

Audited Financial Statements

**PETALUMA
HEALTH CARE DISTRICT**

**JWT & Associates, LLP
June 30, 2022**

Audited Financial Statements

PETALUMA HEALTH CARE DISTRICT

June 30, 2022

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Management's Discussion and Analysis

PETALUMA HEALTH CARE DISTRICT

June 30, 2022

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, 2022 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, 2022 and accompanying notes to the financial statements to enhance one's understanding of the District's financial performance.

Financial Summary

- Total assets decreased by \$1,041,242 from the prior fiscal year ended June 30, 2021, due mainly to the losses on investments of \$778,178 of which \$768,751 are unrealized.
- Total cash and cash equivalents and investments increased by \$134,908.
- Total receivables were at \$45,716 as compared to \$218,910 in the prior year.
- Current assets decreased by \$963,122 from the prior fiscal year while current liabilities increased by \$22,592 from the prior fiscal year. This resulted in a current ratio of 119.45 to 1 where as the industry norm is around 2 to 1. Prior year current ratio was 127.81 to 1.
- Operating revenues decreased by \$358,895 due to the fact that rental income from the hospital ceased after it was sold.
- Operating expenses decreased by \$461,508 due mainly to the decrease in depreciation expense as hospital assets were no longer being depreciated due to the sale of the hospital and legal fees and other related expenses were reduced as the negotiations of the sale of the hospital had ended last year.
- There was an decrease in net position of \$(1,063,834) as compared to an increase in the prior year of \$50,698,556 due mainly to a gain on the sale of the hospital in the prior year of \$51,784,953.

Cash and Investments

For the fiscal year ended June 30, 2022, the District's operating cash and cash equivalents and short-term investments totaled \$54,917,399 as compared to \$55,689,499 in fiscal year 2021. At June 30, 2022, days cash on hand was 13,669 as compared to industry goals of 100 days cash on hand. The prior year was 11,702. The majority of the District's cash is deposited with local banks, investment firms, and in the local agency investment fund (LAIF) with the State of California.

Management's Discussion and Analysis (continued)

PETALUMA HEALTH CARE DISTRICT

Current Assets and Investments

As previously noted, current assets of the District decreased by \$963,122. The significant changes were related to decreases in investments by \$907,008 (see cash flow statement) and decreases in various operating receivables by \$173,194. Cash and cash equivalents increased by \$134,908 as the proceeds from COVID grants and other grants and donations in the total amount of \$506,077 were received during the year.

Capital Assets

During the year, the District had no purchases of capital assets. Last year the District experienced the sale of hospital assets which had a book value of \$19,322,415 and related accumulated depreciation of \$(18,507,368) to arrive at a net book value as of the date of the sale in the amount of \$815,047. Proceeds from the sale were \$52,600,000 resulting in a gain of \$51,784,953. During the year, the District disposed of various assets which had a net book value of \$-0- as the historical costs were \$140,118 and the related accumulated depreciation was also \$140,118 as those assets had been fully depreciated by June 30, 2022.

Current Liabilities

As previously noted, current liabilities of the District increased slightly by \$22,592. There were no significant changes year over year of the various accounts.

Operating Expenses

Total operating expenses were \$1,544,562 for 2022 as compared to \$2,006,070 for 2021. The following changes were noteworthy:

- A \$73,132 increase in salaries, wages and benefits primarily due mainly to the timing of replacing open positions and an additional FTE that is covered by a grant.
- A decrease of \$215,973 in professional fees due to the fact that negotiations related to the sale of the hospital were no longer required during the year ended June 30, 2022.
- A decrease of \$190,985 in depreciation expense as hospital assets no longer needed to be depreciated due to the sale.
- 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, 2022 through June 30, 2023 budget at a recent Board meeting. For fiscal year 2023, the District has budgeted a net loss of approximately \$1.0 million from operations. The significant contributing factors to this budgeted loss are:

- The District's revenues from program services and asset management should increase somewhat as compared to the 2022 level. The District is budgeting total revenues at approximately \$1.1 million.
- Expenses are budgeted at approximately \$2.1 million for 2022-23 compared to \$1.5 million of actual expenses in 2022-21.

The District is in process of continuing to find ways to increase revenues while at the same time reducing expenses in an effort to curb net operating losses each year.

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 statements of net position as of June 30, 2022 and 2021, and the related statements of revenues, expenses and changes in net position, and cash flows for the years 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, 2022 and 2021, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 1-3) 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. Also included (but not required) as supplementary information is the earnings before interest, depreciation and amortization (EBIDA) statement on page 18.

