

# **Petaluma Health Care District**

**Petaluma, California**

**FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT**

**June 30, 2015 and 2014**



**K · C O E  
I S O M**

# Petaluma Health Care District

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June 30, 2015 and 2014

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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) as of and for the years ended June 30, 2015 and 2014, 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 audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 business-type activities and the aggregate discretely presented component units of the District as of June 30, 2015 and 2014; the respective changes in financial position; and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***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 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.

*KCae Jrom, LLP*

September 23, 2015  
Chico, California

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

June 30	2015	2014
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 103,400	\$ 35,498
Accounts receivable - net of allowance of \$16,000 and \$4,000 in 2015 and 2014 respectively	63,528	69,235
Inventory	1,741	1,741
Prepaid expenses and deposits	76,445	52,654
Other receivables	10,286	7,756
Notes receivable - current portion - net of allowance	155,550	145,777
<b>Total Current Assets</b>	<b>410,950</b>	<b>312,661</b>
<b>Noncurrent Investments</b>	<b>3,548,166</b>	<b>4,538,856</b>
<b>Notes Receivable - Net</b>	<b>1,572,848</b>	<b>1,727,511</b>
<b>Prepaid Affiliation Costs</b>	<b>28,611</b>	<b>46,623</b>
<b>Capital Assets - Net</b>	<b>5,449,130</b>	<b>5,916,651</b>
<b>TOTAL ASSETS</b>	<b>11,009,705</b>	<b>12,542,302</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Line of credit	60,000	90,000
Accounts payable	177,360	156,088
Accrued liabilities:		
Payroll and vacation	123,348	125,340
Retiree health insurance	296,947	318,436
Rent deposits	5,000	5,000
<b>Total Current Liabilities</b>	<b>662,655</b>	<b>694,864</b>
<b>Prepaid Lease Payments</b>	<b>647,971</b>	<b>1,066,747</b>
<b>TOTAL LIABILITIES</b>	<b>1,310,626</b>	<b>1,761,611</b>
<b>NET POSITION</b>		
Net investment in capital assets	5,449,130	5,916,651
Unrestricted	4,249,949	4,864,040
<b>TOTAL NET POSITION</b>	<b>\$ 9,699,079</b>	<b>\$ 10,780,691</b>

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

# Petaluma Health Care District

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

Years Ended June 30	2015	2014
<b>Operating Revenues</b>		
Program service fees	\$ 1,474,121	\$ 1,511,246
State grant revenue	-	29,500
Rental income	549,427	544,256
<b>Total Operating Revenues</b>	<b>2,023,548</b>	<b>2,085,002</b>
<b>Operating Expenses</b>		
Salaries, wages, and benefits	1,321,230	1,357,908
Depreciation and amortization	663,707	667,862
Professional fees	48,553	100,646
Purchased services	722,496	577,654
Bad debt expense	12,500	6,771
Operating supplies	35,206	16,420
Office supplies	29,308	26,748
Insurance	27,965	30,929
Utilities	31,386	29,684
Repairs and maintenance	8,038	9,401
Rents and leases	117,733	108,764
Advertising and promotion	37,429	39,621
Community support	101,801	96,562
Meetings and training	10,545	13,554
Dues and subscriptions	13,292	13,153
Travel	18,813	20,490
Other	55,727	43,656
<b>Total Operating Expenses</b>	<b>3,255,729</b>	<b>3,159,823</b>
<b>Operating Loss</b>	<b>(1,232,181)</b>	<b>(1,074,821)</b>
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	177,366	274,488
Loss on sale of assets	(18,925)	(16,290)
Interest expense	(7,872)	(3,549)
<b>Net Nonoperating Revenues (Expenses)</b>	<b>150,569</b>	<b>254,649</b>
<b>Change in Net Position</b>	<b>(1,081,612)</b>	<b>(820,172)</b>
<b>Net Position - Beginning of Year</b>	<b>10,780,691</b>	<b>11,600,863</b>
<b>Net Position - End of Year</b>	<b>\$ 9,699,079</b>	<b>\$ 10,780,691</b>

