

Report of Independent Auditors
and Financial Statements

Palm Drive Health Care District

June 30, 2016

JWT & Associates, LLP
Advisory Assurance Tax

Palm Drive Health Care District

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Report of Independent Auditors

The Board of Directors
Palm Drive Health Care District
Sebastopol, California

Report on the Financial Statements

We have audited the accompanying combined financial statements of Palm Drive Health Care District (the District), Sonoma West Medical Center, Inc. (SWMC) and Sonoma West Medical and Surgical Institute, Inc. (SWMSI), collectively referred to as the “Combined Unit,” as of June 30, 2016, which comprise the combined statement of net position as of June 30, 2016, and the related combined statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with the 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 consolidated 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 combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the 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 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’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 entity’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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Combined Unit at June 30, 2016, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

The accompanying financial statements have been prepared assuming that the Combined Unit will continue as a going concern. As discussed in Note 12 to the financial statements, the Combining Unit suffered a significant loss from operations and has a significant accumulated net position deficit. These conditions raise substantial doubt about the Combined Unit's ability to continue as a going concern. Management's plans regarding these matters also are described in Note 12 and in the Management's Discussion and Analysis. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the 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 financial statements in an appropriate operational, economic, or historical context We have applied certain limited procedures in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing 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.

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining statement of net position and the combining statement of revenues, expenses and changes in net position are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

JWT & Associates, LLP

Fresno, California
April 5, 2017

Palm Drive Health Care District

Management's Discussion and Analysis

For the Year Ended June 30, 2016

The management of Palm Drive Health Care District (the District) has prepared this annual discussion and analysis in order to provide an overview of the combined financial performance of the District, Sonoma West Medical Center, Inc. (SWMC) and Sonoma West Medical and Surgical Institute, Inc. (SWMSI), collectively referred to as the Combined Unit, for fiscal year ended June 30 2016, in accordance with the Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments. Governmental Accounting Standards Board pronouncements require reporting the financial statements of the District on a combined basis with SWMC and SWMSI, which are identified as component units. There is the existence of a Management and Staffing Services Agreement (MSSA) between the District and SWMC, pursuant to which SWMC assumed operational control of the hospital and responsibility for its financial results.

The intent of this discussion and analysis is to provide additional information on the Combined Unit's financial performance as a whole in addition to providing a prospective look at operating results, capital development plans, economic conditions and the competitive environment in which the Combined Unit operates. Readers should also review the audited combined financial statements for fiscal year ended June 30, 2016, and the accompanying notes to the combined financial statements to enhance their understanding of the Combined Unit's financial performance. The audited combined financial statements have received an unmodified opinion from the District's independent auditor.

During the year ended June 30, 2016, the Combined Unit dealt with several concerns that affected the financial well-being of the Combined Unit which include:

1. The District continued to be in Chapter 9 bankruptcy. A plan for withdrawing from bankruptcy was submitted to the court May, 2015. However, it was subsequently withdrawn for 2 reasons. The first related to the fact that the District had hoped to have reserve funds released to pay for the bankruptcy. Wells Fargo informed the District that they would not be able to do this because the bond trustee agreement stated that reserve funds and account balances had to be used for satisfying outstanding bond obligations. Secondly, SWMC informed the District that it needed to subcontract for the operation of the hospital due to financial difficulties they were experiencing. A partner was sought, which was Pipeline, Inc. (Pipeline). SWMC developed an MSSA with Pipeline which was signed in July, 2016. Pipeline needed to assess the organization and develop new financial statements and financial projections. As a result of this information, the District remains in Chapter 9 bankruptcy. Currently, efforts are being made to refinance the bonds to help pay for the bankruptcy.

Palm Drive Health Care District

Management's Discussion and Analysis

For the Year Ended June 30, 2016

2. During the year 2015-16, the District was challenged by members of the District to detach. The District is made up of 9 school districts. The residents of three of the school districts, Guerneville, Forestville and Monte Rio worked through a process with Sonoma County Local Agency Formation Commission (LAFCO) based on the Cortese-Knox-Hetzberg Local Government Reorganization Act of 2000 to file a petition to detach from the District. The petitioners needed to obtain 25% of registered voters or home owners in these school districts as part of this process. They were successful in this effort. The Detachment Petition was approved February 1, 2017.

The parcel tax for the District is \$155/year. Because of the detachment, parcel owners in the affected areas will not have to pay all of this tax. They will still have to pay their portion of the debt service on existing debt (e.g. bonds and bankruptcy), but anything above this which would be used by the District for operations will be lost to the District.

This will decrease the District's annual revenue significantly. The calculation of the amount of decrease in the District's tax revenue is being determined by a consulting company David Taussig & Associates. This company was recommended by the County Tax Assessor's office.

3. The District continues to plan for the refinance of its existing tax exempt bonds. However, there are some issues with this. The LAFCO detachment resolution calls for the detached parcel owners to pay only for the "existing debt" of the District. The District's legal counsel has advised that refinancing of the debt the District could be open to civil action claiming that the reissuance is equivalent to new debt and therefore the detached parcel owners do not have to pay for the refinanced debt. The other point about refinancing is related to the bonds being tax exempt. Due to requirements applicable to the use of bond proceeds by non-public entities, the District must refinance its existing tax free bonds by converting them to either a 501(c)(3) bonds or taxable bonds.
4. The hospital has had a turbulent time since its re-opening October 30, 2015. The financial stability has been challenged along the way. In order to have cash on hand SWMC opened a line of credit with Pacific Premier Bank. When Pipeline assumed responsibility for operating the hospital, they entered into another agreement with SCM Specialty Finance Opportunities for a larger line of credit. The second line of credit paid off the first line of credit. The line of credit is secured by the accounts receivable (AR) of the hospital. The lending agreement requires that all AR be swept into a lock box belonging to SCM Specialty Finance, so the Combined Unit no longer had first rights to the AR.
5. While Pipeline has had great success in decreasing the operating losses of the hospital, the hospital was not able to generate a profit and is still is running at a significant loss.

