PETALUMA HEALTH CARE DISTRICT

Petaluma, California

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT

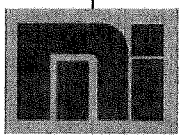
June 30, 2010 and 2009

Matson and Isom

TABLE OF CONTENTS

June 30, 2010 and 2009

Petaluma Health Care District



matson and isom

Founded in 1962 by Robert M. Matson and W. Howard Isom

Chico
3013 Ceres Avenue
Chico, CA 95973
Phone (530) 891-6474
Fax (530) 893-6689

Redding
292 Hemsted Drive, Suite 100
Redding, CA 96002
Phone (530) 244-4980
Fax (530) 244-4983

Colusa
108 Seventh Street
Colusa, CA 95932
Phone (530) 458-8236
Fax (530) 458-2938

Yuba City
1190 Civic Center Blvd.
Yuba City, CA 95993
Phone (530) 671-1550
Fax (530) 671-3517

www.matson-isom.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of Petaluma Health Care District (the District), as of and for the years ended June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the District's management. 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; *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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2010 and 2009, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

The District has not presented 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 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.

Matson and Isom

October 27, 2010

June 30	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 37,005	$ 234,383
Accounts receivable - net of allowance of $2,000 (2010 and 2009)	425,512	90,436
Prepaid expenses and deposits	87,634	20,638
Notes receivable - current portion	37,044	61,990
Total Current Assets	587,195	407,447
NONCURRENT INVESTMENTS	6,785,883	7,439,596
OTHER ASSETS		
Deferred affiliation costs - net	118,671	136,683
Notes receivable - net of current portion	70,387	43,317
Goodwill	-	10,000
Total Other Assets	189,058	190,000
CAPITAL ASSETS - NET	9,425,164	9,797,950
Total Assets	$ 16,987,300	$ 17,834,993
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 6,637	$ 39,134
Accounts payable	539,101	183,040
Accrued liabilities:		
Payroll and vacation	81,979	79,891
Retiree health insurance	418,950	185,216
Total Current Liabilities	1,046,667	487,281
LONG-TERM DEBT		
Net of current maturities	-	6,637
DEFERRED REVENUE - NET	2,741,851	3,160,627
Total Liabilities	3,788,518	3,654,545
NET ASSETS		
Invested in capital assets - net of related debt	9,418,527	9,752,179
Unrestricted	3,780,255	4,428,269
Total Net Assets	13,198,782	14,180,448
Total Liabilities and Net Assets	$ 16,987,300	$ 17,834,993

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Petaluma Health Care District

Years Ended June 30	2010	2009
OPERATING REVENUE		
Program service fees	$ 1,836,200	$ 1,576,253
Rental income	807,093	820,825
Total Operating Revenue	2,643,293	2,397,078
OPERATING EXPENSES		
Salaries, wages, and benefits	1,362,349	1,039,008
Depreciation and amortization	757,159	739,410
Professional fees	282,875	178,894
Purchased services	618,923	634,157
Bad debt expense	3,217	9,744
Operating supplies	54,996	53,477
Office supplies	56,799	56,389
Insurance	32,238	36,872
Utilities	36,093	41,282
Repairs and maintenance	32,313	34,962
Rents and leases	223,655	224,276
Advertising and promotion	115,034	77,464
Community support	58,088	46,946
Meetings and training	13,645	14,238
Dues and subscriptions	13,964	10,919
Travel	12,716	18,072
Other	15,266	94,691
Total Operating Expenses	3,689,330	3,310,801
Operating Loss	(1,046,037)	(913,723)
NONOPERATING REVENUES (EXPENSES)		
Investment income	495,354	478,307
Gain on sale of assets	3,250	1,571,898
Medicare settlement	(419,000)	-
Interest expense	(15,233)	(2,044)
Total Nonoperating Revenues	64,371	2,048,161
Change in Net Assets	(981,666)	1,134,438
Net Assets - Beginning of Year	14,180,448	13,046,010
Net Assets - End of Year	$ 13,198,782	$ 14,180,448

