



Peninsula Health Care District

**Financial Statements**

**June 30, 2009**

# PENINSULA HEALTH CARE DISTRICT

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INDEPENDENT AUDITORS' REPORT

Board of Directors  
Peninsula Health Care District  
Burlingame, California

We have audited the accompanying financial statements of the governmental activities and business-type activities of Peninsula Health Care District (the District) as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. 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 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. 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 the governmental activities, the business-type activities, and each major fund of Peninsula Health Care District as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The required supplementary information, management's discussion and analysis on pages 2 through 9 and budgetary comparison information on page 29, are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Vavrinek, Trine, Day : Co., LLP*

Palo Alto, California  
August 24, 2009



# Peninsula Health Care District

## **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009**

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This discussion and analysis of the Peninsula Health Care District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2009. This information is presented in conjunction with the audited financial statements that follow this section.

### FINANCIAL HIGHLIGHTS

- The District's current assets increased by \$5.1 million
- The District's net capital assets decreased by \$4.7 million
- The District's current liabilities decreased by \$.4 million
- The District's governmental fund balance increased by \$5.4 million

### **USING THIS ANNUAL REPORT**

This annual report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statements of the District. The financial statements also include notes that explain some of the information in the financial statements in more detail.

### **OVERVIEW OF BASIC FINANCIAL STATEMENTS**

The District's basic financial statements comprise the Government-Wide Statement of Net Assets and Statement of Activities; the Governmental Fund Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance; and the Proprietary Fund Statement of Net Assets, and Statement of Revenues, Expenditures and Changes in Fund Net Assets, and Statement of Cash Flows; and the Notes to the Financial Statements.

#### ***Government-Wide Financial Statements***

Government-Wide Financial Statements utilize the economic resources measurement focus using the full accrual basis of accounting similar to commercial enterprises. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The Fund Financial Statements include statements for governmental and proprietary activities. The Governmental Activities are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The Proprietary Activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Reconciliation of Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

# **PENINSULA HEALTH CARE DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009**

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For the current year the only difference between the Government-Wide Financial Statements and the Fund Financial Statements is the classifications within the fund balances. Under GASB 34 board designated reserves of fund balances are considered unrestricted. The Fund Financial Statements reduce the unrestricted portion of the fund balance by the amounts designated for specific purposes by the District. Therefore, the following discussion and analysis will generally be equally applicable to the Government-Wide and Fund Financial Statements.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses Government and Proprietary fund accounting to ensure and demonstrate compliance with financial-related legal requirements. The Governmental Fund is used to account for the District's basic services and the Proprietary Fund is used to account for the District's leasing activity.

Governmental fund accounting uses a flow of current resources measurement focus and the modified accrual basis of accounting. Modified accrual accounting recognizes revenues when available for current operations, normally those revenues that will be received within 90 days of year end. For the current year, substantially all revenues receivable at year end were collected within the 90 day period resulting in no difference between modified and full accrual in these financial statements. Proprietary (Enterprise) fund accounting uses the full accrual basis of accounting.

The District's financial statements include:

### **Balance Sheet**

The Governmental Fund Balance Sheet presents information on the District's assets and liabilities, with the difference between the two reported as fund balance. Over time, increases or decreases in fund balance may serve as a useful indicator of the financial health of the District. To assess the overall health of the District, achievement of the District's mission needs to be considered as well.

### **Statement of Revenues, Expenditures, and Changes in Fund Balance**

While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the Statement of Revenues, Expenditures, and Changes in Fund Balance presents the results of the District's operations over the course of the fiscal year and information as to how the fund balance changed over the year. This can be used as an indicator of the extent to which the District has successfully recovered its costs through user fees (rental income) or other funds received (tax revenues). All changes in fund balance are reported during the period on the modified accrual method of accounting which had no significant differences from full accrual accounting, in which the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The Proprietary Fund Statement of Cash Flows presents changes in cash and cash equivalents resulting from operational, capital, non-capital, and investing activities. This statement summarizes the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or receipt and excludes non-cash accounting measures of depreciation or amortization of assets.

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

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### Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to basic financial statements can be found following the financial statements in the audited financial statements.

### REQUIRED FINANCIAL STATEMENTS

The District's financial statements report information utilizing methods similar to those used by private sector companies.

- The Statement of Net Assets includes all of the assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private sector companies.
- In the Statement of Activities, all of the District's current year revenues and expenses taken into account regardless of when cash is received or paid.
- The Balance Sheets include all of the District's governmental and proprietary fund assets and liabilities and provide information about the nature and amounts of resources (assets) and obligations to creditors (liabilities).
- The Statements of Revenues, Expenditures and Changes in Fund Balance report the District's governmental and proprietary fund revenues by major source along with expenses.
- The Statement of Cash Flows reports the District's cash flows from operating activities, investing, capital and non-capital activities for the business-type fund.

