PETALUMA HEALTH CARE DISTRICT

Petaluma, California

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT

June 30, 2008 and 2007

Matson and Isom

TABLE OF CONTENTS

June 30, 2008 and 2007

	Page Number
Independent Auditors' Report	1
Statements of Net Assets	2
Statements of Revenues, Expenses, and Changes in Net Assets	3
Statements of Cash Flows	4
Notes to the Financial Statements	6

matson and isom

Founded in 1962 by
Robert M. Matson
and W. Howard Isom

Chico
3013 Ceres Avenue
P.O. Box 1638
Chico, CA 95927-1638
Phone (530) 891-6474
Fax (530) 893-6689

Redding
1255 East Street, Suite 202
P.O. Box 991891
Redding, CA 96099-1891
Phone (530) 244-4980
Fax (530) 244-4983

www.matson-isom.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Petaluma Health Care District
Petaluma, California

We have audited the accompanying statements of net assets of Petaluma Health Care District (the District), as of and for the years ended June 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2008 and 2007, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

The District has not presented management's discussion and analysis (MD&A) that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic statements.

Matson and Isom

September 10, 2008

June 30	2008	2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 70,104	$ 6,061
Accounts receivable - net of allowance of $2,000 (2008 and 2007)	45,229	60,268
Prepaid expenses and deposits	27,280	24,774
Notes receivable - current portion	43,658	147,932
Total Current Assets	186,271	239,035
NONCURRENT INVESTMENTS	6,587,561	3,205,271
OTHER ASSETS		
Deferred affiliation costs - net	154,695	172,707
Notes receivable - net of current portion	68,169	124,332
Goodwill	20,000	30,000
Total Other Assets	242,864	327,039
CAPITAL ASSETS - NET	10,130,711	11,989,989
Total Assets	$ 17,147,407	$ 15,761,334
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 9,012	$ 36,240
Line of credit	75,000	-
Accounts payable	129,745	91,824
Accrued liabilities:		
Payroll and vacation	57,044	63,175
Benefits	215,099	189,695
Total Current Liabilities	485,900	380,934
LONG-TERM DEBT		
Net of current maturities	15,771	24,438
OTHER LIABILITIES	20,323	57,422
DEFERRED REVENUE - NET	3,579,403	3,998,179
Total Liabilities	4,101,397	4,460,973
NET ASSETS		
Invested in capital assets - net of related debt	10,105,928	11,929,311
Unrestricted (deficit)	2,940,082	(628,950)
Total Net Assets	13,046,010	11,300,361
Total Liabilities and Net Assets	$ 17,147,407	$ 15,761,334

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Petaluma Health Care District

Years Ended June 30	2008	2007
OPERATING REVENUE		
Program service fees	$ 1,464,532	$ 1,392,211
Rental income	918,303	1,053,215
Total Revenue	2,382,835	2,445,426
OPERATING EXPENSES		
Salaries, wages, and benefits	898,969	899,006
Depreciation and amortization	731,405	794,079
Professional fees	247,481	126,720
Purchased services	555,105	558,013
Bad debt expense	118,000	107,805
Operating supplies	21,901	35,890
Office supplies	35,620	38,037
Insurance	35,177	35,665
Utilities	32,838	46,538
Repairs and maintenance	25,724	45,055
Rents and leases	188,208	123,707
Advertising and promotion	90,858	56,498
Community support	64,368	57,089
Meetings and training	11,636	10,582
Dues and subscriptions	13,364	13,597
Travel	17,317	17,972
Other	17,819	55,730
Total Expenses	3,105,790	3,021,983
Loss From Operations	(722,955)	(576,557)
NONOPERATING REVENUES (EXPENSES)		
Investment income	316,239	301,435
Gain (loss) on sale of assets	2,148,645	(62,804)
Other income	4,946	17,681
Interest expense	(1,226)	(13,023)
Total Nonoperating Revenues (Expenses)	2,468,604	243,289
Change in Net Assets	1,745,649	(333,268)
Net Assets - Beginning of Year	11,300,361	11,633,629
Net Assets - End of Year	$ 13,046,010	$ 11,300,361

