

# **Petaluma Health Care District**

**Petaluma, California**

**FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT**

**June 30, 2016 and 2015**



**K · C O E  
I S O M**

# Petaluma Health Care District

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June 30, 2016 and 2015

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Petaluma Health Care District (the District), which comprise the statements of net position as of June 30, 2016 and 2015; the statements of revenues, expenses, and changes in net position, and cash flows; and the related notes to the financial statements, which collectively comprise the 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.

### ***Auditors' Responsibility***

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 and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audits 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 auditors' 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 District'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 District'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 opinion.

## **INDEPENDENT AUDITORS' REPORT**

(Continued)

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

### ***Other Matters***

***Required Supplementary Information*** The District has omitted management's discussion and analysis (MD&A) that accounting principles generally accepted in the United States of America require to 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*KCoe Jam, LLP*

October 12, 2016  
Chico, California

**Petaluma Health Care District**  
**STATEMENTS OF NET POSITION**

June 30	2016	2015
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 84,777	\$ 103,400
Accounts receivable - net of allowance of \$13,806 and \$16,000 in 2016 and 2015, respectively	26,400	63,528
Inventory	1,741	1,741
Prepaid expenses and deposits	73,097	76,445
Other receivables	5,281	10,286
Notes receivable - current portion	177,476	155,550
<b>Total Current Assets</b>	<b>368,772</b>	<b>410,950</b>
<b>Investments</b>	<b>2,662,211</b>	<b>3,548,166</b>
<b>Notes Receivable - Net</b>	<b>1,396,117</b>	<b>1,572,848</b>
<b>Prepaid Affiliation Costs</b>	<b>10,599</b>	<b>28,611</b>
<b>Capital Assets - Net</b>	<b>4,930,524</b>	<b>5,449,130</b>
<b>TOTAL ASSETS</b>	<b>9,368,223</b>	<b>11,009,705</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Line of credit	-	60,000
Accounts payable	198,638	177,360
Accrued liabilities:		
Payroll and vacation	104,439	123,348
Retiree health insurance	281,759	296,947
Rent deposits	5,000	5,000
Advances from grantors	43,235	-
<b>Total Current Liabilities</b>	<b>633,071</b>	<b>662,655</b>
<b>Prepaid Lease Payments</b>	<b>229,195</b>	<b>647,971</b>
<b>TOTAL LIABILITIES</b>	<b>862,266</b>	<b>1,310,626</b>
<b>NET POSITION</b>		
Net investment in capital assets	4,930,524	5,449,130
Unrestricted	3,575,433	4,249,949
<b>TOTAL NET POSITION</b>	<b>\$ 8,505,957</b>	<b>\$ 9,699,079</b>

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

# Petaluma Health Care District

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years Ended June 30	2016	2015
<b>Operating Revenues</b>		
Program service fees	\$ 1,380,298	\$ 1,474,121
Rental income	524,427	549,427
<b>Total Operating Revenues</b>	<b>1,904,725</b>	<b>2,023,548</b>
<b>Operating Expenses</b>		
Salaries, wages, and benefits	1,195,464	1,321,230
Depreciation and amortization	662,538	663,707
Professional fees	111,060	48,115
Purchased services	787,354	722,934
Bad debt expense	21,950	12,500
Operating supplies	43,481	35,206
Office supplies	26,376	29,308
Insurance	19,068	27,965
Utilities	32,622	31,386
Repairs and maintenance	1,608	8,038
Rents and leases	71,527	117,733
Advertising and promotion	23,788	37,429
Community support	180,228	101,907
Meetings and training	9,764	10,545
Dues and subscriptions	11,196	13,292
Travel	17,608	18,813
Other	35,447	55,621
<b>Total Operating Expenses</b>	<b>3,251,079</b>	<b>3,255,729</b>
<b>Operating Loss</b>	<b>(1,346,354)</b>	<b>(1,232,181)</b>
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	154,788	177,366
Gain (Loss) on sale of assets	1,484	(18,925)
Interest expense	(3,040)	(7,872)
<b>Net Nonoperating Revenues (Expenses)</b>	<b>153,232</b>	<b>150,569</b>
<b>Change in Net Position</b>	<b>(1,193,122)</b>	<b>(1,081,612)</b>
<b>Net Position - Beginning of Year</b>	<b>9,699,079</b>	<b>10,780,691</b>
<b>Net Position - End of Year</b>	<b>\$ 8,505,957</b>	<b>\$ 9,699,079</b>