### STATEMENT OF NET ASSETS

	<u>2008-2009</u>	<u>2007-2008</u>	Dollar <u>Change</u>	Percent <u>Change</u>
Current Assets	\$ 42,248,117	\$ 37,179,900	\$ 5,068,217	13.63%
Capital Assets	<u>12,081,872</u>	<u>16,804,542</u>	<u>(4,722,670)</u>	-28.10%
Total Assets	<u>\$ 54,329,989</u>	<u>\$ 53,984,442</u>	<u>\$ 345,547</u>	-14.47%
Current Liabilities	<u>304,895</u>	<u>\$ 670,342</u>	<u>\$ (365,447)</u>	-54.52%
Total Liabilities	<u>\$ 304,895</u>	<u>\$ 670,342</u>	<u>\$ (365,447)</u>	-54.52%
Invested in Capital Assets	\$ 12,081,872	\$ 16,804,542	\$ (4,722,670)	-28.10%
Unrestricted	<u>41,943,222</u>	<u>36,509,558</u>	<u>5,433,664</u>	14.88%
Total Net Assets	<u>\$ 54,025,094</u>	<u>\$ 53,314,100</u>	<u>\$ 710,994</u>	-13.22%

Unrestricted Board Assets increased by \$5.4 million and Capital Assets decreased by \$4.7 million due primarily to the \$4.7 million in Depreciation from the accelerated schedule implemented to correspond with the anticipated opening of the new hospital by January 1, 2011. Total Net Assets increased by \$0.7 million.

**PENINSULA HEALTH CARE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2009**

**REVIEW OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	<u>2008-2009</u>	<u>2007-2008</u>	Dollar <u>Change</u>	Percent <u>Change</u>
<b>Revenues</b>				
Tax Revenue	\$ 4,521,513	\$ 4,056,106	\$ 465,407	11.47%
Lease Income	1,822,430	1,781,364	41,066	2.31%
Interest Earnings	897,582	1,461,255	(563,673)	-38.57%
Investment Loss	(897,895)	-	(897,895)	
Other Revenue	36,227	32,843	3,384	10.30%
Other Non-Operating Income	1,498,924	-	1,498,924	
<b>Total Revenue</b>	<u>7,878,781</u>	<u>7,331,568</u>	<u>547,213</u>	<b>7.46%</b>
<b>Expenditures</b>				
Administrative Personnel	305,198	248,935	56,263	22.60%
Tax Administrative Fee	31,445	28,433	3,012	10.59%
Communications	83,691	12,776	70,915	555.06%
Consulting	4,841	38,605	(33,764)	-87.46%
Depreciation	4,675,113	4,708,227	(33,114)	-0.70%
Grants	1,737,645	1,985,025	(247,380)	-12.46%
Legal Fees	93,519	110,345	(16,826)	-15.25%
Promotion	66,134	80,790	(14,656)	-18.14%
Rent	18,864	27,219	(8,355)	-30.70%
Property Expenses	50,650	3,081	47,569	1543.95%
Other	100,687	116,704	(16,017)	-13.72%
<b>Total Expenditures</b>	<u>7,167,787</u>	<u>7,360,140</u>	<u>(192,353)</u>	<b>-2.61%</b>
<b>Change in Net Assets</b>	<b>710,994</b>	<b>(28,572)</b>	<b>739,566</b>	
Net Assets beginning of Year	<u>53,314,100</u>	<u>53,342,672</u>	<u>(28,572)</u>	-0.05%
Net Assets End of Year	<u>\$ 54,025,094</u>	<u>\$ 53,314,100</u>	<u>\$ 710,994</u>	<b>1.33%</b>

**REVENUES**

Tax revenues increased 11% for two reasons: 1) assessed home values within the District remained stable and were not yet impacted by the national banking/mortgage crisis; 2) the District recorded property tax revenue for June that was received in mid-July as income and receivable (\$170K) to fully implement the modified accrual methodology. The District previously recorded the property tax revenues when received; therefore, 13 months of revenue is recorded. Lease Income had a modest 2.3% increase as a result of routine increases per existing lease agreements for the hospital land and 1600 Trousdale, and new rent from 1875 Trousdale, netted against the lost rent from the sale of 1848/50 El Camino. The \$1.5 million under Other Non-Operating Income was from the sale of 1848/50 El Camino. Other Revenue reflects loan payments from the MD and RN participants who took