Palm Drive Health Care District

Management's Discussion and Analysis

For the Year Ended June 30, 2016

Overview of the Combined Unit's Financial Statements

This annual report consists of the combined audited financial statements and notes to the financial statements that reflect the Combined Unit's financial position and operating results for the year ended June 30, 2016. The audited combined financial statements include the report of the independent auditors, statement of net assets, statement of revenues, expenses, and changes in the net assets, and the statement of cash flows. They also include notes to the financial statements.

- The statements of the net position include all the Combined Unit's assets and liabilities based on the accrual method of accounting for the year ending June 30, 2016.
- The statements of revenues, expenses and changes in the net position present the operating activities of the Combined Unit during the year ended June 30, 2016.
- The statement of cash flows reports the net cash provided by operating activities as well as other sources and uses of cash from various financial activities of the Combined Unit.

Cash and Cash Equivalents

For fiscal year ended June 30, 2016, the Combined Unit's cash and cash equivalents totaled approximately \$555,000. At June 30, 2016, days of operating cash on hand were approximately 18. The majority of the Combined Unit's cash is deposited with a local bank in various forms of cash and cash equivalent funds.

Current Assets and Liabilities

At June 30, 2016, current assets totaled approximately \$7,527,000 and current liabilities totaled approximately \$19,469,000, for a current ratio of 0.39.

Long-Term Debt and District Tax Revenues

The Combined Unit's long-term debt, net of current maturities, at June 30, 2016 was approximately \$22,225,000. During the year ended June 30, 2016, the total tax collections from the District totaled approximately \$4,035,000. These collections service the bond debt obligations.

Palm Drive Health Care District

Management's Discussion and Analysis

For the Year Ended June 30, 2016

Patient Revenue

The Combined Unit charged all its patients equally on its established pricing structure for the services rendered. Gross patient revenue for the year ended June 30, 2016, totaled approximately \$27,392,000. Deductions from revenue are a combination of contractual allowances and provisions for bad debts. Contractual allowances are computed deductions based on the difference between gross charges and the contractually agreed upon rates of reimbursement with third party government-based programs such as Medicare and Medi-Cal, and other third party HMO-based payers such as Blue Shield and Aetna. For the year ended June 30, 2016, such deductions from revenue totaled approximately \$18,075,000. This resulted in net patient revenue of approximately \$9,317,000.

Operating Expenses

Total operating expenses were approximately \$22,127,000 for the fiscal year ending June 30, 2016.

Management's Note

This discussion and analysis is designed to provide a general overview of the Combined Unit's finances. The financial statements and related information disclosures in the notes to the financial statements and supplementary information are presented in accordance with the accounting and reporting standards known as "generally accepted accounting principles". Subsequent to June 30, 2016 and up through April 5, 2017, the date of the auditor's opinion, information and transactions considered significant have been included in this discussion and analysis.

Questions concerning any of the information provided in this discussion and analysis should be addressed to the Alanna Brogan, Executive Director, Palm Drive Healthcare District, 612 Petaluma Avenue, Sebastopol, California 95472.

Palm Drive Health Care District

Combined Statement of Net Position

June 30, 2016

Assets

Current Assets

Cash and cash equivalents	\$ 555,147
Patient accounts receivable, net of allowances	3,761,595
Other receivables	292,183
Assets whose use is limited	2,064,088
Supplies	614,057
Prepaid expenses and deposits	239,924
Total current assets	<u>7,526,994</u>

Assets whose use is limited, net of current portion 1,273,681

Capital assets, net of accumulated depreciation 11,095,275

Total assets 19,895,950

Liabilities and Net Position

Current liabilities

Bank line of credit	\$ 2,170,000
Current maturities of long-term debt	3,115,444
Accounts payable and accrued expenses	11,706,512
Accrued payroll and related liabilities	2,150,004
Estimated third-party payor settlements	327,099
Total current liabilities	<u>19,469,059</u>

Long-term debt, net of current maturities 22,224,825

Total liabilities 41,693,884

Deferred inflows of resources 697,593

Net position

Invested in capital assets, net of related debt (13,225,956)

Unrestricted (9,269,571)

Total net position (22,495,527)

\$ 19,895,950

See accompanying notes to the financial statements

Palm Drive Health Care District

Combined Statements of Revenues, Expenses and Changes in Net position

For The Year Ended June 30, 2016

Operating revenues

Net patient service revenue	\$ 9,316,687
Other operating revenue	569,660
Total operating revenues	<u>9,886,347</u>

Operating expenses

Salaries & wages	8,910,604
Employee benefits	1,569,201
Professional Fees	5,472,505
Purchased services	1,397,678
Supplies	2,043,074
Repairs & maintenance	109,556
Utilities and telephone	336,276
Rentals and leases	232,360
Insurance	69,479
Depreciation and amortization	1,722,286
Other operating expenses	264,257
Total operating expenses	<u>22,127,276</u>
Operating loss	<u>(12,240,929)</u>

Nonoperating revenues (expenses)

District tax revenues	4,035,209
Interest expense	(1,439,070)
Other non-operating income	9,302,601
Total nonoperating revenues (expenses)	<u>11,898,740</u>

