

Audited Financial Statements

**PETALUMA
HEALTH CARE DISTRICT**

**JWT & Associates, LLP
June 30, 2018**

Audited Financial Statements

PETALUMA HEALTH CARE DISTRICT

June 30, 2018

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Management's Discussion and Analysis

PETALUMA HEALTH CARE DISTRICT

June 30, 2018

The management of the Petaluma Health Care District (the District) has prepared this annual discussion and analysis in order to provide an overview of the District's performance for the fiscal year ended June 30, 2018 in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financials Statements; Management's Discussion and Analysis for State and Local Governments*. The intent of this document is to provide additional information on the District's historical financial performance as a whole in addition to providing a prospective look at revenue growth, operating expenses, and capital development plans. This discussion should be reviewed in conjunction with the audited financial statements for the fiscal year ended June 30, 2018 and accompanying notes to the financial statements to enhance one's understanding of the District's financial performance.

Financial Summary

- Total assets increased by \$63,337 from the fiscal year ended June 30, 2017.
- Total cash and cash equivalents for operations increased by \$109,465 over the prior year. Capital assets decreased by a net \$905,830 over the prior year due to depreciation and sale of assets.
- Accounts receivable were at \$237,634 as compared to \$20,846 in the prior year.
- Current assets increased by \$648,490 from the prior fiscal year while current liabilities decreased by \$78,671 from the prior fiscal year. This resulted in a current ratio of 4.2 to 1 where as the industry norm is around 2 to 1. Prior year current ratio was 2.5 to 1.
- Operating revenues decreased slightly by \$153,255 or about 8%.
- Operating expenses decreased by \$427,278 or about 13%.
- There was an increase in net position of \$142,008 as compared to a loss in the prior year of \$(1,222,947). The income this year included a large net gain on sale of assets of \$1,099,351 from the sale of Lifeline of the North Bay.

Cash and Investments

For the fiscal year ended June 30, 2018, the District's operating cash and cash equivalents and short-term investments totaled \$2,646,083 as compared to \$2,215,940 in fiscal year 2017. At June 30, 2018, days cash on hand was 447 as compared to industry goals of 100 days cash on hand. The prior year was 319. The majority of the District's cash is deposited with a local bank and in the local agency investment fund or LAIF with the State of California.

Management's Discussion and Analysis (continued)

PETALUMA HEALTH CARE DISTRICT

Current Assets

As previously noted, current assets of the District increased by \$648,490. The significant changes were related to increases in cash by \$109,465 and increases in various operating receivables by \$572,916. Cash increases were affected by the gain on the sale of assets and receivable increases were affected by the increase in rent receivables by \$521,676 and the addition of the Connect America receivable of \$203,574.

Capital Assets

During the year, the District reinvested into the facility \$38,525 in various purchases, while experiencing depreciation expense of \$591,033 and net disposals due to the sale of assets of \$353,424 for a net decrease of \$905,830.

Current Liabilities

As previously noted, current liabilities of the District decreased by \$78,671. The significant changes were related to decreases in accounts payable and accrued expenses of \$4,910, directly related to service decreases, and decreases in accrued payroll and related liabilities of \$27,340. Grant advances were earned during the year which decreased the account by \$46,421.

Operating Expenses

Total operating expenses were \$2,751,235 for 2018 as compared to \$3,178,513 for 2017. The following changes were noteworthy:

- A \$99,912 decrease in salaries, wages and benefits due mainly to a decrease in FTE's for the year.
- A decrease of \$213,591 in purchased services fees due mainly careful control of costs.
- A decrease of \$27,520 in community support expenses due to the reasons mentioned above.
- A decrease of \$51,128 in depreciation and amortization due to assets reaching their depreciable life.
- All other expenses were generally comparable to the prior year as they tend to be more "fixed" in nature.