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

# Petaluma Health Care District

## STATEMENTS OF CASH FLOWS

Years Ended June 30	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts for services and support	\$ 1,494,094	\$ 1,482,628
Receipt of grant awards	-	29,500
Rental receipts	130,649	125,478
Payments to suppliers and contractors	(1,250,811)	(1,087,606)
Payments to and on behalf of employees	(1,323,222)	(1,336,303)
Payments on behalf of retiree health insurance	(21,489)	(20,778)
Other payments	(12,500)	(6,771)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(983,279)</b>	<b>(813,852)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(178,174)	(105,637)
Line of credit proceeds (payments)	(30,000)	90,000
Interest paid	(7,872)	(3,549)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCIAL ACTIVITIES</b>	<b>(216,046)</b>	<b>(19,186)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income received	160,239	257,361
Net sale of investments	967,229	452,485
Change in notes receivable	139,759	138,488
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>1,267,227</b>	<b>848,334</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>67,902</b>	<b>15,296</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>35,498</b>	<b>20,202</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 103,400</b>	<b>\$ 35,498</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (1,232,181)	\$ (1,074,821)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	663,707	667,862
Prepaid lease payments recognized	(418,778)	(418,778)
Changes in:		
Accounts receivable	19,973	2,102
Prepaid expenses	(13,791)	6,608
Inventory	-	(897)
Accounts payable	21,272	33,965
Accrued liabilities	(1,992)	21,605
Other liabilities	(21,489)	(51,498)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (983,279)</b>	<b>\$ (813,852)</b>

The accompanying notes are an integral part of these audited 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 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 loss from sales of investments of \$18,925 for the year ended June 30, 2015, and loss of \$16,290 for the year ended June 30, 2014. 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 \$2,533 and \$17,127 at June 30, 2015 and 2014, respectively. This amount includes all changes in fair value, including purchases and sales that occurred during the year.

**Inventory** Inventory is stated at lower of cost or market.

**Accounts Receivable** The allowance for non-collection pertains to Lifeline customer receivables and amounts to \$16,000 and \$4,000 for June 30, 2015 and 2014, 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

**Operating Revenues and Expenses** The statement of revenues, expenses, and changes in net position distinguishes 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, other than financing costs.

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

**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.

**2. CASH AND INVESTMENTS**

The following is a summary of cash and investments:

June 30	2015	2014
<b>Cash on Hand</b>	\$ 138	\$ 108
<b>Deposits (1)</b>	103,262	35,390
<b>Subtotal</b>	103,400	35,498
<b>Investments That are Not Securities (2)</b>		
Local Agency Investment Fund	772	770
Money market fund / Commercial paper	294,192	100,476
<b>Subtotal</b>	294,964	101,246
<b>Investment Securities</b>		
U.S. government securities	1,500,643	433,932
Municipal bonds	420,039	2,251,795
Corporate bonds	1,332,520	1,751,883
<b>Subtotal</b>	3,253,202	4,437,610
<b>Total Cash and Investments</b>	\$ 3,651,566	\$ 4,574,354

(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.

**Petaluma Health Care District**  
NOTES TO THE FINANCIAL STATEMENTS  
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**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, 2015, amounted to \$103,400. 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.

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, 2015 and 2014, 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.