# **PENINSULA HEALTH CARE DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009**

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positions outside of the District thereby triggering the repayment clause in their agreements. Interest Income fell 38.8% from prior year due to general economic conditions and the impact on the performance of the District's two, low-risk government funds: the State's Local Agency Investment Fund (LAIF) and the County's Pooled Fund. The decline in performance started in the prior fiscal year and was incorporated into the District's FY 2009 budget projections by reducing budgeted interest rates from 5% for both to 3.4% for LAIF and 3.27% for the county Pooled Fund. However, the national economic crisis got worse and FY 2009 saw rates drop as low as 1.37% and average only 2.185% for LAIF, and as low as 1.47% and average only 2.45% for the San Mateo Pooled Fund. As a result, interest income was \$.56 million below prior year in spite of the \$5.4M increase in cash investments at June 30 2009 as compared to June 30 2008. The District's investments were further compromised by the impact of the demise of Lehman Brothers on the San Mateo County Pooled Fund. The county lost a total of \$150M as a result of Lehman Brothers; the District account took a \$900,000 hit. The net result of all the year's revenue activity was an increase in Total Revenue of \$.5 million.

### **EXPENDITURES**

Total Expenditures, net of Depreciation, decreased from \$2.65 million in 2008 to \$2.5 million in 2009 due to two key factors: 1) \$250K fewer dollars were issued for community grants because of the timing of payments, i.e. the Community Network for the Underserved OB Project did not get its operating infrastructure in place to begin in the 4<sup>th</sup> quarter as planned (\$183K); a returned grant check, i.e. the Hospital Consortium returned a \$50K grant for a community stroke awareness campaign as it was unable to secure the additional funding required by the District's grant terms; and the decrease in both the number and amounts requested (\$20K) by the RN Loan Forgiveness Program. 2) General consulting and Legal fees were down by handling more work in-house and CEO oversight. General Consulting fees were 87% (\$34K) below prior year and Legal Fees were 15% (\$17K) below prior year and 71% (226K) below FY 2007 due to the stability of the Master Agreement implementation, the level of activity required by the Guardians Lawsuit, and the absence of any new real estate purchases/sales. Additionally, rent was down 30.7% as the District was not asked to pay for any additional rent for direct expenses this year per the lease agreement's "Additional Rent Tenant's Share of Direct Expenses" clause. Some expense categories went up. Administrative Personnel expenses were up \$56K due to a full year of employee health benefit expense, salary increases, and performance grants awarded by the Board. Communications expense was up \$72K and included consulting services for public advocacy and marketing, \$25,000 for the District's 1<sup>st</sup> Community Partners Event at which civic leaders were honored, grant recipients were recognized, and more than 130 civic, business, and healthcare leaders were in attendance, and the purchase of promotional materials (Pedometers, pens, and posters). Property expenses were \$48K or 1544% over the prior year as the result of the Master Property Planning activities that were launched in FY 2009.

### **BUDGET**

A comparison of the budgeted to actual revenues and expenditures is provided in the supplementary section for the general fund. Performance to budget was positive. Total Revenues were 2.8% over budget excluding the loss from the Lehman Brothers collapse and including the poor performance by the investment funds (31% below budget) as discussed above. Operating Expenses were \$.5M or 17% under budget due to four factors: 1) Grant expenditures were under by \$262K as discussed above; the \$200K for "new programs" was not used; 3) Other Expenses were under 231K because there was no need for a Board election as the two incumbents went unopposed and property development activities did not use the full amount budgeted – Master planning for property use and development will continue and were budgeted for FY 2010 and, 4) effective general expense

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

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management overall. Net Ordinary Income at year end was 27% (\$.6M) over budget when excluding the Lehman loss.

### CAPITAL ASSETS

	<u>2008-2009</u>	<u>2007-2008</u>	Dollar <u>Change</u>	Percent <u>Change</u>
Land and Improvements	\$ 5,401,004	\$ 5,609,237	\$ (208,233)	-3.71%
Building and Improvements	58,412,125	58,470,861	(58,736)	-0.10%
Equipment	21,412,834	21,412,834	-	0.00%
Subtotal	<u>85,225,963</u>	<u>85,492,932</u>	<u>(266,969)</u>	<u>-0.31%</u>
Less Accumulated Depreciation	73,144,091	68,688,390	4,455,701	6.49%
Capital Assets - Net of Depreciation	<u>\$ 12,081,872</u>	<u>\$ 16,804,542</u>	<u>\$ (4,722,670)</u>	<u>-28.10%</u>

The decrease in capital assets reflects the sale of 1848/50 El Camino and the improvements to 1875 Trousdale offset by the accelerated depreciation schedule of the fixed assets related to the hospital and its equipment.