Management's Discussion and Analysis (continued)

PETALUMA HEALTH CARE DISTRICT

Economic Factors and Next Fiscal Year's Budget

The District's Board approved the fiscal year July 1, 2018 through June 30, 2019 budget at the June, 2018 Board meeting. For fiscal year 2019, the District has budgeted a net loss of approximately \$1.4 million from operations, net of rental income. The significant contributing factors to this budgeted income are:

- The District's revenues from program services should stabilize somewhat as compared to the 2018 level. The District is budgeting a slight increase in net program service revenues as contracts will remain much the same for the year. Total revenues are budgeted at approximately \$1.1 million.
- Expenses are budgeted at approximately \$2.5 million for 2019.

The District is in process of negotiations for a new lease revenue level for the hospital facility which should be finalized in the near future.

JWT & Associates, LLP

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Report of Independent Auditors

The Board of Directors
Petaluma Health Care District
Petaluma, California

We have audited the accompanying financial statements of the Petaluma Health Care District, (the District) which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

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 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 standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's *Minimum Audit Requirements for California Special Districts*. 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 auditor's judgement, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District at June 30, 2018, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

The June 30, 2017 financial statements of the District were audited by K-Coe Isom, LLP, another CPA firm. The June 30, 2017 audit report was issued on November 6, 2017 on which an unmodified opinion was expressed.

Supplementary Information

Management's discussion and analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

JW7 & Associates, LLP

Fresno, California
October 10, 2018

Statements of Net Position

PETALUMA HEALTH CARE DISTRICT

	June 30	
	<u>2018</u>	<u>2017</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 207,553	\$ 98,088
Accounts receivable, net	237,634	20,846
Grant and other receivables	757,859	236,982
Note receivable	749,185	913,934
Inventories	4,766	5,766
Prepaid expenses and other current assets	<u>56,158</u>	<u>89,050</u>
Total current assets	2,013,155	1,364,666
Investments	2,438,530	2,117,852
Capital assets, net of accumulated depreciation	<u>3,452,530</u>	<u>4,358,360</u>
	<u>\$ 7,904,215</u>	<u>\$ 7,840,878</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 119,400	\$ 124,310
Accrued payroll and related liabilities	357,669	385,009
Advances from grantors	<u>2,128</u>	<u>48,549</u>
Total current liabilities	479,197	557,868
Net position		
Invested in capital assets	3,452,530	4,358,360
Unrestricted	<u>3,972,488</u>	<u>2,924,650</u>
Total net position	<u>7,425,018</u>	<u>7,283,010</u>
	<u>\$ 7,904,215</u>	<u>\$ 7,840,878</u>

See accompanying notes and auditor's report

Statements of Revenues, Expenses and Changes in Net Position

PETALUMA HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2018</u>	<u>2017</u>
Operating revenues		
Net program service revenues	\$ 993,179	\$ 1,270,240
Rental income	<u>731,521</u>	<u>607,715</u>
Total operating revenues	1,724,700	1,877,955
Operating expenses		
Salaries and wages	791,582	850,917
Employee benefits	323,530	364,107
Professional fees	210,542	215,393
Supplies	40,710	58,633
Purchased services	503,302	716,893
Repairs and maintenance	1,724	3,780
Community support	77,950	105,470
Rents and operating leases	58,503	61,968
Utilities and phone	31,535	32,803
Insurance	23,450	25,206
Depreciation and amortization	591,187	642,315
Advertising and promotion	38,879	35,825
Travel, meetings and conferences	29,636	20,391
Other operating expenses	<u>28,705</u>	<u>44,812</u>
Total operating expenses	<u>2,751,235</u>	<u>3,178,513</u>
Operating loss	(1,026,535)	(1,300,558)
Nonoperating revenues (expenses)		
Investment income	69,192	89,373
Interest expense		(3,396)
Gain (loss) on sale of assets	<u>1,099,351</u>	<u>(8,366)</u>
Total nonoperating revenues (expenses)	<u>1,168,543</u>	<u>77,611</u>
Increase (decrease) in net position	142,008	(1,222,947)
Net position at beginning of the year	<u>7,283,010</u>	<u>8,505,957</u>
Net position at end of the year	<u>\$ 7,425,018</u>	<u>\$ 7,283,010</u>