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

STATEMENTS OF CASH FLOWS

Years Ended June 30	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts for services and support	$ 1,479,571	$ 1,363,538
Rental receipts	499,527	634,439
Payments to suppliers and contractors	(1,440,001)	(1,339,922)
Payments on behalf of employees	(879,696)	(905,733)
Other receipts and payments	(37,099)	8,867
Net Cash Used by Operating Activities	(377,698)	(238,811)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(229,400)	(306,228)
Sale of capital asssets	3,552,347	
Line of credit (payments) proceeds	75,000	(200,000)
Proceeds from long-term debt	-	29,000
Debt payments	(35,895)	(858,992)
Interest paid on long-term debt	(1,226)	(8,884)
Net Cash Provided (Used) by Capital and Related Financing Activities	3,360,826	(1,345,104)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	302,314	336,877
Net transfer of investments	(3,381,836)	954,072
Change in physician loans	160,437	245,953
Net Cash (Used) Provided by Investing Activities	(2,919,085)	1,536,902
Net Increase (Decrease) in Cash and Cash Equivalents	64,043	(47,013)
Cash and Cash Equivalents - Beginning of Year	6,061	53,074
Cash and Cash Equivalents - End of Year	$ 70,104	$ 6,061

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

Years Ended June 30	2008	2007
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (722,955)	$ (576,557)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	731,405	794,079
Deferred revenue amortization	(418,776)	(418,776)
Changes in:		
Accounts receivable	15,039	(28,673)
Prepaid expenses	(2,506)	(4,338)
Accounts payable	37,921	(6,686)
Accrued liabilities	19,273	(6,727)
Other liabilities	(37,099)	8,867
Net Cash Used by Operating Activities	$ (377,698)	$ (238,811)

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in the preparation of the financial statements.

Nature of Operations Petaluma Health Care District (the District) was organized in 1946 and is governed by elected officials. The District's purpose is to promote health care services in Petaluma, California, and the surrounding community.

Basis of Accounting Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, established financial reporting requirements for all state and local governments. The District has adopted the financial reporting provisions of GASB No. 34 but has elected not to present Management's Discussion and Analysis (MD&A) that GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Use of Estimates The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents Cash and cash equivalents include cash on hand and demand deposits in a financial institution.

Investments Noncurrent investments are designated by the Board of Directors for future programs and expansion over which the Board retains control and may, at its discretion, subsequently use for other purposes.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid investments with maturities of one year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value. Fair value is determined from quoted market prices. The District is restricted by state law and the Board's investment policy in the types of investments that can be made.

Permissible investments include the county treasury, the state Local Agency Investment Fund (LAIF), federally insured deposits, and individual securities. Individual securities must be backed by the federal government or rated AAA, AA, or A by Standard & Poor's or Aaa, Aa, or A by Moody's indices. In addition, maturities may not exceed five years, unless authorized by the District's investment policy. The proportion of investments in each of the permissible categories is restricted as defined in the *California Government Code* and further limited by the District's investment policy. The maximum maturity of funds invested is approximately ten years. The District's investment policy established safety of principal as the primary investment objective. The District's investment strategy is to realize a reasonable interest yield, and investment decisions are executed with the intent that they will be held to maturity.

The District realized a loss from sales of investments of $18,767 at June 30, 2008. The calculation of realized gain or loss is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held for more than one fiscal year and subsequently sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The unrealized (loss) gain on investments was ($454) and $71,767 at June 30, 2008 and 2007, respectively. This amount takes into account all changes in fair value, including purchases and sales that occurred during the year.