Excess of expenses (342,189)

Inter-governmental transfers (54,412)

Decrease in net position (396,601)

Net position, beginning of the year (22,098,926)

Net position, end of year \$ (22,495,527)

See accompanying notes to the financial statements

Palm Drive Health Care District

Combined Statement of Cash Flows

For The Year Ended June 30, 2016

Cash flows from operating activities

Cash received from patients and third-party payers	\$ 5,555,092
Other receipts	522,790
Cash payments to suppliers and contractors	(6,486,194)
Cash payments to employees and benefit programs	(9,639,794)
Net cash provided by operating activities	<u>(10,048,106)</u>

Cash flows from non-capital and related financing activities

District tax revenue	3,623,933
Other non-operating revenue	5,678,166
Inter-governmental transfers	(54,412)
Net cash provided by non-capital and related financing activities	<u>9,247,687</u>

Cash flows from capital and related financing activities

District tax revenue	411,276
Purchase of property, plant & equipment	(1,992,832)
Proceeds from debt borrowings	5,739,601
Payments of long-term debt	(1,618,091)
Interest paid on capital debt	(1,439,070)
Net cash used in capital and related financing activities	<u>1,100,884</u>

Cash flows from investing activities

Net change in assets limited as to use	<u>(65,117)</u>
Net cash used in investing activities	<u>(65,117)</u>
Increase in cash and cash equivalents	235,348
Cash and cash equivalents at beginning of year	<u>319,799</u>
Cash and cash equivalents at end of year	<u><u>\$ 555,147</u></u>

See accompanying notes to the financial statements

Palm Drive Health Care District
 Combined Statement of Cash Flows (continued)
 For The Year Ended June 30, 2016

**Reconciliation of income from operations to net cash
 provided by operating activities**

Operating income	\$ (12,240,929)
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	1,722,286
Changes in operating assets and liabilities	
Patient accounts receivable	(3,761,595)
Other receivables	(109,426)
Supplies	(614,057)
Prepaid expenses	(189,824)
Accounts payable and accrued expenses	4,242,872
Accrued payroll and related expenses	840,011
Third-party payor settlements	-
Deferred revenue	62,556
Net cash provided by operating activities	<u><u>\$ (10,048,106)</u></u>

See accompanying notes to the financial statements

Palm Drive Health Care District

Notes to Financial Statements

June 30, 2016

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES

Organization: Palm Drive Health Care District, (the District) is a public entity organized under Local 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 district to specified terms of office. The District is located in Sebastopol, California and owns and is licensed to operate a 37-bed acute care hospital. The District's mission is to provide health care services primarily to individuals who reside in the local geographic area.

The District signed a Management and Staffing Service Agreement (MSA) with Sonoma West Medical Center (SWMC) on March 18, 2015, and amended May 22, 2015. SWMC is incorporated under the laws of the State of California, and is a tax-exempt organization under the provisions of the Internal Revenue Code section 501 (c) (3). This agreement calls for SWMC to operate the hospital facility on behalf of the District, and for the District to provide \$1,000,000 (subject to availability) to augment the operations of the hospital that SWMC will be operating. Specifically, the funding is to be used to maintain hospital property, purchase or repair equipment and to subsidize charity care and programs that benefit the community. The MSA creates a governing board which will oversee the operations of the hospital. This governing board is a subcommittee of the District, with representation from SWMC and participating physicians.

Management has determined that the District will include SWMC and Sonoma West Medical & Surgical Institute (SWMSI), a wholly owned subsidiary of SWMC which provides medical staff and certain services to the hospital, as component units of its reporting entity (referred to herein as the Combined Unit). The inclusion of SWMC and SWMSI began on July 1, 2015.

The Combined Unit maintains its financial records in conformity with guidelines set forth by the Local Health Care District Law and the Office of Statewide Health Planning and Development of the state of California.

Basis of Preparation: The accounting policies and financial statements of the Combined Unit 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 ongoing, major or central to the provision of health care services are reported as operational revenues and expenses.

Palm Drive Health Care District

Notes to Financial Statements

June 30, 2016

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES (continued)

The Combined Unit uses proprietary fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Pursuant to Government Accounting Standard Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board ("FASB") and AICPA Pronouncements*, the Combined Unit's proprietary fund accounting and financial reporting practices are based on all applicable GASB pronouncements as well as codified pronouncements issued on or before November 30, 1989. The Combined Unit has elected to apply the provisions of all relevant pronouncements as the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Financial Statement Presentation: The Combined Unit applies the provisions of GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (Statement 34), as amended by GASB 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and Statement 38, *Certain Financial Statement Note Disclosures*. Statement 34 established financial reporting standards for all state and local governments and related entities. Statement 34 primarily relates to presentation and disclosure requirements. The impact of this change was related to the format of the financial statements; the inclusion of management's discussion and analysis; and the preparation of the statement of cash flows on the direct method. The application of these accounting standards had no impact on the total net assets.

Management's Discussion and Analysis: Statement 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the Combined Unit's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis provided in the annual reports of organizations in the private sector.

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.

Cash and cash equivalents: Cash and cash equivalents include deposits with financial institutions and investments in highly liquid debt instruments with an original maturity of three months or less. Cash and cash equivalents exclude amounts whose use is limited by board designation or by legal restriction.

Palm Drive Health Care District

Notes to Financial Statements

June 30, 2016

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES (continued)

Patient Accounts Receivable: Patient accounts receivable consist of amounts owed by various governmental agencies, insurance companies and private patients. The Combined Unit manages its receivables by regularly reviewing the accounts, inquiring with respective payors as to collectability and providing for allowances on their accounting records for estimated contractual adjustments and uncollectible accounts. Significant concentrations of patient accounts receivable are discussed further in the footnotes.