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

# Petaluma Health Care District

## STATEMENTS OF CASH FLOWS

Years Ended June 30	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts for services and support	\$ 1,422,431	\$ 1,494,094
Receipt of grant awards	43,235	-
Rental receipts	105,651	130,649
Payments to suppliers and contractors	(1,346,501)	(1,250,811)
Payments to and on behalf of employees	(1,214,373)	(1,323,222)
Payments on behalf of retiree health insurance	(15,188)	(21,489)
Other payments	(21,950)	(12,500)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(1,026,695)</b>	<b>(983,279)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(125,920)	(178,174)
Change in line of credit	(60,000)	(30,000)
Interest paid	(3,040)	(7,872)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCIAL ACTIVITIES</b>	<b>(188,960)</b>	<b>(216,046)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income received	92,227	160,239
Net sale of investments	950,000	967,229
Change in notes receivable	154,805	139,759
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>1,197,032</b>	<b>1,267,227</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(18,623)</b>	<b>67,902</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>103,400</b>	<b>35,498</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 84,777</b>	<b>\$ 103,400</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (1,346,354)	\$ (1,232,181)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	662,538	663,707
Prepaid lease payments recognized	(418,776)	(418,778)
Changes in:		
Accounts receivable and other receivables	42,133	19,973
Prepaid expenses and deposits	3,348	(13,791)
Accounts payable	21,278	21,272
Accrued liabilities	(34,097)	(1,992)
Advances from grantors	43,235	(21,489)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (1,026,695)</b>	<b>\$ (983,279)</b>

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

# Petaluma Health Care District

## NOTES TO THE FINANCIAL STATEMENTS

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### 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 improve the health and well-being of the local community through advocacy, partnerships and education, and to insure local access to health services in Petaluma, California, and the surrounding community.

**Basis of Accounting** The District applies the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*. The statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with GASB pronouncements: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations; 2) Accounting Principles Board (APB) Opinions; and 3) Accounting Research Bulletins (ARB) of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

The District also applies GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These statements establish standards for reporting deferred outflows of resources, deferred inflows of resources, and net position for all state and local governments.

The District has adopted the financial reporting provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, but has elected not to present Management's Discussion and Analysis (MD&A) that GASB has determined it 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 accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, 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.



**Petaluma Health Care District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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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 gain from sales of investments of \$1,484 for the year ended June 30, 2016, and loss of \$18,925 for the year ended June 30, 2015. 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 on investments was \$3,096 and \$2,533 at June 30, 2016 and 2015, respectively. This amount includes all changes in fair value, including purchases and sales that occurred during the year.

**Fair Value Measurements** The District accounts for certain assets and liabilities in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. The District measures some assets for fair value on a recurring basis as described in note 2. The District may be required, from time to time, to measure certain assets and liabilities at fair value on a non-recurring basis. These include assets that are adjusted for the lower of cost or market, such as an inventory valuation.

The District classifies its fair value assets and liabilities into a hierarchy of three levels based on the markets in which they are traded and the reliability of the assumptions used to determine fair value. The asset or liability measurement level within the hierarchy is based on the lowest level of any assumption that is significant to the measurement.

**Petaluma Health Care District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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Valuations within the hierarchy levels are based upon the following:

- Level 1:* Quoted market prices for identical instruments traded in active exchange markets.
- Level 2:* Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.
- Level 3:* Model-based techniques that use at least one significant assumption not observable in the market.

**Inventory** Inventory is stated at lower of cost or market and is accounted for on the first-in-first out basis.

**Accounts Receivable** Accounts receivable are carried at their estimated collectible amounts. Collectability is determined based on past credit history with customers and their current financial condition. The allowance for noncollection pertains to Lifeline customer receivables and amounts to \$13,806 and \$16,000 for June 30, 2016 and 2015, respectively.

**Capital Assets** Capital assets are defined by the District as having an initial cost of \$5,000 or more and an estimated useful life in excess of one year. All 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. The range of estimated useful lives in years by type of asset is as follows:

Buildings	20-30
Site improvements	5-30
Equipment	5-20
Vehicles	5

**Advances From Grantors** Proceeds received from grant awards are passed through the District so no revenue or expense is recognized.

## Petaluma Health Care District

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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**Operating Revenues and Expenses** The statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions generated from program service fees, which are primarily Lifeline service fees, and rental income. Nonexchange revenues, such as contributions received for purposes other than capital asset acquisition and investment income, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide operating income and other financing costs.

**Net Position** Net position is classified into two components. These components consist of: 1) net investment in capital assets, 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.