Goodwill Goodwill is the excess of cost over net tangible assets of acquiring a personal response system program. Goodwill is amortized over five years. Accumulated amortization amounted to $30,000 and $20,000 at June 30, 2008 and 2007, respectively.

Capital Assets Capital assets are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method.

Operating Income and Expenses The statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating income and expenses. Operating revenues result from exchange transactions generated from program service fees and rental income. Nonexchange revenues, including grants and contributions, if any, received for purposes other than capital asset acquisition, are reported as nonoperating income. Operating expenses are all expenses incurred to provide operating income, other than financing costs.

Equity Equity is classified into two components. These components consist of: 1) Invested in capital assets net of related debt, which consists of capital assets net of accumulated depreciation reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets; and 2) Unrestricted, which is the remaining equity that does not meet the other criteria.

Risk Management The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The District participates in two joint powers agreements for comprehensive liability coverage and for workers' compensation coverage.

2. LEASE/AFFILIATION AGREEMENT

On November 4, 1996, the District signed an agreement with SRM Alliance Hospital Services, a California nonprofit public benefit corporation (Alliance), to lease Petaluma Valley Hospital, the facility housing the hospice program, and all of the personal property used in connection with those operations. The agreement also contained provisions to assign the District's interest in various leased equipment and real estate, third-party participation agreements, licenses, trademarks, and other intangible property, along with the transfer of ownership of inventory and patient medical records. The agreement commenced on January 19, 1997, for a period of 20 years.

In consideration for this agreement, Alliance agreed to pay cash, pay off certain debts, and become the primary obligor on other debts. The amount of lease payments attributable to real estate was recorded as an operating lease, the amount attributed to personal property was recorded as a sales-type lease, and the amount attributed to goodwill was recorded as a sale. The sales-type lease proceeds and sale of goodwill were recognized as income in 1997. The operating lease proceeds are deferred and amortized over the 20-year lease term. The allocation of lease proceeds was based on the related fair market values.

Alliance helps to fund a District-sponsored free clinic for a minimum of $15,000 annually. Alliance also committed to invest at least $14 million in capital improvements to the Hospital with a minimum investment of $500,000 annually over the lease term to total at least $7 million invested by the tenth anniversary, which was January 19, 2007.

3. CASH AND INVESTMENTS

The following is a summary of cash and investments at June 30:

	2008	2007
CASH ON HAND	$ 72	$ 200
DEPOSITS (1)	70,032	5,861
Subtotal	70,104	6,061
INVESTMENTS THAT ARE NOT SECURITIES (2)		
Local Agency Investment Fund	733	698
Federal treasury obligations	1,218,636	31,242
Subtotal	1,219,369	31,940
INVESTMENT SECURITIES		
U.S. government securities	1,283,673	2,160,064
Corporate bonds	4,084,519	1,013,267
Subtotal	5,368,192	3,173,331
Total Cash and Investments	$ 6,657,665	$ 3,211,332

(1) Deposits The carrying amount of deposits includes demand deposits in a financial institution.

(2) Investments That are Not Securities A "security" is a transferable financial instrument that evidences ownership, whether in physical or book entry form. Investments that are not securities do not have custodial credit risk because they do not involve a transferable financial instrument. Thus, they are not subject to custodial credit risk.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District has a collateralization agreement with the bank, which mitigates custodial credit risk. The cash balance in the bank at June 30, 2008, amounted to $12,871. Deposits amounting to $100,000 are covered by depository insurance, and the balance, if any, is subject to the collateralization agreement.

Credit Risk – Investments

California Government Code, Section 53601 limits investments in commercial paper to "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by nationally recognized statistical rating organizations (NRSRO) and limits investments in medium-term notes to a rating of A or better. Individual securities must be backed by the federal government or rated AAA, AA, or A by Standard & Poor's or Aaa, Aa, or A by Moody's indices. The District has no investment policy that would further limit its investment choices.