Supplies: Inventories are consistently reported from year to year at cost determined by average costs and replacement values which are not in excess of market. The Combined Unit does not maintain levels of inventory values such as those under a first-in, first out or last-in, first out method.

Assets limited to use: Assets limited to use are recorded at fair value, securities are generally valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or utilizing an industry standard pricing service, when available. Assets limited to use include contributor restricted funds, amounts designated by the Board of Directors for replacement or purchases of capital assets, and other specific purposes, and amounts held by trustees under specified agreements. Assets limited to use consist primarily of short term money market funds and cash held with local banking and investment institutions.

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 10 to 30 years for buildings and improvements, and 3 to 15 years for equipment. The Combined Unit periodically reviews its capital assets for value impairment. As of June 30, 2016, the Combined Unit has determined that no capital assets are impaired.

Compensated Absences: The employees of the Combined Unit earn vacation benefits at varying rates. These rates are determined based on the employee's years of service. This benefit can accumulate up to specified maximum levels. Accumulated vacation benefits are paid to an employee upon either termination or retirement. Accrued vacation liabilities as of June 30, 2016, totaled \$378,610.

Palm Drive Health Care District

Notes to Financial Statements

June 30, 2016

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES (continued)

Classification of Net Position: Net position of the Combined Unit is classified into three categories. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net position consists of net assets with limits on their use that are externally imposed by creditors (such as through debt covenants), grantors, contributors or by laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Unrestricted net position consists of net assets and net deferred outflows and inflows of resources that do not meet the definition of "restricted" or "net investment in capital assets."

Net Patient Service Revenues: Net patient service revenues are reported in the period at the estimated net realized amounts from patients, third-party payors and others including estimated retroactive adjustments under reimbursement agreements with third-party programs. Normal estimation differences between final reimbursement and amounts accrued in previous years are reported as adjustments of current year's net patient service revenues.

Charity Care: The Combined Unit accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Combined Unit. Essentially, these policies define charity services as those services for which no payment is anticipated. Because the Combined Unit does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenues. Services provided are recorded as gross patient service revenues and then written off entirely as an adjustment to net patient service revenues.

Grants and Contributions: From time to time, the Combined Unit receives grants from various governmental agencies and private organizations. The Combined Unit also receives contributions from related foundation and auxiliary organizations, as well as from individuals and other private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions 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 assets.

Operating Revenues and Expenses: The Combined Unit's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Combined Unit's principal activity. Operating expenses are all expenses incurred to provide health care services, other than financing costs. Non-operating revenues and expenses are those transactions not considered directly linked to providing health care services.

Palm Drive Health Care District

Notes to Financial Statements

June 30, 2016

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES (continued)

District tax revenues: The Combined Unit receives a significant amount of its financial support from the District's property taxes. These funds are used to support operations and meet required debt service agreements. They are classified as nonoperating revenue as the revenue is not directly linked to patient care. Property taxes are levied by the County on the District's behalf during the year, and are intended to help finance the District's activities during the same year. Amounts are levied based on the most current property values on record with the County. The County has established certain dates to levy, lien, mail bills, and receive payments from property owners during the year. Property taxes are considered delinquent on the day following each payment due date. For the year ended June 30, 2016, district tax revenues included debt service on general obligation bonds of \$411,276, debt service on parcel tax revenue bonds of \$1,647,344, and an operating levy of \$1,976,589.

Income taxes: The District operates under the purview of the Internal Revenue Code, Section 115, and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to state or federal taxes on income. However, income from the unrelated business activities of the District may be subject to income taxes.

SWMC is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). Thus, no provision for income taxes is included in the accompanying financial statements. SWMC follows the accounting guidance for accounting for uncertainty in income taxes. SWMC is subject to federal and state income taxes to the extent it has unrelated business income. In accordance with the guidance for uncertainty in income taxes, management has evaluated its material tax positions and determined that there are no income tax effects with respect to its financial statements. SWMC is subject to examination by federal or state authorities for prior years since incorporation in September 2014. SWMC management has not been notified of any impending examination and no examinations are currently in process.

New accounting pronouncements:

GASB Statement No. 72 - Fair Value Measurement and Application -The provisions of GASB Statement No. 72 (GASB 72) were effective for financial statements beginning after June 15, 2015. The Combined Unit has implemented the provisions of GASB 72 and assessed the changes that occurred. The changes were not material.

GASB Statement No. 74 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans - The provisions of GASB Statement No. 74 are effective for financial statements beginning after June 15, 2016. The Combined Unit has not made an assessment of any changes that will occur upon this statement's implementation.

GASB Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions - The provisions of GASB Statement No. 75 are effective for financial statements beginning after June 15, 2016. The Combined Unit has not made an assessment of any changes that will occur upon this statement's implementation.

Palm Drive Health Care District

Notes to Financial Statements

June 30, 2016

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES (continued)

GASB Statement No. 76 - *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* - The provisions of GASB Statement No. 76 (GASB 76) were effective for financial statements beginning after June 15, 2015. The Combined Unit has implemented the provisions of GASB 76 and assessed the changes that occurred. The changes were not material.

GASB Statement No. 77 - *Tax Abatement Disclosures* - The provisions of GASB Statement No. 77 (GASB 77) were effective for financial statements beginning after December 15, 2015. The Combined Unit has implemented the provisions of GASB 77 and assessed the changes that occurred. The changes were not material.