See accompanying notes and auditor's report

Statements of Cash Flows

PETALUMA HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from net program service revenues	\$ 776,391	\$ 1,275,794
Cash received from rental income and grants	164,223	381,328
Cash payments to suppliers and contractors	(1,015,955)	(1,649,675)
Cash payments to employees and benefit programs	<u>(1,142,452)</u>	<u>(1,216,213)</u>
Net cash (used in) operating activities	(1,217,793)	(1,208,766)
Cash flows from capital financing activities:		
Purchase of capital assets	(38,781)	(59,552)
Gain (loss) on sale of assets	1,452,776	(8,366)
Interest paid	<u>(3,396)</u>	<u>(3,396)</u>
Net cash provided by (used in) capital financing activities	1,413,995	(71,314)
Cash flows from investing activities:		
Change in investments	(320,678)	544,359
Change in note receivable	164,749	659,659
Investment income	<u>69,192</u>	<u>89,373</u>
Net cash provided by (used in) investing activities	<u>(86,737)</u>	<u>1,293,391</u>
Net increase in cash and cash equivalents	109,465	13,311
Cash and cash equivalents at beginning of year	<u>98,088</u>	<u>84,777</u>
Cash and cash equivalents at end of year	<u>\$ 207,553</u>	<u>\$ 98,088</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating (loss)	\$ (1,026,535)	\$ (1,300,558)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	591,187	642,315
Changes in operating assets and liabilities:		
Accounts receivables	(737,665)	(226,147)
Inventories	1,000	(4,025)
Prepaid expenses and current assets	32,891	(245,148)
Accounts payable and accrued expenses	(4,910)	(79,328)
Accrued payroll and related liabilities	(27,340)	(1,189)
Advances from grantors	<u>(46,421)</u>	<u>5,314</u>
Net cash (used in) operating activities	<u>\$ (1,217,793)</u>	<u>\$ (1,208,766)</u>

See accompanying notes and auditor's report

PETALUMA HEALTH CARE DISTRICT

June 30, 2018

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES

Reporting Entity: The Petaluma Health Care District (the District) is a public entity organized under Local Health Care District Law as set forth in the Health and Safety Code of the State of California. The District is a political subdivision of the State of California and is generally not subject to federal or state income taxes. The District is governed by a five-member Board of Directors, elected from within the boundaries of the health care district to specified terms of office. The District owns Petaluma Valley Hospital and surrounding buildings on the Hospital's campus. The District also owns other office buildings in Petaluma. These facilities are leased to St. Joseph Health (SJH) which operates the Hospital as SRM Alliance Hospital Services (SRM).

Basis of Preparation: The accounting policies and financial statements of the District generally conform with the recommendations of the audit and accounting guide, *Health Care Organizations*, published by the American Institute of Certified Public Accountants. The financial statements are presented in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). For purposes of presentation, transactions deemed by management to be central to the provision of health care services are reported as operational revenues and expenses.

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 medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters.

Cash and Cash Equivalents: The District considers cash and cash equivalents to include certain investments in highly liquid debt instruments, when present, with an original maturity of a short-term nature or subject to withdrawal upon request. Exceptions are for those investments which are intended to be continuously invested. Investments in debt securities are reported at market value. Interest, dividends and both unrealized and realized gains and losses on investments are included as investment income in nonoperating revenues when earned.

Investments: Investments are funds invested through a local bank. All District investments are measured at fair value at June 30, 2018. Investment income or losses (including realized and unrealized gains and losses on investments, interest and dividends) are included in nonoperating revenues under investment income.

Accounts Receivable: Accounts receivable are carried at their estimated collectible amounts. Collectibility 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 \$3,449 and \$7,086 for June 30, 2018 and 2017, respectively. Significant concentrations of patient accounts receivable are discussed further in the footnotes.

Inventories: Inventories are stated at the lower of cost or market and is accounted for on the first-in, first-out basis.