### ECONOMIC AND OTHER FACTORS

The Board completed the second year of its Strategic Plan and has made good progress on achieving its goals.

Board Development and Leadership: FY 2009 saw a number of important changes at the Board level. Susan S. Smith resigned April 30, 2009 due to health reasons and subsequently passed away on July 22. She had served on the District Board for nearly 20 years. Her professional skills as a CPA and historical knowledge about the District and community had been very valuable. She helped recruit and orient the District's Accountant in July 2007; this contributed to a smooth transition when establishing the new District office to the staff's independence today. Through the Board's outreach and succession planning tactic of recruiting potential future Directors to serve on Board committees, three candidates applied for the vacancy and Lawrence Cappel, PhD, member of the Board's Grants Committee, was appointed to complete Ms. Smith's term (11/2010). Mr. Cappel has been the President and CEO of his organization since 1985 and holds a PhD in Community Health. He brings business, financial, and healthcare experience to the Board's work. Board officers changed in January 2009. Dr. Ullyot is Chair, Dr. Navarro, Vice-Chair, Ms. Galligan and Ms. Smith remained as Secretary and Treasurer respectively. The election of a new Treasurer will be conducted at the Board's August Regular Meeting. During the interim without a Treasurer, the Board moved to make the Chair the "signer of contracts for financial matters" and the Internal Control Policies were reviewed with the District Accountant and Auditors to ensure sound practices remained in place. The Board's Committee structure has been revised to establish working bodies to support the key strategic initiatives of the District: The Long Term Planning Committee for the strategic plan, asset management, property development, and board succession planning; The Community Health Investment Committee for the community grants, community provider partnerships, MD recruitment, and RN Forgivable Loan Programs; and, the Sutter Oversight Committee for MPHS compliance to the Master Agreements, stakeholder satisfaction (MD, employee, and patient) and Sutter's financial health. Each committee will include two Directors and 4-5 community representatives with a broad range of experience and professional backgrounds, such as banking, property development, senior services advocacy, business, etc. Board meetings regularly include guest speakers from the county health system and the community provider network to stay informed about

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

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health issues and priorities. Three Directors participated in the Association of California Healthcare Districts annual meeting and all five completed their required Ethics Training. The CEO also attended the annual ACHD meeting, has completed two of the three required courses to achieve a Leadership Certification credential from the California Special Districts Association, and completed the Leadership San Mateo 10-month program.

Financial Stewardship: This primary function is carried out on a number of fronts. The budget process and operational management has been effective as noted by this audit. Cash investments were monitored intensely given the economic crisis and eroding interest rates. Financial advisors were contacted to examine the District's investment strategy and to make recommendations – “sit tight” was the prevailing wisdom; the analysis of Sutter's financial health was completed by an outside financial consultant and reported at the December Board meeting; and, the Directors tracked the county Board of Supervisors' response to, and audit of, the San Mateo Pooled Fund investment policy and internal controls to determine if any management issues contributed to the loss. (None were identified.) Property management has also been a focus. The master planning process launched last year helped establish strategic priorities and identified possible building scenarios for the properties given the zoning and building restrictions. The sale of 1848/50 El Camino was completed – a strategic move to capitalize on the “seller's market” environment that existed in 2007-2008, increase cash assets for future acquisitions and development, and divest of a parcel across a major street and not adjacent to the 26-acre area upon which the new hospital is being built and the location of the 4.5 acres at the west end that will revert back to District use/development after the old hospital is taken down. 1875 Trousdale is fully leased for five years, 1/1/09 to 12/31/13, and planning for the future use of 1600 Trousdale is underway as the current tenant (MPHS) will move out when the new hospital is completed.

Community Partnerships: The District has increased the visibility of its value to the health of the community through provider partnerships and outreach. Examples of this include:

- The Community Health Network for the Underserved OB Project which is a partnership with the District, community physicians, MPHS, and the County Health Department to ensure that indigent women living in the District can receive maternity and post-natal care within the District – something not currently available;
- The “Better Health One Step at a Time” program in which the District-provided pedometers to elementary school students to encourage physical activity;
- CEO presentations at city councils, Rotary Clubs, and chambers of commerce;
- The District newsletter that includes a guest columnist corner, an article highlighting a grant recipient, and increased frequency of publication (3X/year) and distribution (Now mailed to 42,000 residences);
- An effective grant process that has attracted new grant applications and quality committee members., and
- The successful Community Partners Event referenced earlier at which the value and work of the District was known by and eloquently voiced by civic leaders and grant recipients.

