grants Program	2,400,000	2,400,000	2,386,014	13,986
70 Strong	658,171	367,656	367,656	-
Sequoia Strong	-	244,500	49,546	194,954
TBD Programs	3,288,876	3,288,876	828,684	2,460,192
Maintenance - Property	25,000	25,000	40,158	(15,158)
Utilities	33,000	33,000	30,940	2,060
Insurance - Properties	2,050	2,050	1,734	316
Depreciation	47,000	47,000	94,160	(47,160)
Living Healthy	50,000	50,000	3,848	46,152
Heart Safe Program	65,000	65,000	74,736	(9,736)
School Health Program	4,300,000	4,300,000	3,981,493	318,507
Total Expenditures	16,363,100	16,317,085	13,179,467	3,137,618
Excess (Deficiency) of Revenue Over Expenses	(1,045,200)	(999,185)	3,646,781	4,645,966
Net Position - Beginning of Year	18,325,627	18,325,627	18,325,627	-
Net Position - End of Year	$17,280,427	$17,326,442	$21,972,408	$4,645,966

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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 14, 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) to determine the 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 determination of financial statement amounts. 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.

Eide Bailly LLP

Palo Alto, California
January 14, 2020