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

STATEMENTS OF CASH FLOWS

Years Ended June 30	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts for services and support	$ 1,501,124	$ 1,531,046
Rental receipts	388,317	402,049
Payments to suppliers and contractors	(1,699,757)	(1,472,446)
Payments to and on behalf of employees	(1,126,527)	(1,046,044)
Other payments	-	(20,323)
Net Cash Used by Operating Activities	(936,843)	(605,718)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(368,111)	(516,639)
Sale of capital assets	15,000	1,750,000
Disposal of capital assets	-	19,900
Line of credit (payments) proceeds	-	(75,000)
Debt payments	(39,134)	(39,012)
Interest paid on long-term debt	(15,233)	(2,044)
Net Cash Provided (Used) by Capital and Related Financing Activities	(407,478)	1,137,205
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	383,613	366,566
Net transfer of investments	765,454	(740,294)
Change in physician loans	(2,124)	6,520
Net Cash Provided (Used) by Investing Activities	1,146,943	(367,208)
Net Increase (Decrease) in Cash and Cash Equivalents	(197,378)	164,279
Cash and Cash Equivalents - Beginning of Year	234,383	70,104
Cash and Cash Equivalents - End of Year	$ 37,005	$ 234,383

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

Years Ended June 30	2010	2009
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (1,046,037)	$ (913,723)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	757,159	739,410
Deferred revenue amortization	(418,776)	(418,776)
Changes in:		
Accounts receivable	(335,076)	(45,207)
Prepaid expenses	(66,996)	6,642
Accounts payable	(62,939)	53,295
Accrued liabilities	235,822	(7,036)
Other liabilities	-	(20,323)
Net Cash Used by Operating Activities	$ (936,843)	$ (605,718)

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

The District entered into a note payable for equipment in the amount of $60,000 in 2009.

The District reduced the note payable from a physician in the amount of $10,125 in 2010 and $5,439 in 2009 for services provided to the hospital.

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 promote health care services in Petaluma, California, and the surrounding community.

Basis of Accounting Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, established financial reporting requirements for all state and local governments. The District has adopted the financial reporting provisions of GASB No. 34 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 generally accepted accounting principles, 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.

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 $9,511 at June 30, 2010. 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 gain on investments was $171,827 and $111,741 at June 30, 2010 and 2009, respectively. This amount takes into account all changes in fair value, including purchases and sales that occurred during the year.

Goodwill Goodwill is the excess of cost over net tangible assets of acquiring a personal response system program. Goodwill is amortized over five years. Accumulated amortization amounted to $50,000 and $40,000 at June 30, 2010 and 2009, respectively. As of June 30, 2010, goodwill had been fully amortized.

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 Income and Expenses The statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating income and expenses. Operating revenues result from exchange transactions generated from program service fees and rental income. Nonexchange revenues, including grants and contributions, if any, received for purposes other than capital asset acquisition are reported as nonoperating income. Operating expenses are all expenses incurred to provide operating income, other than financing costs.

Equity Equity is classified into two components. These components consist of: 1) Invested in capital assets net of related debt, 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.

Reclassifications Certain amounts in prior-year financial statements have been reclassified for comparative purposes to conform with presentation in the current-year financial statements.

2. CASH AND INVESTMENTS

The following is a summary of cash and investments at June 30:

	2010	2009
CASH ON HAND	$ 49	$ 98
DEPOSITS (1)	36,956	234,285
Subtotal	37,005	234,383
INVESTMENTS THAT ARE NOT SECURITIES (2)		
Local Agency Investment Fund	759	752
Commercial paper	108,206	528,731
Subtotal	108,965	529,483
INVESTMENT SECURITIES		
U.S. government securities	6,806	262,626
Municipal bonds	2,130,344	609,728
Corporate bonds	4,539,768	6,037,759
Subtotal	6,676,918	6,910,113
Total Cash and Investments	$ 6,822,888	$ 7,673,979

(1) ***Deposits*** The carrying amount of deposits includes demand deposits in a financial institution.

(2) ***Investments That are Not Securities*** A "security" is a transferable financial instrument that evidences ownership, whether in physical or book entry form. Investments that are not securities do not have custodial credit risk because they do not involve a transferable financial instrument. Thus, they are not subject to custodial credit risk.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District has a collateralization agreement with the bank, which mitigates custodial credit risk. The cash balance in the bank at June 30, 2010, amounted to $69,983. 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 has no investment policy that would further limit its investment choices.