GASB Statement No. 80 - *Blending Requirements* - The provisions of GASB Statement No 80 (GASB 80) were effective for financial statements beginning after June 30, 2015. The Combined Unit has implemented the provisions of GASB 80 and assessed the changes that occurred. The changes were not material.

Reclassifications: Certain financial statement amounts as presented in the prior year financial statements have been reclassified in these, the current year financial statements, in order to conform to the current year financial statement presentation.

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

As of June 30, 2016, the Combined Unit had deposits in a financial institution of \$554,347. All of these funds are in the form of cash and cash equivalents, which were collateralized in accordance with the California Government Code ("CGC"), except for \$250,000 per account that is federally insured.

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

Combined Unit investment policies allow investments in U.S. Government securities and state and local agency funds which invest in U.S. Government securities. These investments, when present, are stated at quoted market values. 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.

Palm Drive Health Care District

Notes to Financial Statements

June 30, 2016

NOTE 3 - NET PATIENT SERVICE REVENUES AND REIMBURSEMENT PROGRAMS

The Combined Unit renders services to patients under contractual arrangements with the Medicare and Medi-Cal programs, commercial insurance companies, health maintenance organizations (HMOs) and preferred provider organizations (PPOs). Patient service revenues from these programs approximate 87% of gross patient service revenues for the year ended June 30, 2016.

The Medicare Program reimburses the Combined Unit on a cost basis payment system for inpatient and outpatient hospital services. The cost based reimbursement is determined based on filed Medicare cost reports.

The Combined Unit contracts to provide services to Medi-Cal, HMO and PPO inpatients on negotiated rates. Certain outpatient reimbursement is subject to a schedule of maximum allowable charges for Medi-Cal and to a percentage discount for HMOs and PPOs.

Both the Medicare and Medi-Cal program's administrative procedures preclude final determination of amounts due to the Combined Unit for services to program patients until after patients' medical records are reviewed and cost reports are audited or otherwise reviewed by and settled with the respective administrative agencies. The Medicare and Medi-Cal cost reports are subject to audit and possible adjustment. Management is of the opinion that no significant adverse adjustment to the recorded settlement amounts will be required upon final settlement.

Medicare and Medi-Cal revenue accounted for approximately 58% of the Combined Unit's net patient revenues for the year ended June 30, 2016. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

NOTE 4 - ASSETS LIMITED AS TO USE

Assets limited as to use as of June 30, 2016, are comprised of amounts held by the bond trustees under specified agreements. Assets limited to use consist primarily of short term money market funds and cash held with local banking and investment institutions. Assets limited as to use as of June 30, 2016, totaled \$3,337,769.

Investment income related to assets limited as to use is recorded as investment income. These amounts were \$2,230 for the year ended June 30, 2016. Total investment income includes both income from operating cash and cash equivalents and cash and cash equivalents related to assets limited as to use.

Palm Drive Health Care District

Notes to Financial Statements

June 30, 2016

NOTE 5 - INVESTMENTS

The Combined Unit’s investment balances and average maturities were as follows at June 30, 2016:

	2016			
	Fair Value	Investment Maturities in Years		
		Less than 1	1 to 5	Over 5
Government investment funds	\$ 3,337,769	\$ 3,337,769	\$ -	\$ -
Total investments	\$ 3,337,769	\$ 3,337,769	\$ -	\$ -

The Combined Unit’s investments are reported at fair value as previously discussed. The Combined Unit’s investment policy allows for various forms of investments generally set to mature within a few months to others over 15 years. The policy identifies 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. The Combined Unit’s exposure to interest rate risk is minimal as 100% of their investments have a maturity of less than one year. Information about the sensitivity of the fair values of the Combined Unit’s investments to market interest rate fluctuations is provided by the preceding schedules that shows the distribution of the Combined Unit’s investments by maturity.

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. The Combined Unit’s investments in such obligations are in U.S. government funds. The Combined Unit believes that there is minimal credit risk with these obligations at this time.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer), the Combined Unit will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Combined Unit’s investments are generally held by banks, investment companies or government agencies. The Combined Unit believes that there is minimal custodial credit risk with their investments at this time. Combined Unit management monitors the entities which hold the various investments to ensure they remain in good standing.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Combined Unit’s investment in a single issuer. The Combined Unit’s investments are held entirely by banks. The Combined Unit believes that there is minimal custodial credit risk with their investments at this time. Combined Unit management monitors the entities which hold the various investments to ensure they remain in good standing.

Palm Drive Health Care District

Notes to Financial Statements

June 30, 2016

NOTE 6 - CONCENTRATION OF CREDIT RISK

The Combined Unit grants credit without collateral to its patients and third-party payors. Patient accounts receivable from government agencies represent the only concentrated group of credit risk for the Combined Unit and management does not believe that there is any credit risk associated with these governmental agencies. Contracted and other patient accounts receivable consist of various payors including individuals involved in diverse activities, subject to differing economic conditions and do not represent any concentrated credit risks to the Combined Unit. Concentration of patient accounts receivable at June 30, 2016, were as follows:

	<u>2016</u>
Medicare	\$ 6,272,249
Medi-Cal and Medi-Cal pending	4,026,556
Other third party payors	3,204,694
Self pay and other	<u>495,908</u>
Gross patient accounts receivable	13,999,407
Less allowances for contractual adjustments and bad debts	<u>(10,237,812)</u>
Net patient accounts receivable	<u><u>\$ 3,761,595</u></u>

NOTE 7 - CAPITAL ASSETS

Capital assets as of June 30, 2016, were comprised of the following:

	<u>Balance at</u> <u>June 30, 2015</u>	<u>Transfers &</u> <u>Additions</u>	<u>Transfers &</u> <u>Retirements</u>	<u>Balance at</u> <u>June 30, 2016</u>
Land and land improvements	\$ 5,911,393	\$ -	\$ -	\$ 5,911,393
Buildings and improvements	4,565,375	431,494	-	4,996,869
Equipment	10,084,074	1,408,507	-	11,492,581
Construction-in-progress	485,319	152,802	-	638,121
Totals at historical cost	<u>21,046,161</u>	<u>\$ 1,992,803</u>	<u>\$ -</u>	<u>23,038,964</u>
Less accumulated depreciation	(10,221,403)	<u>\$ (1,722,286)</u>	<u>\$ -</u>	<u>(11,943,689)</u>
Capital assets, net	<u>\$ 10,824,758</u>			<u><u>\$ 11,095,275</u></u>

Palm Drive Health Care District

Notes to Financial Statements

June 30, 2016

NOTE 8 - DEBT BORROWINGS

Long-term debt consists of bonds, notes payable and financing agreements as follows:

District debt

Series 2000; interest rates ranging from 4.7% to 8.0%; principal due each August 1; interest due semi-annually each February 1 and August 1; final payment due in 2030; repayments through collection of County property taxes. \$ 4,335,000

Parcel Tax Revenue Bonds, Series 2005; interest ranging from 3.0% to 4.6%; principal due each April 1; interest due semi-annually each April 1 and October 1; final payment due in 2024; secured by parcel property taxes. 6,670,000

Parcel Tax COPs, Series 2010; interest ranging from 7.0% to 7.5%; principal due each April 1; interest due semi-annually each April 1 and October 1; final payment due in 2035; secured by parcel property taxes. 9,795,000

Notes payable to finance companies; interest ranging from 4.15% to 8.30%; principal and interest payable monthly in various amounts, maturing at various dates through 2024, secured by equipment. 1,838,759

Total District debt 22,638,759

SWMC debt

Note payable to Sonoma West Medical Foundation; interest at 4.5%; principal and interest payable monthly in various amounts, maturing in April 2017, unsecured. 220,000

Note payable to Dierke's Enterprises; interest at 3.25%; principal and interest payable monthly; maturing in July 2016, unsecured. 200,000

Palm Drive Health Care District

Notes to Financial Statements

June 30, 2016

NOTE 8 - DEBT BORROWINGS (continued)

Note payable to Ron Denton & Associates, LLC; interest free; principal payable monthly per schedule; maturing in October 2016, unsecured.	107,000
Note payable to Community Foundation; interest at 3.6%; principal and interest payable monthly per schedule; maturing in June 2020, unsecured.	1,857,500
Notes payable to finance companies; interest ranging from 2.77% to 11.95%; principal and interest payable monthly in various amounts, maturing at various dates through February 2019, secured by equipment.	<u>317,010</u>
Total SWMC debt	<u>2,701,510</u>
Total debt borrowings	25,340,269
Less current maturities	<u>(3,115,444)</u>
Debt borrowings, net of current maturities	<u><u>\$ 22,224,825</u></u>

Future principal maturities for debt borrowings for the next five years are: \$3,115,444 in 2017; \$1,700,917 in 2018; \$1,549,927 in 2019; \$1,574,633 in 2020; \$1,044,348 in 2021; and \$16,355,000 thereafter.

NOTE 9 – REVOLVING CREDIT AGREEMENT

SWMC executed a credit agreement with Pacific Premier Bank dated April 26, 2016, for a maximum amount of \$4,000,000 million, expiring April 26, 2018. The agreement was defined as a revolving credit agreement that was collateralized by the Combined Unit's accounts receivable collections. During the year ended June 30, 2016, net draws totaled \$2,170,000 for an ending outstanding balance of \$2,170,000 on this revolving credit agreement at June 30, 2016. The revolving credit agreement included interest on the outstanding principal amount at a rate per annum equal to the Wall Street Journal Prime Rate or floor of 3.5% plus 5.0%. The effective interest rate was 8.5% at June 30, 2016.

As part of the Revolving Credit Agreement, SWMC had agreed to comply with certain covenants. These consisted primarily of reporting, insurance coverage, making timely payments, certain financial ratios and results and other administrative requirements. SWMC was in violation of certain financial covenants under the credit agreement at June 30, 2016 and during the year then ended. The lender had made claims of default based on the violation of the covenants. The revolving credit agreement was paid in full in November 2016.

Palm Drive Health Care District

Notes to Financial Statements

June 30, 2016

NOTE 10 - RETIREMENT PLANS

SWMC sponsors a 401(a) defined contribution retirement plan (the 401(a) Plan) on a calendar year-end that covers all employees by a collective bargaining agreement and all non-benefited employees who are 21 years of age and have completed one year of credited service. The Plan provides for contributions up to \$40,000 or 100% of eligible participants' annual compensation, if less. SWMC's contribution is discretionary. Eligible employer contributions are 100% vested.

There were no contributions to the retirement plan during the year ended June 30, 2016.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Risk Management: The Combined Unit 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.

Non-bankruptcy Litigation: The Combined Unit 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, 2016 will be resolved without material adverse effect on the Combined Unit's future financial position, results from operations or cash flows.

Medical Malpractice and Workers Compensation Coverage and Claims: The Combined Unit has joined together with other providers of health care services to form Beta Healthcare Group (Beta), a public entity risk pool (the Pool) currently operating as a common risk management and insurance program for its members. The Combined Unit has purchased an extended coverage period medical malpractice insurance policy from the Pool. It is a claims-occurred policy with limits of \$3 million per occurrence, \$3 million in aggregate, and with a self-insured retention level of \$10k per claim reporting period that extends into perpetuity. The Pool's governing agreements specify that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts.