We have applied certain limited procedures to the supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

JW7 & Associates, LLP

Fresno, California
October 10, 2022

Statements of Net Position

PETALUMA HEALTH CARE DISTRICT

	June 30	
	<u>2022</u>	<u>2021</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 355,600	\$ 220,692
Investments	54,561,799	55,468,807
Accounts and other receivable, net	45,716	22,495
Note receivable		196,415
Inventories	8,690	8,098
Prepaid expenses and other current assets	<u>33,871</u>	<u>52,291</u>
Total current assets	55,005,676	55,968,798
Capital assets, net of accumulated depreciation	<u>1,179,778</u>	<u>1,257,898</u>
	<u>\$ 56,185,454</u>	<u>\$ 57,226,696</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 170,351	\$ 161,261
Accrued payroll and related liabilities	265,319	252,217
Advances from grantors	<u>24,823</u>	<u>24,423</u>
Total current liabilities	460,493	437,901
Net position		
Invested in capital assets	1,179,778	1,257,898
Unrestricted	<u>54,545,183</u>	<u>55,530,897</u>
Total net position	<u>55,724,961</u>	<u>56,788,795</u>
	<u>\$ 56,185,454</u>	<u>\$ 57,226,696</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>2022</u>	<u>2021</u>
Operating revenues		
Net program service revenues	\$ 172,106	\$ 162,863
Rental income	<u>244,492</u>	<u>612,630</u>
Total operating revenues	416,598	775,493
Operating expenses		
Salaries and wages	625,690	538,097
Employee benefits	216,085	230,546
Professional fees	188,212	404,185
Supplies	77,565	31,224
Purchased services	72,018	246,542
Repairs and maintenance	4,263	3,708
Rents and operating leases	46,503	65,440
Utilities and phone	33,656	40,618
Insurance	14,652	26,949
Sponsorship programs	108,839	64,947
Depreciation and amortization	78,120	269,105
Other operating expenses	<u>78,959</u>	<u>84,709</u>
Total operating expenses	<u>1,544,562</u>	<u>2,006,070</u>
Operating loss	(1,127,964)	(1,230,577)
Nonoperating revenues (expenses)		
Investment income	256,231	132,580
Investment losses	(778,178)	
Grants and donations	506,077	11,600
PPP loan forgiveness	80,000	
Gain (loss) on sale of assets		<u>51,784,953</u>
Total nonoperating revenues (expenses)	<u>64,130</u>	<u>51,929,133</u>
Increase (decrease) in net position	(1,063,834)	50,698,556
Net position at beginning of the year	<u>56,788,795</u>	<u>6,090,239</u>
Net position at end of the year	<u>\$ 55,724,961</u>	<u>\$ 56,788,795</u>

See accompanying notes and auditor's report

Statements of Cash Flows

PETALUMA HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Cash received from net program service revenues	\$ 148,885	\$ 239,815
Cash received from rental income and grants	244,892	436,185
Cash payments to suppliers and contractors	(597,749)	(1,213,742)
Cash payments to employees and benefit programs	<u>(828,673)</u>	<u>(761,821)</u>
Net cash (used in) operating activities	(1,032,645)	(1,299,563)
Cash flows from noncapital financing activities:		
Forgiveness of debt	80,000	
Grants and donations	<u>506,077</u>	<u>11,600</u>
Net cash provided by noncapital financing activities	586,077	11,600
Cash flows from capital financing activities:		
Proceeds from sale of assets	<u> </u>	<u>52,600,000</u>
Net cash provided by capital financing activities		52,600,000
Cash flows from investing activities:		
Change in investments	907,008	(51,972,046)
Change in note receivable	196,415	195,078
Investment income (losses)	<u>(521,947)</u>	<u>132,580</u>
Net cash provided by (used in) investing activities	<u>581,476</u>	<u>(51,644,388)</u>
Net increase (decrease) in cash and cash equivalents	134,908	(332,351)
Cash and cash equivalents at beginning of year	<u>220,692</u>	<u>553,043</u>
Cash and cash equivalents at end of year	<u><u>\$ 355,600</u></u>	<u><u>\$ 220,692</u></u>

See accompanying notes and auditor's report

Statements of Cash Flows (continued)

PETALUMA HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2022</u>	<u>2021</u>
Reconciliation of operating income to net cash (used in) operating activities:		
Operating (loss)	\$ (1,127,964)	\$ (1,230,577)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	78,120	269,105
Changes in operating assets and liabilities:		
Accounts and other receivables	(23,221)	76,952
Inventories	(592)	(2,001)
Prepaid expenses and current assets	18,420	(7,783)
Accounts payable and accrued expenses	9,090	(235,636)
Accrued payroll and related liabilities	13,102	6,822
Advances from grantors	400	(176,445)
Net cash (used in) operating activities	<u>\$ (1,032,645)</u>	<u>\$ (1,299,563)</u>

See accompanying notes and auditor's report

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 operates several health care programs of benefit to the local communities. The District also owns two buildings and leases these buildings out to various healthcare providers.