Investments by investment type and ratings are as follows at June 30, 2010:

Investment Type	Fair Value / Amortized Cost	AAA	A+ or AA	A	Not Rated
Local Agency Investment Fund	$ 759	$ -	$ -	$ -	$ 759
Commercial paper	108,206	-	-	-	108,206
U.S. government securities	6,806	-	-	-	6,806
Municipal bonds	2,130,344	206,985	-	1,923,359	-
Corporate bonds	4,539,768	-	1,941,435	2,598,333	-
Totals	$6,785,883	$ 206,985	$1,941,435	$4,521,692	$ 115,771

Investments by investment type and ratings are as follows at June 30, 2009:

Investment Type	Fair Value / Amortized Cost	AAA	A+ or AA	A	Not Rated
Local Agency Investment Fund	$ 752	$ -	$ -	$ -	$ 752
Commercial paper	528,731	-	-	525,000	3,731
U.S. government securities	262,626	253,615	-	-	9,011
Municipal bonds	609,728	201,957	-	407,771	-
Corporate bonds	6,037,759	-	3,384,467	2,653,292	-
Totals	$7,439,596	$ 455,572	$3,384,467	$3,586,063	$ 13,494

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 not 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 at June 30, 2010, are as follows:

Maturity	Fair Value/ Amortized Cost
Less than one year	$ 2,002,235
One to five years	4,777,049
Six to ten years	5,584
More than ten years	1,015
Total	$ 6,785,883

Investments grouped by maturity date at June 30, 2009, are as follows:

Maturity	Fair Value/ Amortized Cost
Less than one year	$ 2,174,916
One to five years	5,253,908
Six to ten years	9,000
More than ten years	1,772
Total	$ 7,439,596

3. NOTES RECEIVABLE

Loans have been made to physicians, which are due in one to five years. The loans have varying interest rates and terms. Notes receivable amounted to $107,831 and $148,734 at June 30, 2010 and 2009, respectively. The allowances for uncollectible amounts totaled $46,644 and $43,427 at June 30, 2010 and 2009, respectively.

4. CAPITAL ASSETS

Capital assets consisted of the following at June 30, 2010:

	Balance June 30, 2009	Additions	Disposals	Balance June 30, 2010
Land	$ 1,646,344	$ -	$ -	$ 1,646,344
Buildings and improvements	22,748,875	198,750	-	22,947,625
Construction in progress	166,284	1,620	-	167,904
Furniture and equipment	2,878,159	167,741	(15,000)	3,030,900
Subtotal	27,439,662	368,111	(15,000)	27,792,773
Less: Accumulated depreciation	17,641,712	729,147	(3,250)	18,367,609
Capital Assets - Net	$ 9,797,950	$ (361,036)	$ (11,750)	$ 9,425,164

Capital assets consisted of the following at June 30, 2009:

	Balance June 30, 2008	Additions	Disposals	Balance June 30, 2009
Land	$ 1,737,546	$ -	$ (91,202)	$ 1,646,344
Buildings and improvements	24,252,336	10,023	(1,513,484)	22,748,875
Construction in progress	64,284	102,000	-	166,284
Furniture and equipment	2,590,792	464,616	(177,249)	2,878,159
Subtotal	28,644,958	576,639	(1,781,935)	27,439,662
Less: Accumulated depreciation	18,514,247	709,303	(1,581,838)	17,641,712
Capital Assets - Net	$ 10,130,711	$ (132,664)	$ (200,097)	$ 9,797,950

Depreciation expense for the years ended 2010 and 2009 was $729,147 and $709,303, 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 attributable 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 helps to fund a District-sponsored free clinic for a minimum of $15,000 annually. Alliance also committed to invest at least $14 million in capital improvements to Petaluma Valley Hospital with a minimum investment of $500,000 annually over the lease term to total at least $7 million invested by the tenth anniversary, which was January 19, 2007.

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 will be amortized over the life of the lease. Accumulated amortization amounted to $241,673 and $223,661 at June 30, 2010 and 2009, respectively.