MPHS Oversight: The Board partners with MPHS leadership to ensure the completion of the new hospital within the District and provides oversight of MPHS-provided services and Sutter's financial stability on behalf of the tax payers. Examples include participating on the New Hospital Building Committee, collaborating on a solution for an important community issue by leasing a District property to MPHS for its Outpatient Cardiac Rehab Program, and conducting a thorough analysis of Sutter Health's overall financial strength in compliance with the Districts 2007 Financial Policy.

The national economic crisis had a direct and significant impact on the District's investment income and interest rates continue to fall. The July 2009 interest rate for LAIF was 1.035% and San Mateo County Pooled Fund was 1.00%, The District's tax revenues were threatened during the California budget sessions; however, the proposed

# **PENINSULA HEALTH CARE DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009**

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withhold of 8% of the property taxes for FY 2010 did not make the final, approved State budget. Local real estate values held up last year and tax revenues were up. It was anticipated that this trend may not continue; however, in a letter received August 17, 2009, the County Controller's office has certified that the assessable property within the District will generate a 2% increase in tax revenues for fiscal year 2010. Prior to receiving this notice and in anticipation of one or both of these phenomena occurring the, District leaders budgeted a 13% reduction in tax revenues from the \$4.5M realized in FY 2009, held the grant budget at \$2M, and eliminated new program R & D funds from the budget (I.e. New Program funds) with the understanding that any new, compelling opportunities could be considered and addressed during the year.

In summary, there are many economic and other factors challenging the community's health system. The numbers of uninsured and under-insured residents in the county is increasing, the safety net health care providers are experiencing more demand than there is capacity, and the new State budget has only added to the challenges. One such example from the recently approved State budget is the hit to the Healthy Families Program. Within San Mateo County, that cut represents more than 50% of the Program's annual funding and impacts hundreds of children and low income families within the District's borders. National healthcare reform – whatever shape it takes, will also impact our community; however, it is unlikely that there will be any direct impact on the District in fiscal year 2010 as a result of national reform. The District has a committed, informed Board of Directors with a clear, shared vision, a thoroughly vetted Strategic Plan and an effective management structure to carry out the plan.

### **FINANCIAL CONTACT**

The financial report is designed to provide interested parties with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. If you have any questions about this report or need additional financial information, contact: CEO, Peninsula Health Care District, 1600 Trousdale Drive, Suite 1210, Burlingame, CA 94010.

**PENINSULA HEALTH CARE DISTRICT**

**STATEMENT OF NET ASSETS  
JUNE 30, 2009**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Investments	\$ 41,590,494	\$ 283,725	\$ 41,874,219
Interest Receivable	186,678	-	186,678
Property Taxes Receivable	170,720	-	170,720
Prepaid Expense	16,500	-	16,500
Total Current Assets	<u>41,964,392</u>	<u>283,725</u>	<u>42,248,117</u>
<b>Property, Plant, and Equipment - Net</b>			
Depreciable	-	7,411,914	7,411,914
Non-Depreciable	-	4,669,958	4,669,958
Total Property, Plant, and Equipment - Net	<u>-</u>	<u>12,081,872</u>	<u>12,081,872</u>
Total Assets	<u>41,964,392</u>	<u>12,365,597</u>	<u>54,329,989</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts Payable	7,332	19,095	26,427
Accrued Payroll	13,838	-	13,838
Deferred Revenues	-	264,630	264,630
Total Current Liabilities	<u>21,170</u>	<u>283,725</u>	<u>304,895</u>
<b>NET ASSETS</b>			
Invested in Capital Assets	-	12,081,872	12,081,872
Unrestricted	41,943,222	-	41,943,222
Total Net Assets	<u>\$ 41,943,222</u>	<u>\$ 12,081,872</u>	<u>\$ 54,025,094</u>

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

**PENINSULA HEALTH CARE DISTRICT**

**STATEMENT OF ACTIVITIES  
YEAR ENDING JUNE 30, 2009**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u> <u>Charges for Services and Sales</u>
<b>Governmental Activities:</b>		
Community Grants	\$ 1,737,645	\$ -
General Administration:		
Administrative Personnel	305,198	-
Tax Administration Fee	31,445	-
Communication	83,691	-
Consulting	4,841	-
Legal Fees	49,005	-
Promotion	66,134	-
Rent	18,864	-
Other	100,687	-
<b>Total Governmental Activities</b>	<u>2,397,510</u>	<u>-</u>
<b>Business Type Activities:</b>		
Leasing	-	1,822,430
Gain from Sale of Property	-	1,498,924
Depreciation	4,675,113	-
Legal Fees	44,514	-
Property Expenses	50,650	-
<b>Total Business Activities</b>	<u>4,770,277</u>	<u>3,321,354</u>
<b>Total Primary Government</b>	<u>\$ 7,167,787</u>	<u>\$ 3,321,354</u>