Investments by investment type and ratings are as follows at June 30, 2008:

Investment Type	Fair Value / Amortized Cost	AAA	A+ or AA	A	Not Rated
Local Agency Investment Fund	$ 733	$ -	$ -	$ -	$ 733
Federal treasury obligations	1,218,636	-	-	-	1,218,636
U.S. government securities	1,283,673	1,271,387	-	-	12,286
Corporate bonds	4,084,519	302,925	1,517,123	2,264,471	-
Totals	$6,587,561	$1,574,312	$1,517,123	$2,264,471	$ 1,231,655

Investments by investment type and ratings are as follows at June 30, 2007:

Investment Type	Fair Value / Amortized Cost	AAA	A+ or AA	A	Not Rated
Local Agency Investment Fund	$ 698	$ -	$ -	$ -	$ 698
Commercial paper	31,242	-	-	-	31,242
U.S. government securities	2,160,064	1,477,985	511,075	-	171,004
Corporate bonds	1,013,267	-	711,965	301,302	-
Totals	$3,205,271	$1,477,985	$1,223,040	$ 301,302	$ 202,944

Interest Rate Risk – Investments

California Government Code, Section 53601 limits investments to maturities of five years, unless the governing body has authorized the longer terms. The District has not adopted a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Investments grouped by maturity date at June 30, 2008, are as follows:

Maturity	Fair Value/ Amortized Cost
Less than one year	$ 1,721,362
One to five years	4,853,913
Six to ten years	10,547
More than ten years	1,739
Total	$ 6,587,561

Investments grouped by maturity date at June 30, 2007, are as follows:

Maturity	Fair Value/ Amortized Cost
Less than one year	$ 1,509,925
One to five years	1,524,342
Six to ten years	12,344
More than ten years	158,660
Total	$ 3,205,271

4. NOTES RECEIVABLE

Loans have been made to physicians, which are due over one to five years. The loans have varying interest rates and terms. Notes receivable amounted to $245,890 and $285,686 at June 30, 2008 and 2007, respectively. The allowances for uncollectible amounts totaled $174,492 and $78,204 at June 30, 2008 and 2007, respectively.

5. CAPITAL ASSETS

Capital assets consisted of the following at June 30, 2008:

	Balance June 30, 2007	Additions	Disposals	Balance June 30, 2008
Land	$ 2,065,519	$ -	$ (327,973)	$ 1,737,546
Buildings and improvements	26,231,482	7,680	(1,986,826)	24,252,336
Construction in progress	64,799	-	(515)	64,284
Furniture and equipment	2,400,382	212,636	(22,226)	2,590,792
Subtotal	30,762,182	220,316	(2,337,540)	28,644,958
Less: Accumulated depreciation	18,772,193	703,393	(961,339)	18,514,247
Capital Assets - Net	$ 11,989,989	$ (483,077)	$ (1,376,201)	$ 10,130,711

Capital assets consisted of the following at June 30, 2007:

	Balance June 30, 2006	Additions	Disposals	Balance June 30, 2007
Land	$ 2,065,519	$ -	$ -	$ 2,065,519
Buildings and improvements	26,222,621	8,861	-	26,231,482
Construction in progress	64,799	-	-	64,799
Furniture and equipment	2,103,017	297,365	-	2,400,382
Subtotal	30,455,956	306,226	-	30,762,182
Less: Accumulated depreciation	18,006,126	766,067	-	18,772,193
Capital Assets - Net	$ 12,449,830	$ (459,841)	$ -	$ 11,989,989

Depreciation expense for the years ended 2008 and 2007 was $703,393 and $784,079, respectively.

6. DEFERRED AFFILIATION COSTS

Costs incurred for the lease/affiliation agreement were allocated between costs attributed to the operating lease, costs attributed to the sale of personal property, and goodwill in the same ratio as the proceeds allocated from the agreement. Costs attributed to the operating lease are capitalized and will be amortized over the life of the lease. Accumulated amortization amounted to $205,649 and $187,637 at June 30, 2008 and 2007, respectively.