**Advertising** The District expenses advertising costs when incurred.

**Petaluma Health Care District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**2. CASH AND INVESTMENTS**

The following is a summary of cash and investments:

June 30	2016	2015
<b>Cash on Hand</b>	\$ 221	\$ 138
<b>Deposits (1)</b>	84,556	103,262
<b>Subtotal</b>	84,777	103,400
<b>Investments That are Not Securities (2)</b>		
Local Agency Investment Fund	775	772
Money market fund / Commercial paper	128,183	294,192
<b>Subtotal</b>	128,958	294,964
<b>Investment Securities</b>		
U.S. government securities	1,083,305	1,500,643
Municipal bonds	104,066	420,039
Corporate bonds	1,345,882	1,332,520
<b>Subtotal</b>	2,533,253	3,253,202
<b>Total Cash and Investments</b>	\$ 2,746,988	\$ 3,651,566

- (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, 2016, amounted to \$84,777. Deposits amounting to \$250,000 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’s investment policy does not place additional limits on its investment choices.

## Petaluma Health Care District

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

The District's investment portfolio includes individual securities plus shares held by investment pools. The investment pools are comprised of various tax-exempt bonds and corporate bonds, both foreign and domestic. As of June 30, 2016, the District owned various corporate bonds that are rated by Standard & Poor's to below an A rating. This investment rating is below the minimum rating required by the *California Government Code* and the District's investment policy.

Investments by investment type and ratings are as follows:

June 30, 2016	Fair Value / Amortized Cost	AA+, A+, A	AA-, A-	BB+, BBB+, BB-	Not Rated
Local Agency Investment Fund	\$ 775	\$ -	\$ -	\$ -	\$ 775
Money market fund	128,183	-	-	-	128,183
U.S. government securities	1,083,305	1,079,301	-	3,684	320
Municipal bonds	104,066	104,066	-	-	-
Corporate bonds	1,345,882	615,634	449,607	177,786	102,855
<b>Totals</b>	<b>\$ 2,662,211</b>	<b>\$ 1,799,001</b>	<b>\$ 449,607</b>	<b>\$ 181,470</b>	<b>\$ 232,133</b>

June 30, 2015	Fair Value / Amortized Cost	AA+, A+, A	AA-, A-	BB+, BBB+, BB-	Not Rated
Local Agency Investment Fund	\$ 772	\$ -	\$ -	\$ -	\$ 772
Money market fund	294,192	-	-	-	294,192
U.S. government securities	1,500,643	1,497,400	-	3,036	207
Municipal bonds	420,039	-	420,039	-	-
Corporate bonds	1,332,520	753,130	445,308	132,453	1,629
<b>Totals</b>	<b>\$ 3,548,166</b>	<b>\$ 2,250,530</b>	<b>\$ 865,347</b>	<b>\$ 135,489</b>	<b>\$ 296,800</b>

**Petaluma Health Care District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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**Concentration of Credit Risk – Investments**

*California Government Code*, Section 53635, places the following concentration limits on the state investment pool and the county investment pool:

No more than 40% may be invested in eligible commercial paper; no more than 10% may be invested in the outstanding commercial paper of any single issuer; and no more than 10% of the outstanding commercial paper of any single issuer may be purchased.

*California Government Code*, Section 53601, places the following concentration limits on the District's investments:

No more than 5% may be invested in the securities of any one issuer, except the obligations of the U.S. government, U.S. government agencies, and U.S. government-sponsored enterprises; no more than 10% may be invested in any one mutual fund; no more than 25% may be invested in commercial paper; no more than 10% of the outstanding commercial paper of any single issuer may be purchased; no more than 30% may be invested in bankers' acceptances of any one commercial bank; no more than 30% may be invested in negotiable certificates of deposit; no more than 20% may be invested in repurchase agreements or reverse-repurchase agreements; and no more than 30% may be invested in medium-term notes.

Investments that exceeded 5% of the District's total investments are as follows:

June 30, 2016	Market Value	Percentage of Total Portfolio
U.S. government securities:		
Federal Home Loan Bank Bond 4.875%	\$ 259,393	9.77%
U.S. Treasury Note .875%	\$ 150,347	5.66%
U.S. Treasury Note .75%	\$ 401,065	15.11%
U.S. Treasury Note 1.625%	\$ 256,670	9.67%
Corporate bonds:		
Astrazeneca 1.95%	\$ 152,490	5.74%
Broadcom Corp. 5.53%	\$ 146,715	5.53%
General Electric Capital Corp. 1.6%	\$ 201,784	7.60%
Starbucks Corp. 2%	\$ 153,329	5.77%
Cisco Systems Inc. 2.125%	\$ 143,788	5.42%
Costco Wholesale Corp. 1.7%	\$ 153,609	5.79%
Wal-Mart Stores Inc. 1.95%	\$ 154,089	5.80%