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

Investments by investment type and ratings are as follows:

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>

June 30, 2014	Fair Value / Amortized Cost	AA+, A+, A	AA-, A-	BB+, BBB+, BB-	Not Rated
Local Agency Investment Fund	\$ 770	\$ -	\$ -	\$ -	770
Money market fund	100,476	-	-	-	100,476
U.S. government securities	433,932	422,406	-	9,038	2,488
Municipal bonds	2,251,795	2,132,785	112,652	5,786	572
Corporate bonds	1,751,883	848,161	802,295	92,513	8,914
<b>Totals</b>	<b>\$ 4,538,856</b>	<b>\$ 3,403,352</b>	<b>\$ 914,947</b>	<b>\$ 107,337</b>	<b>\$ 113,220</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, 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%

June 30, 2014	Market Value	Percentage of Total Portfolio
U.S. government securities:		
U.S. Treasury Note .75%	\$ 246,835	5.44%
Municipal bonds:		
CA State GO Bonds Taxable 4.85%	\$ 879,596	19.38%
CA State GO Bonds Taxable 5.45%	\$ 664,000	14.63%
CA State GO Bonds Taxable 5.95%	\$ 327,477	7.22%

**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, 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>

June 30, 2014	Less Than One Year	One to Five Years	Six to Ten Years	More Than Ten Years
Local Agency Investment Fund	\$ 770	\$ -	\$ -	\$ -
Money market fund	100,476	-	-	-
U.S. government securities	652	432,400	-	880
Municipal bonds	1,543,596	708,199	-	-
Corporate bonds	102,688	1,352,280	296,915	-
<b>Totals</b>	<b>\$ 1,748,182</b>	<b>\$ 2,492,879</b>	<b>\$ 296,915</b>	<b>\$ 880</b>

**3. NOTES RECEIVABLE**

Included in notes receivable are two promissory notes secured by second deeds of trust amounting to \$1,728,395 and \$1,873,288 as of June 30, 2015 and 2014, 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 \$512,979 and \$520,124 as of June 30, 2015 and 2014, 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 \$1,215,419 and \$1,353,164 as of June 30, 2015 and 2014, respectively.

**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, 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>

June 30, 2014	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 962,310	\$ -	\$ -	\$ 962,310
Buildings and improvements	21,130,537	9,118	-	21,139,655
Furniture and equipment	2,189,117	96,519	-	2,285,636
Construction in progress	167,904	-	-	167,904
<b>Subtotal</b>	<b>24,449,868</b>	<b>105,637</b>	<b>-</b>	<b>24,555,505</b>
Less: Accumulated depreciation	17,989,004	649,850	-	18,638,854
<b>Capital Assets - Net</b>	<b>\$ 6,460,864</b>	<b>\$ (544,213)</b>	<b>\$ -</b>	<b>\$ 5,916,651</b>

Depreciation expense for the years ended June 30, 2015 and 2014, was \$645,695 and \$649,850, respectively.

**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.

**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 \$331,733 and \$313,721 at June 30, 2015 and 2014, respectively.

**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 2015 and 2014 amounted to \$418,776, and accumulated revenue amortized from inception amounted to \$7,727,092 and \$7,308,316 at June 30, 2015 and 2014, respectively.

**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 \$60,000 and \$90,000 as of June 30, 2015 and 2014, 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, 2013</b>	\$ 65,798
Amount earned	78,910
Amount paid	(58,090)
<b>Balance - June 30, 2014</b>	86,618
Amount earned	77,436
Amount paid	(92,191)
<b>Balance - June 30, 2015</b>	\$ 71,863

**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	
2016	\$ 524,526
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:

Years Ending June 30	
2016	\$ 65,206
2017	\$ 28,698

Rent expense amounted to \$108,635 and \$102,623 at June 30, 2015 and 2014, respectively.

**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 \$66,590 and \$81,119 for 2015 and 2014, 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 \$296,947 and \$318,436 as of June 30, 2015 and 2014.

**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, 2015, 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.

### **Commitments**

The District had signed a joint venture agreement with Browman Development Company, Inc., for development of approximately 2.15 acres of land. The District had agreed to contribute ownership interest in the property if building permits were obtained and a capital account value of \$1,100,000 was received. If entitlements were not obtained, the District would not be obligated to pay more than \$40,000 toward consultant and city fees. Subsequent to June 30, 2015, the project was abandoned and \$40,000 was accrued to pay the development company.

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**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, 2015, was \$1,445,000.