Notes to Financial Statements (continued)

PETALUMA HEALTH CARE DISTRICT

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES (continued)

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 and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Capital Assets: Capital assets consist of property and equipment and are reported on the basis of cost, or in the case of donated items, on the basis of fair market value at the date of donation. Routine maintenance and repairs are charged to expense as incurred. Expenditures which increase values, change capacities, or extend useful lives are capitalized. Depreciation of property and equipment and amortization of property under capital leases are computed by the straight-line method for both financial reporting and cost reimbursement purposes over the estimated useful lives of the assets, which range from 3 to 40 years, depending upon the capital asset classification.

Compensated Absences: The District's employees earn vacation benefits at varying rates depending on years of service. Employees also earn sick leave benefits. Both benefits can accumulate up to specified maximum levels. Employees are not paid for accumulated sick leave benefits if they leave either upon termination or before retirement. However, accumulated vacation benefits are paid to an employee upon either termination or retirement. Accrued vacation liabilities (PTO) as of June 30, 2018 and 2017 was \$95,024 and \$99,713, respectively.

Advances from Grantors: Proceeds received from grant awards are passed through the District, therefore, no revenue or expense is recognized.

Net Position: Net position can be presented in three categories. The first category is net position "invested in capital assets, net of related debt". This category of net position consists of capital assets (both restricted and unrestricted), net of accumulated depreciation and reduced by the outstanding principal balances of any debt borrowings that were attributable to the acquisition, construction, or improvement of those capital assets.

The second category is "restricted" net position. This category consists of externally designated constraints placed on those net position by creditors (such as through debt covenants), grantors, contributors, law or regulations of other governments or government agencies, or law or constitutional provisions or enabling legislation.

The third category is "unrestricted" net position. This category consists of net position that does not meet the definition or criteria of the previous two categories.

Advertising: The District incurs certain advertising expenses during the fiscal year and they expense them when incurred.

Notes to Financial Statements (continued)

PETALUMA HEALTH CARE DISTRICT

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES (continued)

Operating Revenues and Expenses: The District's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with program service revenues and rental income, which are the District's principal activities. Operating expenses are all expenses incurred to provide these services, other than financing costs. Nonoperating revenues and expenses are those transactions not considered directly linked to providing the aforementioned services.

Statements of Cash Flows: For purposes of the statements of cash flows, all highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

NOTE B - CASH AND CASH EQUIVALENTS

As of June 30, 2018 and 2017, the District had deposits invested in various financial institutions in the form of cash and cash equivalents in the amounts of \$2,646,083 and \$2,215,940, respectively. All of these funds were held in deposits, which are collateralized in accordance with the California Government Code (CGC), except for \$250,000 per account that is federally insured.

The CGC and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial risk for deposits. Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District would not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party.

Under the provisions of the CGC, California banks and savings and loan associations are required to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits. The pledged securities are held by the pledging financial institution's trust department in the name of the District.

NOTE C - NOTE RECEIVABLE

The District has one note receivable which is a promissory note secured by a deed of trust amounting to \$749,185 and \$913,934 as of June 30, 2018 and 2017, respectively. This note is received in monthly installments at an annual rate of 5.75% and amortized over a ten year period. Monthly receipts on this note amount to \$17,721 each month with final receipt due in 2023.

Notes to Financial Statements (continued)

PETALUMA HEALTH CARE DISTRICT

NOTE D - CONCENTRATION OF CREDIT RISK

Financial Instruments: Financial instruments, potentially subjecting the District to concentrations of credit risk, consist primarily of bank deposits in excess of the Federal Deposit Insurance Corporation (FDIC) limits of \$250,000. Although deposits exceed the limit in certain bank accounts, management believes that the risk of loss is minimal due to the high financial quality of the bank with which the District does business. Management further believes that there is no risk of material loss due to concentration of credit risk with regards to investments as the District has no investments in equity funds, closed-end funds, exchange-traded products, or other perceived “at risk” alternatives as of June 30, 2018 and 2017.