**Petaluma Health Care District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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June 30, 2015	Market Value	Percentage of Total Portfolio
U.S. government securities:		
U.S. Treasury Note .75%	\$ 398,711	11.24%
U.S. Treasury Note 1.625%	\$ 252,363	7.11%
Municipal bonds:		
CA State GO Bonds Taxable 5.95%	\$ 311,787	8.79%
Corporate bonds:		
General Electric Capital Corp. 1.6%	\$ 201,236	5.67%

**Petaluma Health Care District**  
 NOTES TO THE FINANCIAL STATEMENTS  
 (Continued)

**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 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 are as follows:

June 30, 2016	Less Than One Year	One to Five Years	Six to Ten Years	More Than Ten Years
Local Agency Investment Fund	\$ 775	\$ -	\$ -	\$ -
Money market fund	128,183	-	-	-
U.S. government securities	409,739	673,566	-	-
Municipal bonds	-	104,066	-	-
Corporate bonds	100,158	1,245,724	-	-
<b>Totals</b>	<b>\$ 638,855</b>	<b>\$ 2,023,356</b>	<b>\$ -</b>	<b>\$ -</b>

June 30, 2015	Less Than One Year	One to Five Years	Six to Ten Years	More Than Ten Years
Local Agency Investment Fund	\$ 772	\$ -	\$ -	\$ -
Money market fund	294,192	-	-	-
U.S. government securities	156,633	1,344,010	-	-
Municipal bonds	311,787	108,252	-	-
Corporate bonds	-	1,332,520	-	-
<b>Totals</b>	<b>\$ 763,384</b>	<b>\$ 2,784,782</b>	<b>\$ -</b>	<b>\$ -</b>



### **Fair Value Measurements**

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of June 30, 2016:

- Local Agency Investment Fund of \$775 is valued using quoted prices for similar instruments in active market and quoted prices for identical or similar instruments in markets that are not active (Level 2 inputs).
- U.S. government securities of \$1,083,305 and money market funds of \$128,183 are valued using quoted market prices (Level 1 inputs).
- Municipal bonds of \$104,066 are valued using a matrix pricing model (Level 2 inputs).
- Corporate bonds of \$1,345,882 are valued using a matrix pricing model (Level 2 inputs).

### **3. NOTES RECEIVABLE**

Included in notes receivable are two promissory notes secured by second deeds of trust amounting to \$1,573,593 and \$1,728,398 as of June 30, 2016 and 2015, respectively. The first note is payable in monthly installments at an annual rate of 6% and amortized over six years with an outstanding balance of \$504,768 and \$512,979 as of June 30, 2016 and 2015, respectively. The second note is payable in monthly installments beginning on July 1, 2013, at a rate of 5.75% per annum and amortized over a ten-year period with an outstanding balance of \$1,068,825 and \$1,215,419 as of June 30, 2016 and 2015, respectively.

Subsequent to June 30, 2016, the first note was paid off in its entirety.

**Petaluma Health Care District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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**4. CAPITAL ASSETS**

Capital assets consisted of the following:

June 30, 2016	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 962,310	\$ -	\$ -	\$ 962,310
Buildings and improvements	21,139,655	-	-	21,139,655
Furniture and equipment	2,463,810	125,920	(1,146,069)	1,443,661
Construction in progress	167,904	-	-	167,904
<b>Subtotal</b>	<b>24,733,679</b>	<b>125,920</b>	<b>(1,146,069)</b>	<b>23,713,530</b>
Less: Accumulated depreciation	19,284,549	644,526	(1,146,069)	18,783,006
<b>Capital Assets - Net</b>	<b>\$ 5,449,130</b>	<b>\$ (518,606)</b>	<b>\$ -</b>	<b>\$ 4,930,524</b>

June 30, 2015	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 962,310	\$ -	\$ -	\$ 962,310
Buildings and improvements	21,139,655	-	-	21,139,655
Furniture and equipment	2,285,636	178,174	-	2,463,810
Construction in progress	167,904	-	-	167,904
<b>Subtotal</b>	<b>24,555,505</b>	<b>178,174</b>	<b>-</b>	<b>24,733,679</b>
Less: Accumulated depreciation	18,638,854	645,695	-	19,284,549
<b>Capital Assets - Net</b>	<b>\$ 5,916,651</b>	<b>\$ (467,521)</b>	<b>\$ -</b>	<b>\$ 5,449,130</b>

Depreciation expense for the years ended June 30, 2016 and 2015, was \$644,526 and \$645,695, respectively.