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; and natural disasters. 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, Charles Schwab, and the State's Local Agency Investment Fund (LAIF). All District investments are measured at fair value at June 30, 2022 and 2021. 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 customer receivables and amounts to \$987 and \$987 for June 30, 2022 and 2021, respectively. Significant concentrations of customer 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.

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 upon retirement. However, accumulated vacation benefits are paid to an employee upon either termination or retirement. Accrued vacation liabilities (PTO) as of June 30, 2022 and 2021 was \$138,009 and \$113,278, respectively.

Revenue Recognition: Net program service revenues are reported at amounts that reflect the consideration to which the District expects to be entitled in exchange for program services provided. These amounts are due from certain healthcare programs, third-party payors, and others and include variable consideration for revenue adjustments due third-party audits and investigations. Generally, the District bills the programs several days after the program services are provided for by the District. Revenue is recognized as services are rendered.

Gifts of long-lived assets such as land, buildings, or equipment are reported as net assets without donor restrictions unless explicit donor stipulations specify how the donated asset must be used. Gifts of long-lived assets with explicit donor restrictions that specify how the asset is to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived asset is placed in service. Cash received in excess of revenue recognized is deferred revenue.

Contributions are recognized as revenue when they are received or unconditionally pledged. Donor stipulations that limit the use of the donation are recognized as contributions with donor restrictions. When the purpose is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from donor restrictions. Donor restricted contributions whose restriction expire during the same fiscal year are recognized as net assets without donor restrictions. Absent donor imposed restrictions, the District records donated services, materials, and facilities as net assets without donor restrictions.

Notes to Financial Statements (continued)

PETALUMA HEALTH CARE DISTRICT

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES (continued)

From time to time, the District receives grants from various governmental agencies and private organizations. Revenues from grants are recognized when all eligibility requirements, including time requirements are met. Grants may be restricted for either specific operating purposes or capital acquisitions. These amounts, when recognized upon meeting all requirements, are reported as components of the statement of revenues, expenses and changes in net position.

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.

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.

PETALUMA HEALTH CARE DISTRICT

NOTE B - CASH AND CASH EQUIVALENTS

As of June 30, 2022 and 2021, the District had deposits invested in various financial institutions in the form of cash and cash equivalents in the amounts of \$54,917,161 and \$55,689,191, 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.

Investments also consist of funds deposited in the LAIF funds which invests in several market pools as allowed according to public restrictions on investments. The LAIF is not a registered investment company with the U. S. Securities and Exchange Commission. Changes in market value between years are reflected as a component of investment income in the accompanying statement of revenues, expenses and changes in net position

NOTE C - NOTE RECEIVABLE

The District had one note receivable which is a promissory note secured by a deed of trust amounting to \$-0- and \$196,415 as of June 30, 2022 and 2021, respectively. This note was 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 June, 2022. The note was paid in full by June 30, 2022.

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, there is no risk of loss due to the fact that as a political subdivision of the State of California, the District is considered a public agency and has a "public agency" agreement in place with the bank to prevent any loss. Other financial instrument credit risk areas involve the District's investment portfolio with independent investment firms.

Notes to Financial Statements (continued)

PETALUMA HEALTH CARE DISTRICT

NOTE D - CONCENTRATION OF CREDIT RISK (continued)

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, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Health Quest program services		1%
Other various receivables	100%	99%
Rent receivable from SJH	<u>0%</u>	<u>0%</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 \$73,690 and \$68,657 for the years ended June 30, 2022 and 2021 respectively.

NOTE F - RETIREE HEALTH INSURANCE

The District, in 1991, entered into an Early Retirement and General Release agreement with a former chief executive officer (CEO) and his spouse, that provides for certain health insurance benefits. As of June 30, 2022 and 2021, the total estimated unfunded liability post-employment benefit cost and net obligation was \$99,577 and \$116,006, respectively. The District has accrued the estimated liability based on an actuarial study conducted as of July 1, 2010 and revised estimates during the 2019 year end.