General Revenues:  
Property Taxes  
Interest Earnings  
Investment Loss  
Other  
Transfers Between Funds  
**Subtotal - General Revenue**  
**Change in Net Assets**  
**Net Assets - Beginning of Year**  
**Net Assets - End of Year**

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

**Net (Expenses) Revenue and  
Changes in Net Assets**

<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
\$ (1,737,645)	\$ -	\$ (1,737,645)
(305,198)	-	(305,198)
(31,445)	-	(31,445)
(83,691)	-	(83,691)
(4,841)	-	(4,841)
(49,005)	-	(49,005)
(66,134)	-	(66,134)
(18,864)	-	(18,864)
(100,687)	-	(100,687)
<u>(2,397,510)</u>	<u>-</u>	<u>(2,397,510)</u>
-	1,822,430	1,822,430
-	1,498,924	1,498,924
-	(4,675,113)	(4,675,113)
-	(44,514)	(44,514)
-	(50,650)	(50,650)
<u>-</u>	<u>(1,448,923)</u>	<u>(1,448,923)</u>
<u>(2,397,510)</u>	<u>(1,448,923)</u>	<u>(3,846,433)</u>
4,521,513	-	4,521,513
897,582	-	897,582
(897,895)	-	(897,895)
36,227	-	36,227
3,273,747	(3,273,747)	-
<u>7,831,174</u>	<u>(3,273,747)</u>	<u>4,557,427</u>
5,433,664	(4,722,670)	710,994
36,509,558	16,804,542	53,314,100
<u>\$ 41,943,222</u>	<u>\$ 12,081,872</u>	<u>\$ 54,025,094</u>

**PENINSULA HEALTH CARE DISTRICT**

**GOVERNMENTAL FUND  
BALANCE SHEET  
JUNE 30, 2009**

---

	<u><b>General Fund</b></u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and Investments	\$ 41,590,494
Interest Receivable	186,678
Property Taxes Receivable	170,720
Prepaid Expense	16,500
Total Assets	<u><u>\$ 41,964,392</u></u>
 <b>LIABILITIES AND FUND BALANCE</b>	
<b>Current Liabilities</b>	
Accounts Payable	\$ 7,332
Accrued Payroll	13,838
Total Liabilities	<u><u>21,170</u></u>
 <b>Fund Balance</b>	
Designated for Future Capital Needs	41,943,222
Total Fund Balance	<u><u>41,943,222</u></u>
Total Liabilities and Fund Balance	<u><u>\$ 41,964,392</u></u>

There were no reconciling items between the Governmental Fund Balance Sheet and the Statement of Net Assets

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

**PENINSULA HEALTH CARE DISTRICT**

**GOVERNMENTAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE  
YEAR ENDED JUNE 30, 2009**

---

	<u><b>General Fund</b></u>
<b>Revenues</b>	
Tax Revenue	\$ 4,521,513
Interest Earnings	897,582
Investment Loss	(897,895)
Other Revenue	36,227
Total Revenues	<u>4,557,427</u>
 <b>Expenditures</b>	
Community Grants	1,737,645
General Administration:	
Administrative Personnel	305,198
Tax Administration Fee	31,445
Communications	83,691
Consulting	4,841
Legal Fees	49,005
Promotion	66,134
Rent	18,864
Other	100,687
Total Expenditures	<u>2,397,510</u>
 Excess of Revenue Over Expenditures	2,159,917
 Transfers In	<u>3,273,747</u>
 Net Change in Fund Balance	5,433,664
 Fund Balance - Beginning of Year	<u>36,509,558</u>
 Fund Balance - End of Year	<u><u>\$ 41,943,222</u></u>

There were no reconciling items between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities

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

**PENINSULA HEALTH CARE DISTRICT**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2009**

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	<u><b>Business-Type Activities</b></u>
	<u><b>Enterprise Fund</b></u>
	<u><b>Leasing</b></u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and Investments	\$ 283,725
Total Current Assets	<u>283,725</u>
<b>Property, Plant, and Equipment - Net</b>	
Depreciable	7,411,914
Non-Depreciable	4,669,958
Total Property, Plant, and Equipment - Net	<u>12,081,872</u>
Total Assets	<u>12,365,597</u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>Current Liabilities</b>	
Accounts Payable	19,095
Deferred Revenues	264,630
Total Liabilities	<u>283,725</u>
<b>Net Assets</b>	
Invested in Capital Assets	<u>12,081,872</u>
Total Net Assets	<u>\$ 12,081,872</u>