**Petaluma Health Care District**  
NOTES TO THE FINANCIAL STATEMENTS  
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**5. 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 attributed 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 also agreed to fund a District-sponsored free clinic for a minimum of \$15,000 annually.

The lease expires in February 2017 and converts to month-to-month until another agreement is signed. The District does not intend to enter another agreement with Alliance and is in the process of selecting another operator.

**Prepaid 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 amortized over the life of the lease. Accumulated amortization amounted to \$349,745 and \$331,733 at June 30, 2016 and 2015, respectively. The remaining amortization expense of \$10,599 will be incurred in fiscal year 2017.

**Prepaid Lease Payments**

The operating lease payments are recognized as rental income over the term of the lease. The amount recognized as rental income in 2016 and 2015 amounted to \$418,776, and accumulated revenue amortized from inception amounted to \$8,145,868 and \$7,727,092 at June 30, 2016 and 2015, respectively. The remaining amortization expense of \$229,195 will be incurred in fiscal year 2017.

**6. LINE OF CREDIT**

The District entered into a revolving line-of-credit agreement with Exchange Bank, which provides for advances up to \$500,000. Interest is payable on the outstanding advances at the rate of .25% over the prime rate as published in the *Wall Street Journal*, subject to a floor of 4.25%. The District had an outstanding balance on the revolving line of credit of \$-0- and \$60,000 as of June 30, 2016 and 2015, respectively. The line of credit expires on March 1, 2017, and is secured by the District's investment account held at Exchange Bank.

**Petaluma Health Care District**  
 NOTES TO THE FINANCIAL STATEMENTS  
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**7. COMPENSATED ABSENCES**

The District's policy allows employees to accumulate vacation leave until the employee's total accrued days equal twice their annual allowance, not to exceed eight weeks. Upon retirement or separation from the District, the employee is entitled to full compensation for unused vacation. The amount due within one year could not be estimated.

Costs for compensated absences are accrued when earned by employees. Accumulated unpaid employee benefits are recognized as a liability in the statement of net position. A schedule of changes in compensated absences follows:

	<b>Compensated Absences</b>
<b>Balance - July 1, 2014</b>	\$ 86,618
Amount earned	77,436
Amount paid	(92,191)
<b>Balance - June 30, 2015</b>	71,863
Amount earned	91,651
Amount paid	(80,258)
<b>Balance - June 30, 2016</b>	\$ 83,256

**8. OPERATING LEASE AGREEMENTS**

The District is the lessor of certain land and buildings under noncancelable operating leases, expiring in 2018. Future minimum rental receipts under the operating leases are as follows:

Years Ending June 30	
2017	\$ 332,213
2018	\$ 17,398

The District has operating leases for office and storage space, which expire in various years through June 2017. Minimum future rental payments under noncancelable operating leases having remaining terms in excess of one year are as follows:

Year Ending June 30	
2017	\$ 28,698

Rent expense amounted to \$65,237 and \$108,635 at June 30, 2016 and 2015, respectively.

**Petaluma Health Care District**  
NOTES TO THE FINANCIAL STATEMENTS  
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**9. 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 \$78,355 and \$66,590 for 2016 and 2015, respectively.

**10. RETIREE HEALTH INSURANCE**

**Plan Description**

Under an amended policy adopted by the Board of Directors (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, were eligible to receive health benefits upon termination. The District pays the premiums for such retired directors and their eligible dependents. Such benefits extend after a director's term expires for the number of years equal to the number of years served by the director. The Board of Directors adopted a new policy in 2003 whereby the District will not provide medical benefits to directors who assumed office on or after January 1, 2001; or, to re-elected directors who assumed office on or after January 1, 2001. However, medical benefits will continue for those directors 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.

**Funding Policy**

The District's agreement with retirees is for monthly contributions for members who meet the eligibility criteria. The members receiving benefit contributions vary depending on the level of coverage selected.

**Postemployment Benefit Cost and Net Obligation**

The District's total unfunded liability was \$281,759 and \$296,947 as of June 30, 2016 and 2015, respectively.

**Funded Status and Funding Progress**

The District finances the obligation on a pay-as-you-go basis.

### **Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the plan, as understood by the District and plan members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits provided at the time of each valuation along with the historical pattern of sharing of benefits costs between the District and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculations.

The District accrued an estimated liability for future costs of benefits provided under this policy based on an actuarial study conducted as of July 1, 2010. This study utilized an entry-age normal actuarial cost method with an interest rate assumption of 5% and a health inflation assumption ranging from 7% to 5% per year. As of June 30, 2016, two former board members were eligible and participating in the benefits.

A copy of the actuarial report is available by contacting the District's main office.

## **11. 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.

### **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, 2016, was \$1,195,000.