The Combined Unit also purchases workers' compensation insurance from Alpha Fund, a California self-insured workers' compensation pool, dedicated to public and non-profit health care organizations. The Combined Unit purchases workers' compensation insurance under a claims-made policy with limits of \$1 million per occurrence and \$1 million in the annual aggregate. The Combined Unit also purchases excess insurance coverage up to \$2 million per occurrence or statutory limits.

Palm Drive Health Care District

Notes to Financial Statements

June 30, 2016

NOTE 11 - COMMITMENTS AND CONTINGENCIES (continued)

Based upon the Combined Unit's claims experiences, the Combined Unit has estimated that no accrual is necessary as of June 30, 2016, for accrued malpractice and workers' compensation costs.

Operating leases - The Combined Unit leases various equipment and facilities under operating leases expiring at various dates. Lease and rental expense under such agreements was \$232,360 for the year ended June 30, 2016. Future minimum lease payments for the succeeding years under operating leases as of June 30, 2016, with initial or remaining lease terms in excess of one year are not considered material.

Construction-in-Progress: As of June 30, 2016, the Combined Unit had recorded \$638,121 as construction-in-progress representing cost capitalized for various remodeling, major repair, and EMR projects on the Combined Unit's premises. Estimated costs to complete current obligated construction-in-progress projects as of June 30, 2016 are approximately \$600,000. Costs are to be financed with Combined Unit reserves, grant and donation funds and continued operations.

Regulatory environment: The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. The Combined Unit is subject to routine surveys and reviews by federal, state, and local regulatory authorities. The Combined Unit has also received inquiries from health care regulatory authorities regarding its compliance with laws and regulations. Although the Combined Unit's management is not aware of any violations of laws and regulations, it has received corrective action requests as a result of completed and on-going surveys from applicable regulatory authorities. Management continually works in a timely manner to implement operational changes and procedures to address all corrective action requests from regulatory authorities. Breaches of these laws and regulations and noncompliance with survey corrective action requests could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Palm Drive Health Care District

Notes to Financial Statements

June 30, 2016

NOTE 12 - BANKRUPTCY AND MANAGEMENT'S PLAN

Bankruptcy: By late March 2014, the District's financial circumstances had reached the point that the District was unable to pay all its debts as they came due. The Board of Directors accordingly adopted a resolution on April 1, 2014, declaring a fiscal emergency under California Government Code Section 53760.5 and authorizing the Chief Executive Officer to cause the District to seek relief under the U.S. Bankruptcy Code. On April 7, 2014, the District filed a petition under Chapter 9 of the Bankruptcy Code. After a mandatory notice period for potential objections, none were received and the Bankruptcy Court determined that the District was eligible for relief under Chapter 9 and confirmed the validity of the District's bankruptcy petition.

On April 28, 2014, the District closed the hospital and its emergency room. Thereafter the District had issued Requests for Proposal (RFP) from interested parties who might participate with the District in either resuming operation of the hospital, or offering a different scope of medical services to the residents of the District. The District accepted a proposal from SWMC to reopen and operate an acute care community hospital. A Management and Staffing Service Agreement was formulated and signed March 18, 2015. The District and SWMC reopened the Hospital in October 2015.

With the approval of the Bankruptcy Court, in May-July 2014 the District rejected more than 200 contracts with suppliers and services providers. This step ended current payments on these contracts, and gave rise to claims in the bankruptcy case by the counterparties for contract rejection damages. These claims will be dealt with along with other creditor claims through the bankruptcy process.

The Bankruptcy Court set October 8, 2014, as the deadline for all creditors of the District to file claims for debts of the District. There have been 181 claims filed to date, asserting claims amounting to approximately \$27 million. The validity and amounts of these claims are under review by the District. Through the bankruptcy process, invalid and/or overstated claims have been challenged by the District.

Committees representing general unsecured creditors, and former employees, have been appointed in the bankruptcy process.

To exit from bankruptcy, the District needs to present a plan for adjustment of its debts that meets criteria under the Bankruptcy Code, and seek its confirmation by the Bankruptcy Court. As of this date a plan of adjustment has not been presented to the Bankruptcy Court. It is anticipated that the bankruptcy plan will be completed and presented to the Bankruptcy Court in 2017.

Management's plan - Management, in conjunction with District Board direction, continues to focus upon the bankruptcy process and working with all creditors to develop a plan to submit to the Bankruptcy court. This process will continue into the 2017 fiscal year. Management, by virtue of a District Board resolution, negotiated with SWMC to develop a comprehensive plan and model to reopen and manage the hospital. The MSSA was signed March 18, 2015, that facilitated the re-opening of the hospital on October 30, 2015, as Sonoma West Medical Center.

Palm Drive Health Care District

Notes to Financial Statements

June 30, 2016

NOTE 13-RELATED PARTY

Sonoma West Medical Foundation: The Sonoma West Medical Foundation, formerly the Palm Drive Health Care Foundation (the Foundation), has been established as a nonprofit public benefit corporation under the Internal Revenue Code Section 501(c)(3) to focus on activities which contribute to the health status of residents in Sebastopol and western Sonoma County. The Foundation periodically accepts donations and raises funds to support the Combined Unit and makes distributions to the Combined Unit in amounts and for purposes determined by the Foundation's Board of Trustees and in accordance with any specific donor restrictions. The Foundation made donations to SWMC totaling \$416,080 during the year ended June 30, 2016. The Foundation is not considered a component unit of the District because management believes the resources of the Foundation are not significant to the District. The Foundation is considered a related party in 2016.

