

Audited Financial Statements

**PETALUMA
HEALTH CARE DISTRICT**

**JWT & Associates, LLP
June 30, 2020**

Audited Financial Statements

PETALUMA HEALTH CARE DISTRICT

June 30, 2020

Audited Financial Statements

Management’s Discussion and Analysis	1
Report of Independent Auditors	4
Statements of Net Position	6
Statements of Revenues, Expenses, and Changes in Net Position	7
Statements of Cash Flows	8
Notes to Financial Statements	9

Supplementary Schedule

Earnings before Interest, Depreciation and Amortization (EBIDA)	18
---	----

Management's Discussion and Analysis

PETALUMA HEALTH CARE DISTRICT

June 30, 2020

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, 2020 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, 2020 and accompanying notes to the financial statements to enhance one's understanding of the District's financial performance.

Financial Summary

- Total assets decreased by \$288,732 from the fiscal year ended June 30, 2019, due mainly to depreciation expense of \$464,090 for the year.
- Total cash and cash equivalents and investments increased by \$484,127 over the prior year due mainly to the collection of receivables, grant funds held under District fiscal agent (fiduciary) responsibilities, and increased rental income.
- Total receivables were at \$490,940 as compared to \$618,007 in the prior year.
- Current assets increased by \$175,368 from the prior fiscal year while current liabilities also increased by \$553,495 from the prior fiscal year. This resulted in a current ratio of 5.5 to 1 where as the industry norm is around 2 to 1. Prior year current ratio was 15.2 to 1.
- Operating revenues increased by \$145,960.
- Operating expenses increased by \$138,742.
- There was a decrease in net position of \$(842,227) as compared to a decrease in the prior year of \$(492,552).

Cash and Investments

For the fiscal year ended June 30, 2020, the District's operating cash and cash equivalents and short-term investments totaled \$4,049,805 as compared to \$3,759,245 in fiscal year 2019. At June 30, 2020, days cash on hand was 892 as compared to industry goals of 100 days cash on hand. The prior year was 916. 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 and Investments

As previously noted, current assets of the District increased by \$178,368. The significant changes were related to increases in cash by \$484,127 and decreases in various operating receivables by \$127,067. Investment decreases of \$193,567 were affected by the operating losses.

Capital Assets

During the year, the District had no purchases of capital assets while experiencing depreciation expense of \$464,090.

Current Liabilities

As previously noted, current liabilities of the District increased by \$553,495. The significant changes were related to increases in accounts payable and accrued expenses of \$354,721, directly related to service increases, and a slight decrease in accrued payroll and related liabilities of \$2,094, of which \$12,513 represented a decrease in post retirement health insurance benefits. The District also realized \$200,868 of deferred revenues for the year due to undisbursed grant funds held as a fiduciary as of year end.

Operating Expenses

Total operating expenses were \$2,121,010 for 2020 as compared to \$1,982,268 for 2019. The following changes were noteworthy:

- A \$40,033 decrease in salaries, wages and benefits due mainly to a decrease in FTE's for the year.
- An increase of \$130,745 in professional fees due to contract negotiations.
- An increase of \$57,012 in purchased services and community support (education) expenses, again due to contract negotiations and proposed ballot measure.
- 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, 2020 through June 30, 2021 budget at the June, 2020 Board meeting, however, due to the uncertainty of the hospital negotiations, it was decided that the budget would be revisited at mid-year in order to effect possible changes. For fiscal year 2021, the District has budgeted a net loss of approximately \$1.3 million from operations. The significant contributing factors to this budgeted income are:

- The District's revenues from program services should decrease somewhat while the rental income should increase as compared to the 2019 level. The District is budgeting total revenues at approximately \$1.1 million.
- Expenses are budgeted at approximately \$2.6 million for 2020-21 compared to \$2.7 million budgeted in 2019-20, mainly due to less expenses associated with the hospital negotiations.

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

A Certified Public Accountancy Limited Liability Partnership

1111 East Herndon Avenue, Suite 211, Fresno, California 93720

Voice: (559) 431-7708 Fax: (559) 431-7685 Email: rjctcpa@aol.com

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, 2020 and 2019, 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, 2020 and 2019, 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.

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.