The deferred revenue consists of the prepaid operating lease payments. The operating lease payments are recognized as rental income over the term of the lease. Deferred revenue recognized in 2010 and in 2009 amounted to $418,753, and accumulated revenue amortized amounted to $5,633,212 and $5,214,436 at June 30, 2010 and 2009, respectively.

6. LINE OF CREDIT

The District entered into a revolving line of credit agreement with Bank of Marin, which provides for advances up to $750,000. Interest is payable monthly on the outstanding advances at the rate of 1% over the prime rate as published in the *Wall Street Journal*. The balance was zero for the years ended June 30, 2010 and 2009, respectively. The line of credit expires on December 5, 2010.

7. LONG-TERM DEBT

Long-term debt consisted of the following:

	Balance June 30, 2008	Additions	Retirements	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010
Note payable to Sonoma County in annual installments, including interest at a variable rate between 5.6% and 7.75%.	$ 3,666	$ -	$ 1,772	$ 1,894	$ -	$ 1,894	$ -
Note payable to Ford Motor Credit, payable in monthly installments of $603 through May 2011 with no interest. The note is secured by a vehicle.	21,117	-	7,240	13,877	-	7,240	6,637
Note payable to Helene Speak, M.D., payable in four quarterly installments of $15,000 through October 2009, with no interest. The note is unsecured.	-	60,000	30,000	30,000	-	30,000	-
Total Long-Term Debt	$ 24,783	$ 60,000	$ 39,012	$ 45,771	$ -	$ 39,134	$ 6,637

8. OPERATING LEASE AGREEMENTS

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

2011	$ 773,935
2012	$ 459,432
2013	$ 419,609
2014	$ 418,777
2015	$ 418,777
Thereafter	$ 648,110

The District entered into operating leases for professional and office space, which expire in various years through July 2012. Minimum future rental payments under noncancelable operating leases having remaining terms in excess of one year as of June 30, 2010, are as follows:

2011	$ 153,653
2012	$ 92,871
2013	$ 5,738

Rent expense amounted to $184,181 and $197,796 at June 30, 2010 and 2009, 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 $24,993 and $21,661 for 2010 and 2009, 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, afforded to the employees of the District. 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 assuming office on or after January 1, 2001, or to re-elected directors assuming office on or after January 1, 2001, but will continue to provide medical benefits both to those 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

As of June 30, 2010, the Districts total unfunded liability was $418,950.

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 and 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, 2010, there were four former board members that 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.

Condensed financial information of BETA Healthcare Group (which includes the Program BETA JPA) for the year ended December 31, 2009, and of the ALPHA Fund JPA for the year ended June 30, 2009, is as follows:

	ALPHA Fund	BETA Healthcare Group
Total assets	$ 73,093,296	$ 453,890,498
Total liabilities	63,818,662	302,866,793
Fund Balance	$ 9,274,634	$ 151,023,705
Total revenues	$ 21,552,282	$ 89,434,805
Total expenditures	(19,512,350)	(58,325,343)
Member surplus funds contributed	-	1,500
Change in unrealized gains on investments	(739,538)	4,051,825
Member dividends	(1,050,000)	(6,000,000)
Net Increase in Fund Balance	$ 250,394	$ 29,162,787

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, 2010, was $2,470,000.

Contingencies

On July 29, 2009, the District entered into an agreement to purchase an industrial building at 1460 Cader Lane in Petaluma, California, for $5,500,000 and paid a $100 non-refundable consideration fee. On August 19, 2009, the District paid a refundable deposit of $50,000. The District terminated the agreement in May of 2010 and expects to have the deposit refunded. The seller of the property is currently disputing the refund of the deposit. The deposit is included in prepaid expenses and deposits as of June 30, 2010.

12. MEDICARE SETTLEMENT

In June 2010, SRM Alliance Hospital Services (Alliance) entered into an agreement with Medicare to pay $790,000 for prior-year charges that were not supported by corresponding medical records. The contested charges were from January 1994 to December 1997. In June 2010, the District entered into an agreement with Alliance to pay $419,000 of the total amount due to Medicare. This amount was recorded as a liability and as an expense as of June 30, 2010.

13. FUTURE GASB IMPLEMENTATION

In February 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, with required implementation for the District during the 2010-11 fiscal year. The statement establishes accounting and financial reporting standards for classifying the fund balance into specifically defined classifications.