Accounts Receivable - The District grants credit without collateral for its program services to direct service recipients and other third-party payors. Concentration percentages of program service and rent receivables at June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Lifeline program services	1%	1%
Health Quest program services	2%	7%
Connect America program services	21%	0%
Rent receivable from SJH	<u>76%</u>	<u>92%</u>
Total accounts receivable	<u>100%</u>	<u>100%</u>

NOTE E - RETIREMENT PLANS

The District sponsors the Deferred Compensation Plan of Petaluma Health Care District, a defined contribution retirement plan under the Internal Revenue Code, Section 457. All permanent employees are eligible to participate. Participants may contribute up to \$18,500 annually, and an additional \$6,000 if the participant is over the age of 50. The District will match 50% of the participant’s annual 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 the Internal Revenue Code, Section 401(a). All permanent employees 21 years of age or older are eligible to participate. Contributions from the District will be made at the discretion of the District and are immediately 100% vested.

Contributions to these two plans amounted to \$71,779 and \$72,104 for the years ended June 30, 2018 and 2017, respectively.

Notes to Financial Statements (continued)

PETALUMA HEALTH CARE DISTRICT

NOTE F - CAPITAL ASSETS

Capital assets as of June 30, 2018 and 2017 were comprised of the following:

	<u>Balance at June 30, 2017</u>	<u>Transfers & Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2018</u>
Land and land improvements	\$ 962,310			\$ 962,310
Buildings and improvements	21,139,655	\$ 6,380		21,146,035
Furniture and equipment	1,503,213	32,146	(1,210,198)	325,161
Construction-in-progress	<u>167,904</u>			<u>167,904</u>
Totals at historical cost	23,773,082	38,526	(1,210,198)	22,601,410
Less accumulated depreciation	<u>(19,414,722)</u>	<u>(590,932)</u>	<u>856,774</u>	<u>(19,148,880)</u>
Capital assets, net	<u>\$ 4,358,360</u>	<u>\$ (552,406)</u>	<u>\$ (353,424)</u>	<u>\$ 3,452,530</u>

	<u>Balance at June 30, 2016</u>	<u>Transfers & Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2017</u>
Land and land improvements	\$ 962,310			\$ 962,310
Buildings and improvements	21,139,655			21,139,655
Furniture and equipment	1,443,661	\$ 59,552		1,503,213
Construction-in-progress	<u>167,904</u>			<u>167,904</u>
Totals at historical cost	23,713,530	59,552		23,773,082
Less accumulated depreciation	<u>(18,783,006)</u>	<u>(631,716)</u>		<u>(19,414,722)</u>
Capital assets, net	<u>\$ 4,930,524</u>	<u>\$ (572,164)</u>	<u>\$</u>	<u>\$ 4,358,360</u>

Capital assets consist of property and equipment and are reported on the basis of cost, or in the case of donated items, on the basis of fair market value at the date of donation. Routine maintenance and repairs are charged to expense as incurred. Expenditures which increase values, change capacities, or extend useful lives are capitalized. Depreciation of property and equipment and amortization of property under capital leases are computed by the straight-line method for both financial reporting and cost reimbursement purposes over the estimated useful lives of the assets, which range from 10 to 40 years for buildings and improvements, and 3 to 20 years for furniture and equipment.

Notes to Financial Statements (continued)

PETALUMA HEALTH CARE DISTRICT

NOTE G - COMMITMENTS AND CONTINGENCIES

Operating Leases: The District leases various equipment and facilities under operating leases expiring at various dates. Total building and equipment rent expense for the years ended June 30, 2018 and 2017, were \$58,503 and \$61,968, respectively. Future minimum lease payments for the succeeding years under operating leases as of June 30, 2018 and 2017 are not considered material. District lease or rent agreements that have initial or remaining lease terms in excess of one year, again, are not considered material.

Litigation: The District may from time-to-time be involved in litigation and regulatory investigations which arise in the normal course of doing business. After consultation with legal counsel, management estimates that matters existing as of June 30, 2018 will be resolved without material adverse effect on the District's future financial position, results from operations or cash flows.

Workers Compensation Program: The District is a participant in the Association of California Hospital District's Beta Fund (the Fund) which administers a self-insured worker's compensation plan for participating entity employees of its member entities, and which administers certain other commercial coverage such as for directors and officers. The District pays premiums to the Fund which are adjusted annually. If participation in the Fund is terminated by the District, the District would be liable for its share of any additional premiums necessary for final disposition of all claims and losses covered by the Fund.