JWT & Associates, LLP

Fresno, California
September 15, 2020

Statements of Net Position

PETALUMA HEALTH CARE DISTRICT

	June 30	
	<u>2020</u>	<u>2019</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 553,043	\$ 68,916
Investments	3,496,762	3,690,329
Accounts receivable, net	30,325	30,819
Rent and other receivables	69,122	12,112
Note receivable	391,493	575,076
Inventories	6,097	7,145
Prepaid expenses and other current assets	<u>44,508</u>	<u>31,585</u>
Total current assets	4,591,350	4,415,982
Capital assets, net of accumulated depreciation	<u>2,342,049</u>	<u>2,806,149</u>
	<u>\$ 6,933,399</u>	<u>\$ 7,222,131</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 396,897	\$ 42,176
Accrued payroll and related liabilities	245,395	247,489
Advances from grantors	<u>200,868</u>	<u> </u>
Total current liabilities	843,160	289,665
Net position		
Invested in capital assets	2,342,049	2,806,149
Unrestricted	<u>3,748,190</u>	<u>4,126,317</u>
Total net position	<u>6,090,239</u>	<u>6,932,466</u>
	<u>\$ 6,933,399</u>	<u>\$ 7,222,131</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>2020</u>	<u>2019</u>
Operating revenues		
Net program service revenues	\$ 271,317	\$ 293,653
Rental income	<u>902,531</u>	<u>734,235</u>
Total operating revenues	1,173,848	1,027,888
Operating expenses		
Salaries and wages	545,818	564,987
Employee benefits	235,110	255,974
Professional fees	233,967	103,222
Supplies	24,655	32,069
Purchased services and community support	379,106	322,094
Repairs and maintenance	2,216	1,842
Rents and operating leases	80,954	77,415
Utilities and phone	38,049	31,273
Insurance	24,807	21,527
Depreciation and amortization	464,090	484,068
Other operating expenses	<u>92,238</u>	<u>87,797</u>
Total operating expenses	<u>2,121,010</u>	<u>1,982,268</u>
Operating loss	(947,162)	(954,380)
Nonoperating revenues (expenses)		
Investment income	104,935	123,374
Gain (loss) on sale of assets	<u> </u>	<u>338,454</u>
Total nonoperating revenues (expenses)	<u>104,935</u>	<u>461,828</u>
Increase (decrease) in net position	(842,227)	(492,552)
Net position at beginning of the year	<u>6,932,466</u>	<u>7,425,018</u>
Net position at end of the year	<u>\$ 6,090,239</u>	<u>\$ 6,932,466</u>

See accompanying notes and auditor's report

Statements of Cash Flows

PETALUMA HEALTH CARE DISTRICT

	Year Ended June 30	
	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from net program service revenues	\$ 271,811	\$ 500,468
Cash received from rental income and grants	1,046,389	1,477,854
Cash payments to suppliers and contractors	(533,146)	(732,268)
Cash payments to employees and benefit programs	<u>(783,022)</u>	<u>(931,141)</u>
Net cash (used in) operating activities	2,032	314,913
Cash flows from capital financing activities:		
Purchase of capital assets		(5,592)
Gain (loss) on sale of assets		<u>506,358</u>
Net cash provided by (used in) capital financing activities		500,766
Cash flows from investing activities:		
Change in investments	193,567	(1,251,799)
Change in note receivable	183,593	174,109
Investment income	<u>104,935</u>	<u>123,374</u>
Net cash provided by (used in) investing activities	<u>482,095</u>	<u>(954,316)</u>
Net increase in cash and cash equivalents	484,127	(138,637)
Cash and cash equivalents at beginning of year	<u>68,916</u>	<u>207,553</u>
Cash and cash equivalents at end of year	<u>\$ 553,043</u>	<u>\$ 68,916</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating (loss)	\$ (947,162)	\$ (954,380)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	464,090	484,068
Changes in operating assets and liabilities:		
Accounts receivables	(56,516)	952,562
Inventories	1,048	(2,379)
Prepaid expenses and current assets	(12,923)	24,574
Accounts payable and accrued expenses	354,721	(77,224)
Accrued payroll and related liabilities	(2,094)	(110,180)
Advances from grantors	<u>200,868</u>	<u>(2,128)</u>
Net cash (used in) operating activities	<u>\$ 2,032</u>	<u>\$ 314,913</u>

See accompanying notes and auditor's report

PETALUMA HEALTH CARE DISTRICT

June 30, 2020

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, 2020 and 2019. 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 \$2,150 and \$2,350 for June 30, 2020 and 2019, 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, 2020 and 2019 was \$98,601 and \$89,996, 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, 2020 and 2019, the District had deposits invested in various financial institutions in the form of cash and cash equivalents in the amounts of \$4,049,675 and \$3,758,402, 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 \$391,493 and \$575,076 as of June 30, 2020 and 2019, 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.

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, 2020 and 2019.

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, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Health Quest program services	27%	86%
Connect America program services	3%	14%
Rent receivable from SJH	<u>70%</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 \$66,250 and \$63,851 for the years ended June 30, 2020 and 2019, respectively.