Palm Drive Health Care District

Combining Statements of Net Position

June 30, 2016

	Palm Drive Health Care District	Sonoma West Medical Center	Sonoma West Medical & Surgical Institute	Adjustments	Total
Assets					
Current Assets					
Cash and cash equivalents	\$ 162,088	\$ 389,258	\$ 3,801	\$ -	\$ 555,147
Patient accounts receivable, net of allowances	-	3,761,595	-	-	3,761,595
Other receivables	647,500	346,785	44,329	(746,431)	292,183
Assets whose use is limited	2,064,088	-	-	-	2,064,088
Supplies	-	614,057	-	-	614,057
Prepaid expenses and deposits	65,757	145,802	28,365	-	239,924
Total current assets	<u>2,939,433</u>	<u>5,257,497</u>	<u>76,495</u>	<u>(746,431)</u>	<u>7,526,994</u>
Assets whose use is limited, net of current portion	1,273,681	-	-	-	1,273,681
Capital assets, net of accumulated depreciation	9,992,803	948,324	154,148	-	11,095,275
Total assets	<u>\$ 14,205,917</u>	<u>\$ 6,205,821</u>	<u>\$ 230,643</u>	<u>\$ (746,431)</u>	<u>\$ 19,895,950</u>
Liabilities and Net Position					
Current liabilities					
Bank line of credit	\$ -	\$ 2,170,000	\$ -	\$ -	\$ 2,170,000
Current maturities of long-term debt	2,459,199	1,056,245	343,110	(743,110)	3,115,444
Accounts payable and accrued expenses	7,406,290	4,189,445	114,098	(3,321)	11,706,512
Accrued payroll and related liabilities	1,297,598	852,406	-	-	2,150,004
Estimated third-party payor settlements	327,099	-	-	-	327,099
Total current liabilities	<u>11,490,186</u>	<u>8,268,096</u>	<u>457,208</u>	<u>(746,431)</u>	<u>19,469,059</u>
Long-term debt, net of current maturities	<u>20,179,560</u>	<u>2,045,265</u>	<u>-</u>	<u>-</u>	<u>22,224,825</u>
Total liabilities	<u>31,669,746</u>	<u>10,313,361</u>	<u>457,208</u>	<u>(746,431)</u>	<u>41,693,884</u>
Deferred inflows of resources	697,593	-	-	-	697,593
Net position					
Invested in capital assets, net of related debt	(13,225,956)	-	-	-	(13,225,956)
Unrestricted	<u>(5,515,466)</u>	<u>(3,527,540)</u>	<u>(226,565)</u>	<u>-</u>	<u>(9,269,571)</u>
Total net position	<u>(18,741,422)</u>	<u>(3,527,540)</u>	<u>(226,565)</u>	<u>-</u>	<u>(22,495,527)</u>
Total liabilities and net position	<u>\$ 13,625,917</u>	<u>\$ 6,785,821</u>	<u>\$ 230,643</u>	<u>\$ (746,431)</u>	<u>\$ 19,895,950</u>

See accompanying notes to the financial statements

Palm Drive Health Care District

Combined Statements of Revenues, Expenses and Changes in Net position

For the Year Ended June 30, 2016

	Palm Drive Health Care District	Sonoma West Medical Center	Sonoma West Medical & Surgical Institute	Adjustments	Total
Operating revenues					
Net patient service revenue	\$ -	\$ 9,225,052	\$ 91,635	\$ -	\$ 9,316,687
Other operating revenue	219,649	350,011	-	-	569,660
Total operating revenues	219,649	9,575,063	91,635	-	9,886,347
Operating expenses					
Salaries & wages	207,447	8,561,600	141,557	-	8,910,604
Employee benefits	29,776	1,539,425	-	-	1,569,201
Professional Fees	616,430	4,851,875	4,200	-	5,472,505
Purchased services	3,331	1,384,663	9,684	-	1,397,678
Supplies	13,163	1,984,914	44,997	-	2,043,074
Repairs & maintenance	20,280	79,392	9,884	-	109,556
Utilities and telephone	15,819	310,601	9,856	-	336,276
Rentals and leases	-	178,814	53,546	-	232,360
Insurance	18,706	49,805	968	-	69,479
Depreciation and amortization	1,550,708	129,374	42,204	-	1,722,286
Other operating expenses	70,263	184,366	9,628	-	264,257
Total operating expenses	2,545,923	19,254,829	326,524	-	22,127,276
Operating income (loss)	(2,326,274)	(9,679,766)	(234,889)	-	(12,240,929)
Nonoperating revenues (expenses)					
District tax revenues	4,035,209	-	-	-	4,035,209
Interest expense	(1,278,009)	(160,151)	(910)	-	(1,439,070)
Other non-operating income (expense)	(63,483)	9,356,850	9,234	-	9,302,601
Total nonoperating revenues (expenses)	2,693,717	9,196,699	8,324	-	11,898,740
Excess of revenues (expenses)	367,443	(483,067)	(226,565)	-	(342,189)
Inter-governmental transfers	(54,412)	-	-	-	(54,412)
Increase (decrease) in net position	313,031	(483,067)	(226,565)	-	(396,601)
Net position, beginning of the year	(18,474,453)	(3,624,473)	-	-	(22,098,926)
Net position, end of year	\$ (18,161,422)	\$ (4,107,540)	\$ (226,565)	\$ -	\$ (22,495,527)

See accompanying notes to the financial statements