Notes to Financial Statements (continued)

PETALUMA HEALTH CARE DISTRICT

NOTE G - CAPITAL ASSETS

Capital assets as of June 30, 2022 and 2021 were comprised of the following:

	<u>Balance at June 30, 2021</u>	<u>Transfers & Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2022</u>
Land and land improvements	\$ 757,861		\$	\$ 757,861
Buildings and improvements	2,279,207		(69,838)	2,209,369
Furniture and equipment	79,585		(70,280)	9,305
Construction-in-progress	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Totals at historical cost	3,116,653		(140,118)	2,976,535
Less accumulated depreciation	<u>(1,858,755)</u>	<u>(78,120)</u>	<u>140,118</u>	<u>(1,796,757)</u>
Capital assets, net	<u>\$ 1,257,898</u>	<u>\$ (78,120)</u>	<u>\$</u>	<u>\$ 1,179,778</u>

	<u>Balance at June 30, 2020</u>	<u>Transfers & Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2021</u>
Land and land improvements	\$ 962,310		\$ (204,449)	\$ 757,861
Buildings and improvements	21,146,035		(18,866,828)	2,279,207
Furniture and equipment	330,723		(251,138)	79,585
Construction-in-progress	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Totals at historical cost	22,439,068		(19,322,415)	3,116,653
Less accumulated depreciation	<u>(20,097,019)</u>	<u>(269,105)</u>	<u>18,507,369</u>	<u>(1,858,755)</u>
Capital assets, net	<u>\$ 2,342,049</u>	<u>\$ (269,105)</u>	<u>\$ (815,046)</u>	<u>\$ 1,257,898</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 H -INVESTMENTS

The District's investment balances and average maturities were as follows at June 30, 2022 and 2021:

<i>As of June 30, 2022</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/cash equivalents	\$ 1,375,281	\$ 1,375,281		
Corporate bonds and securities	7,528,884		7,528,884	
U. S. Government obligations	13,706,575	5,107,603	8,598,972	
Municipal obligations	385,917	169,663	216,254	
Local agency investment fund	<u>31,421,988</u>	<u>31,421,988</u>		
Total investments	<u>\$ 54,418,645</u>	<u>\$ 38,074,535</u>	<u>\$ 16,344,110</u>	<u>\$ -0-</u>

<i>As of June 30, 2021</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/cash equivalents	\$ 475,049	\$ 475,049		
Corporate bonds and securities	131,728	131,728		
U. S. Government obligations	2,857,188	2,857,188		
Municipal obligations	649,437	649,437		
Local agency investment fund	<u>51,344,790</u>	<u>51,344,790</u>		
Total investments	<u>\$ 55,458,192</u>	<u>\$ 55,458,192</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.

NOTE H -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.

Investment Hierarchy - The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant other unobservable inputs. The District investments are solely measured by Level 1 inputs and does not have any investments that are measured using Level 2 or 3 inputs.

NOTE I - 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, 2022 and 2021, were \$46,503 and \$65,440, respectively. Future minimum lease payments for the succeeding years under operating leases as of June 30, 2022 and 2021 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, 2022 will be resolved without material adverse effect on the District's future financial position, results from operations or cash flows.

Notes to Financial Statements (continued)

PETALUMA HEALTH CARE DISTRICT

NOTE I - COMMITMENTS AND CONTINGENCIES (continued)

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 K - SUBSEQUENT EVENTS

Management evaluated the effect of subsequent events on the financial statements through October 10, 2022, the date the financial statements are issued, and determined that there are no material subsequent events that have not been disclosed.

JWT & Associates, LLP

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Independent Auditors Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Board of Directors
Petaluma Health Care District
Petaluma, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Petaluma Health Care District (the District) as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated October 10, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given those limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

JW7 & Associates, LLP

Fresno, California
October 10, 2022

Supplementary Schedule

Earnings Before Interest, Depreciation and Amortization (EBIDA)

PETALUMA HEALTH CARE DISTRICT

	Year Ended June 30	
	2021	2021
Revenues		
Net program service revenues	\$ 172,106	\$ 162,863
Rental income	244,492	612,630
Grants and donations	<u>506,077</u>	<u>11,600</u>
Total operating revenues	922,675	787,093
Expenses		
Salaries and wages	625,690	538,097
Employee benefits	216,085	230,546
Professional fees	188,212	404,185
Supplies	77,565	31,224
Purchased services	72,018	246,542
Repairs and maintenance	4,263	3,708
Rents and operating leases	46,503	65,440
Utilities and phone	33,656	40,618
Insurance	14,652	26,949
Sponsorship programs	108,839	64,947
Other operating expenses	<u>78,959</u>	<u>84,709</u>
Total operating expenses	<u>1,466,442</u>	<u>1,736,965</u>
Earnings (loss) before interest, depreciation and amortization	<u>\$ (543,767)</u>	<u>\$ (949,872)</u>

The earnings before interest, depreciation and amortization schedule (EBIDA) is derived from the statements of revenues, expenses and changes in net position. However, it excludes the following line items:

Interest expense
 Depreciation and amortization
 Gain (loss) on sale of assets
 Investment income (losses)