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

**PENINSULA HEALTH CARE DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2009**

---

	<u>Business-Type Activities</u> <u>Enterprise Fund</u> <u>Leasing</u>
<b>Operating Revenues</b>	
Leasing Income	\$ 1,822,430
<b>Operating Expenses</b>	
Depreciation	4,675,113
Legal Fees	44,514
Property Expenses	50,650
Total Operating Expenditures	<u>4,770,277</u>
Operating Loss	(2,947,847)
<b>Non-Operating Revenues</b>	
Gain from Sale of Property	<u>1,498,924</u>
Net Loss	(1,448,923)
Transfers Out	<u>(3,273,747)</u>
Change in Net Assets	(4,722,670)
Net Assets - Beginning of Year	<u>16,804,542</u>
Net Assets - End of Year	<u>\$ 12,081,872</u>

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

# PENINSULA HEALTH CARE DISTRICT

## STATEMENT OF CASH FLOWS PROPRIETARY FUND YEAR ENDED JUNE 30, 2009

	<u>Business-Type Activities</u> <u>Enterprise Fund</u>
<b>Cash Flows from Operating Activities:</b>	
Leasing Income	\$ 1,809,883
Legal Fees	(34,874)
Property Expenses	(46,705)
Net Cash Provided by Operating Activities	<u>1,728,304</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
Transfers to the General Fund	(3,273,747)
Net Cash Used in Noncapital Financing Activities	<u>(3,273,747)</u>
<b>Cash Flows from Capital Financing Activities</b>	
Sale of Property	1,329,157
Purchases of Property	(160,676)
Net Cash Provided by Capital Financing Activities	<u>1,168,481</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(376,962)
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>660,687</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 283,725</u>
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>	
Loss from Operations	\$ (2,947,847)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities	
Depreciation	4,675,113
Property Received as Leasing Revenues	(27,177)
Increase in Accounts Payable	13,585
Increase in Deferred Revenues	14,630
Net Cash Provided by Operating Activities	<u>\$ 1,728,304</u>

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

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial Reporting Entity

Peninsula Health Care District (the "District") is a political subdivision of the State of California organized in 1947. The District is not subject to state or federal taxes. The mission of the District is to ensure Peninsula Medical Services provides needed core services, to support programs that share their vision, and to do so in collaboration with other providers and qualified members of the community.

The District Board will carry out this mission through:

- Preserving Peninsula Hospital as a community asset,
- Achieving measurable improvements in identified health problems in the District,
- Improving availability of and access to health information and services for all residents of the district, and
- Ensuring sufficient resources to achieve the Board's vision, mission and strategic initiatives.

#### Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into two broad fund categories: governmental and proprietary.

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the District's major governmental fund:

**General Fund** The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of California.

**Proprietary Funds** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary fund:

**Enterprise Fund** Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The enterprise fund of the District accounts for the financial transactions related to the property leasing operations of the District.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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### **Basis of Accounting/Measurement Focus**

**Government-Wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the District and for each governmental function. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District allocates indirect expenses to functions in the Statement of Activities. There were no significant indirect expenses in the current year. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had no restrictions at year end.

**Fund Financial Statements** Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

**Governmental Funds** All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting. For the current year there were no differences requiring a reconciliation.

**Proprietary Funds** Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net assets. The statement of changes in fund net assets presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

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### Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury and state fund balances for purposes of the statement of cash flows

### Investments

Investments held at June 30, 2009, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

### Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. The District capitalizes purchases exceeding \$5,000.

**Governmental Fund Capital Assets.** When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net assets. The District's Governmental Fund has no capital assets. All capital asset purchases were recorded in the Proprietary Fund during the current year.

**Proprietary Fund Capital Assets.** Fixed assets purchased in the proprietary fund are capitalized.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

	<u>Lives of Assets</u>
Equipment	3-7
Buildings and Improvements	15-48

### Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized. Deferred Revenue of \$264,630 at June 30, 2009 represents two months prepaid rent from Mills Peninsula Health Services (MPHS) as discussed in Note 6.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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### Budgetary Data

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. In the budgetary comparison schedule the original and final budgeted amounts are the same.

### Tax Revenue

The District has the authority to collect taxes on property within its political subdivision. Taxes are received from the County of San Mateo, which has responsibility for their collection. Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments due November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 15. The County of San Mateo bills and collects the taxes for the District. Tax revenues are recognized by the District when received. The County remits all taxes due to the District when due, or within 60 days of year end. The County of San Mateo remits taxes based on assessed valuations under the Teeter Plan, therefore, there are no taxes receivable, uncollectible, or deferred.