7. LINE OF CREDIT

The District entered into a revolving line of credit agreement with Bank of Marin, which provides for advances up to $500,000. Interest is payable monthly on the outstanding advances at the rate of 6.00%, secured by the assets of the District. As of June 30, 2008, there was a $75,000 outstanding balance which was repaid in July of 2008. The line of credit expires in November of 2008.

8. LONG-TERM DEBT

Long-term debt consisted of the following:

	Balance June 30, 2006	Additions	Retirements	Balance June 30, 2007	Retirements	Balance June 30, 2008
Note payable to Sonoma County in annual installments, including interest at a variable rate between 5.6% and 7.75% (approximately $2,100 per year until 2010).	$ 6,814	$ -	$ 1,521	$ 5,293	$ 1,627	$ 3,666
Note payable to Ford Motor Credit, payable in monthly installments of $603 through May 2011 with no interest. The note is secured by a vehicle.	36,200	-	7,843	28,357	7,240	21,117
Note payabe to Capital One Auto Finance, payable in monthly installments of $492 through February 2013, including interest at 6.69%. The note is secured by a vehicle.	-	29,000	1,972	27,028	27,028	-
Total Long-Term Debt	$ 43,014	$ 29,000	$ 11,336	$ 60,678	$ 35,895	$ 24,783

Scheduled principal and interest payments on long-term debt are as follows:

Year Ending June 30	Principal Amount	Interest Amount
2009	$ 9,012	$ 283
2010	9,134	147
2011	6,637	-
Total	$ 24,783	$ 430

9. OTHER LIABILITIES

Other liabilities include a rent deposit of $20,323 and $21,223 for the years ended June 30, 2008 and 2007, respectively; a $25,000 refund to Larry L. Hillblom Foundation for June 30, 2007; plus other minor liabilities for 2007.

10. DEFERRED REVENUE

Deferred revenue includes prepaid operating lease payments. The operating lease payments are recognized as rental income over the term of the lease. Deferred revenue recognized in 2008 and in 2007 amounted to $418,753, and accumulated revenue amortized amounted to $4,795,660 and $4,376,884 at June 30, 2008 and 2007, respectively.

11. OPERATING LEASE AGREEMENTS

The District is the lessor of certain land and buildings under noncancelable operating leases. Future minimum rental receipts under the operating leases are as follows:

2009	$ 749,247
2010	$ 563,507
2011	$ 428,722
2012	$ 429,069
2013	$ 418,776
Thereafter	$ 1,485,523

The District entered into operating leases for professional and office space, which expire in various years through July 2012. Minimum future rental payments under noncancelable operating leases having remaining terms in excess of one year as of June 30, 2008, are as follows:

2009	$ 154,112
2010	$ 133,483
2011	$ 138,158
2012	$ 93,117
2013	$ 5,738

Rent expense amounted to $161,085 and $115,664 at June 30, 2008 and 2007, respectively.

12. PENSION PLANS

The District sponsors the Deferred Compensation Plan of Petaluma Health Care District, a defined contribution retirement plan under *Internal Revenue Code*, Section 457. All permanent employees 21 years of age or older are eligible to participate. Participants may contribute up to 22% of their annual salary. The District will match 50% of the participant's contribution to a maximum of 2.5% of their salary. Total participant and District contributions are immediately 100% vested.

The District also sponsors the Employees' Retirement Plan of Petaluma Health Care District, a defined contribution profit sharing plan under *Internal Revenue Code*, Section 401(a). All permanent employees 21 years of age or older are eligible to participate. The District contributes 2% of the participant's annual salary, and contributions are immediately 100% vested. Contributions to the two plans amounted to $18,728 and $15,940 for 2008 and 2007, respectively.