Notes to Financial Statements (continued)

PETALUMA HEALTH CARE DISTRICT

NOTE F - CAPITAL ASSETS

Capital assets as of June 30, 2020 and 2019 were comprised of the following:

	<u>Balance at June 30, 2019</u>	<u>Transfers & Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2020</u>
Land and land improvements	\$ 962,310			\$ 962,310
Buildings and improvements	21,146,035			21,146,035
Furniture and equipment	330,773			330,773
Construction-in-progress	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Totals at historical cost	22,439,068			22,439,068
Less accumulated depreciation	<u>(19,632,929)</u>	<u>(464,090)</u>	<u> </u>	<u>(20,097,019)</u>
Capital assets, net	<u>\$ 2,806,139</u>	<u>\$ (464,090)</u>	<u>\$ </u>	<u>\$ 2,342,049</u>

	<u>Balance at June 30, 2018</u>	<u>Transfers & Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2019</u>
Land and land improvements	\$ 962,310			\$ 962,310
Buildings and improvements	21,146,035			21,146,035
Furniture and equipment	325,161	\$ 5,562		330,773
Construction-in-progress	<u>167,904</u>	<u> </u>	<u>(167,904)</u>	<u> </u>
Totals at historical cost	22,601,410	5,562	(167,904)	22,439,068
Less accumulated depreciation	<u>(19,148,880)</u>	<u>(484,039)</u>	<u> </u>	<u>(19,632,929)</u>
Capital assets, net	<u>\$ 3,452,530</u>	<u>\$ (478,477)</u>	<u>\$ (167,904)</u>	<u>\$ 2,806,139</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.

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, 2020 and 2019, were \$80,954 and \$77,415, respectively. Future minimum lease payments for the succeeding years under operating leases as of June 30, 2020 and 2019 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, 2020 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 initial term of the lease ended January 20, 2017 and has continued on a month-to-month basis since the end of the initial term. The District has a rent receivable balance due from SRM in the amount of \$66,847 and \$-0- as of June 30, 2020 and 2019, respectively.

NOTE I - 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, 2020 and 2019, the total estimated unfunded liability post-employment benefit cost and net obligation was \$130,503 and \$143,018, 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 J -INVESTMENTS

The District’s investment balances and average maturities were as follows at June 30, 2020 and 2019:

<i>As of June 30, 2020</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	\$ 2,981,413	\$ 2,981,413		
Corporate bonds	100,926	100,926		
U. S. Government obligations	312,998		\$ 312,998	
Foreign bonds, notes & debentures	100,599	100,599		
Local agency investment fund	<u>826</u>	<u>826</u>		
Total investments	<u>\$ 3,496,762</u>	<u>\$ 3,183,764</u>	<u>\$ 312,998</u>	<u>\$ -0-</u>

<i>As of June 30, 2019</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	\$ 2,989,958	\$ 2,989,958		
Corporate bonds	349,678	249,398	\$ 100,280	
U. S. Government obligations	200,028		200,028	
Foreign bonds, notes & debentures	149,858	149,858		
Local agency investment fund	<u>807</u>	<u>807</u>		
Total investments	<u>\$ 3,690,329</u>	<u>\$ 3,390,021</u>	<u>\$ 300,308</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 J -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 K - SUBSEQUENT EVENTS

Management evaluated the effect of subsequent events on the financial statements through September 15, 2020, the date the financial statements are issued, and determined that there are no material subsequent events that have not been disclosed.

Supplementary Schedule

Earnings Before Interest, Depreciation and Amortization (EBIDA)

PETALUMA HEALTH CARE DISTRICT

	Year Ended June 30	
	2020	2019
Revenues		
Net program service revenues	\$ 271,317	\$ 293,653
Rental income	902,531	734,235
Investment income	<u>104,935</u>	<u>123,374</u>
Total operating revenues	1,278,783	1,151,262
Expenses		
Salaries and wages	545,818	564,987
Employee benefits	235,110	255,974
Professional fees	233,967	103,222
Supplies	24,655	32,069
Purchased services and community support	379,106	322,094
Repairs and maintenance	2,216	1,842
Rents and operating leases	80,954	77,415
Utilities and phone	38,049	31,273
Insurance	24,807	21,527
Other operating expenses	<u>92,238</u>	<u>87,797</u>
Total operating expenses	<u>1,656,920</u>	<u>1,498,200</u>
Earnings (loss) before interest, depreciation and amortization	<u>\$ (378,137)</u>	<u>\$ (346,938)</u>

The earnings before interest, depreciation and amortization schedule 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
 Investment income
 Gain (loss) on sale of assets