NOTE H - LEASE AGREEMENT

The District had a lease agreement with SRM for the leasing of the District-owned hospital facilities. The lease expired January 20, 2017 with no replacement agreement with SRM. As a result, the District is in the process of negotiating terms with another entity to lease the facilities and take over the operations of the hospital and the surrounding services on the hospital's campus.

The District has a rent receivable balance due from SRM in the amount of \$757,859 as of June 30, 2018. The District anticipates full collection of the receivable.

Notes to Financial Statements (continued)

PETALUMA HEALTH CARE DISTRICT

NOTE I - INVESTMENTS

The District's investment balances and average maturities were as follows at June 30, 2018 and 2017:

<i>As of June 30, 2018</i>	<u>Fair Value</u>	<u>Investment Maturities in Years</u>		
		<u>Less than 1</u>	<u>1 to 5</u>	<u>Over 5</u>
Money market funds	\$ 1,454,533	\$ 1,454,533		
Corporate bonds	586,589	586,589		
U. S. Government obligations	248,175	248,175		
Foreign bonds, notes & debentures	148,444	148,444		
Local agency investment fund	<u>789</u>	<u>789</u>		
Total investments	<u>\$ 2,438,530</u>	<u>\$ 2,438,530</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

<i>As of June 30, 2017</i>	<u>Fair Value</u>	<u>Investment Maturities in Years</u>		
		<u>Less than 1</u>	<u>1 to 5</u>	<u>Over 5</u>
Money market funds	\$ 256,158	\$ 256,158		
Corporate bonds	1,200,641	1,200,641		
U. S. Government obligations	660,277	660,277		
Local agency investment fund	<u>776</u>	<u>776</u>		
Total investments	<u>\$ 2,117,852</u>	<u>\$ 2,117,852</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

The District's investments are reported at fair value as previously discussed. The District's investment policy allows for various forms of investments. Policies generally identify certain provisions which address interest rate risk, credit risk and concentration of credit risk.

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. One of the ways an entity manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a position of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for District operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the preceding schedules that shows the distribution of the District's investments by maturity.

Notes to Financial Statements (continued)

PETALUMA HEALTH CARE DISTRICT

NOTE I - INVESTMENTS (continued)

Credit Risk: Credit risk is the risk that the 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, such as Moody's Investor Service, Inc. Generally an entity's investment policy for corporate bonds and notes would be to invest in companies with total assets in excess of \$500 million and having a "A" or higher rating by agencies such as Moody's or Standard and Poor's.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer), an entity would not be able to recover the value of its investment or collateral securities that are in the possession of another party. An entity's investments are generally held by broker-dealers or in the case of many healthcare district's, in government-pooled short-term cash equivalents such as mutual funds.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. An entity's investment policy generally allows for different concentrations in selected investment portfolios such as government-backed securities, which are deemed to be lower risk.

NOTE J - RETIREE HEALTH INSURANCE

The District adopted a plan in 2003 to provide certain health insurance benefits for directors meeting plan eligibility standards. The District, in 1991, entered into an Early Retirement and General Release agreement with a former chief executive officer of the Hospital (CEO) that provides for certain health insurance benefits. The District contributes for these directors meeting the eligibility standards and the former CEO. As of June 30, 2018 and 2017, the total estimated unfunded liability post-employment benefit cost and net obligation was \$249,718 and \$264,390, respectively. The District has accrued the estimated liability based on an actuarial study conducted as of July 1, 2010. The study utilized an entry-age normal actuarial cost method with an interest rate assumption of 5% and a health inflation assumption ranging from 5% to 7% per year. As of June 30, 2018 and 2017, the former CEO and only one former board member were eligible and participating under this plan.

NOTE K - SUBSEQUENT EVENTS

Management evaluated the effect of subsequent events on the financial statements through October 10, 2018, the date the financial statements are issued, and determined that there are no material subsequent events that have not been disclosed.