13. POSTRETIREMENT BENEFITS

Under an amended policy adopted by the Board of Directors in July 2000, retired directors who were in office on January 1, 1991, or retired directors who served in office through December 31, 2000, and who completed 12 years of service prior to retirement, upon termination, were eligible to receive health and welfare benefits afforded to the employees of the District. The District pays the premiums for such retired directors and their eligible dependents. Such benefits extend after a director's termination for the number of years equal to the number of years served by the director as a member of the Board. The Board of Directors adopted a new policy in 2003 whereby the District will not provide medical benefits to directors assuming office as of January 1, 2001, or to re-elected directors assuming office as of January 1, 2001, but will continue to provide medical benefits both to those who are in office now for the rest of their term (ending this year or two years hence) and to former directors who are subject to the amended policy adopted in July 2000.

The District accrued an estimated liability for future costs of benefits provided under this policy based on an actuarial study conducted in 1996. This study utilized an entry-age normal actuarial cost method with an interest rate assumption of 6% and a health inflation assumption of 5% per year. The liability amounted to approximately $210,065 and $186,962 at June 30, 2008 and 2007, respectively, and is included in accrued employee benefits.

The District finances obligations under this policy on a pay-as-you-go basis. Benefits paid amounted to $42,450 and $38,534 at June 30, 2008 and 2007, respectively. At June 30, 2008 and 2007, five and six participants were eligible to receive benefits under the policy, respectively.

14. COMMITMENTS AND CONTINGENCIES

Joint Powers Agreements

The District participates in a joint venture under a joint powers agreement (JPA) with the Association of California Healthcare Districts, Inc. – ALPHA FUND (the Fund). The Fund arranges for and provides certain member health care entities with pooled workers' compensation self-insurance.

The District also participates in a joint venture under a joint powers agreement (JPA) with the Program BETA Risk Management Authority (the Program). The Program was formed for the purpose of operating a comprehensive liability self-insurance program for certain healthcare districts of the Association of California Healthcare Districts, Inc. (ACHD). The Program operates as a separate JPA established as a public agency separate and distinct from ACHD. Each member hospital pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in the Program. The Program provides coverage on a claims-made basis.

Condensed financial information of BETA Healthcare Group (which includes the Program BETA JPA) for the year ended December 31, 2007, and of the ALPHA Fund JPA for the year ended June 30, 2008, is as follows:

	ALPHA Fund	BETA Healthcare Group
Total assets	$ 71,359,281	$ 407,622,546
Total liabilities	62,335,041	318,234,988
Fund Balance	$ 9,024,240	$ 89,387,558
Total revenues	$ 23,092,622	$ 93,145,090
Total expenditures	(17,642,906)	(81,958,507)
Member surplus funds contributed	-	3,000
Change in unrealized gains on investments	(369,888)	6,448,890
Member dividends	(600,000)	(5,000,000)
Net Increase in Fund Balance	$ 4,479,828	$ 12,638,473

Revenue Bonds

Health Facility Revenue Bonds Series 1990A were advance funded in 1997. Funds were used to purchase securities that were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments (for the 1990A Series A Bonds). The 1990A Series A Bonds are considered defeased, and the related liability has been removed from the books. Total principal outstanding on the 1990A Series A Bonds as of June 30, 2008, was $2,790,000.

15. SUBSEQUENT EVENTS

On July 3, 2008, the District closed escrow on the sale of 450 Hayes Lane in Petaluma, California. This sale resulted in a gain of approximately $1,560,000 for the District.

On July 7, 2008, the District signed a purchase agreement for 1304 Southpoint Boulevard in Petaluma, California. The total purchase price for the commercial building is $8,700,000. The District made a $100,000 refundable deposit on the purchase.

In August 2008, the District turned a claim over to BETA for a potential lawsuit. The claim is for a woman who fell in the parking lot of Petaluma Health Center. Total damages requested are $20,000. The outcome of the claim is undeterminable at this time.