### Use of Estimates

The preparation of the 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

## NOTE 2 – DEPOSITS AND INVESTMENTS

### Summary of Deposits and Investments

Deposits and investments as of June 30, 2009, are classified in the accompanying financial statements as follows:

Governmental Activities	\$ 41,590,494
Business-Type Activities	283,725
Total Deposits and Investments	<u>\$ 41,874,219</u>

Deposits and investments as of June 30, 2009, consist of the following:

	Fair Value	Amortized Cost Basis
Cash in Banks	\$ 104,753	\$ 104,753
Investment in Local Agency Investment Fund	26,385,849	26,351,467
Investment in San Mateo County Pool	15,370,512	15,417,999
Total Deposits and Investments	<u>\$ 41,861,114</u>	<u>\$ 41,874,219</u>

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

---

### **Policies and Practices**

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations. All investments were in the County and State investment pools.

**Investment in County Treasury** – The District is a voluntary participant in the San Mateo County Investment Pool. The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the amortized cost basis provided by the County Treasurer for the entire portfolio which approximates fair value. The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**Investment in the State Investment Pool** - The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. The District's investment in the pool is reported in the accompanying financial statement at amounts based upon the District's pro-rata share of the amortized cost basis provided by LAIF for the entire LAIF portfolio which approximates fair value. The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

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### General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

### 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 District manages its exposure to interest rate risk by investing substantially all of its funds in County and State investment pools.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

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### Segmented Time Distribution

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investments by maturity. The data was provided by the investment pools:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity in Years</u>
San Mateo County Pool	\$ 15,370,512	1.0
Local Agency Investment Pool	26,385,849	0.8
Total	<u>\$ 41,756,361</u>	

### Credit Risk

Credit risk is the risk that an 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. Presented below is the minimum rating required by the California Government Code, the Districts' investment policy, or debt agreements, and the actual rating as of the year-end for each investment type. Investments in the County and State investment pools are not required to be rated.

### Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2009, the District's bank balance of \$299,670 was either FDIC insured or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

### Custodial Credit Risk – Investments

The custodial risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The District manages custodial risk by investing its assets in County and State investment pools. The California government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial risk for investments.

**PENINSULA HEALTH CARE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 3 – CAPITAL ASSETS**

Activity in capital assets for the year ended June 30, 2009 was as follows:

<b>Capital Assets</b>	<b><u>Beginning</u></b>	<b><u>Additions</u></b>	<b><u>Retirements</u></b>	<b><u>Ending</u></b>
Land	4,878,191	\$ -	\$ 208,233	\$ 4,669,958
Land Improvements	731,046	-	-	731,046
Buildings and Improvements	58,470,861	160,676	219,412	58,412,125
Equipment	21,412,834	-	-	21,412,834
	<u>85,492,932</u>	<u>160,676</u>	<u>427,645</u>	<u>85,225,963</u>
<b>Accumulated Depreciation</b>				
Land Improvements	731,046	-	-	731,046
Buildings and Improvements	47,663,803	4,132,759	219,412	51,577,150
Equipment	20,293,541	542,354	-	20,835,895
	<u>68,688,390</u>	<u>4,675,113</u>	<u>219,412</u>	<u>73,144,091</u>
Capital Assets - Net	<u>\$ 16,804,542</u>	<u>\$ (4,514,437)</u>	<u>\$ 208,233</u>	<u>\$ 12,081,872</u>

As discussed in Note 7, the existing hospital building will be demolished and substantially all of the equipment disposed of after the construction and equipping of the new hospital. The new hospital is being built and will be operated by MPHS on land leased from the District. Accordingly, as of November 2006, the District changed the estimated depreciable lives of its capital assets associated with the operations of the existing hospital to be fully depreciated by December 2010. Salvage value of equipment is not expected to be material.

The agreements between MPHS and the District contain certain covenants restricting the use of District property and providing MPHS with first right of refusal should the District offer the property for sale.

**NOTE 4 - FUND BALANCES**

The Governmental Fund balance is designated by the Board for future capital needs in accordance with the 2007-2010 Strategic Plan discussed in Note 7.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

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### NOTE 5 – LEASE AGREEMENTS

The District leases the hospital facilities and equipment located at 1501 Trousdale to MPHS—under a lease agreement entered into in 1985 (the “Existing Hospital Lease”). The rent payments under Existing Hospital Lease were modified under the Pre-Closing Agreement between MPHS and the District (for the period between September 2005 and October 2006) and by the Construction Ground Lease (which became effective on November 1, 2006). Under the Pre-Closing Agreement, MPHS made monthly rent payments of \$125,000 for the months September 2005 through October 2006. In November 2006, upon the Construction Ground Lease becoming effective (and the District lease to MPHS of additional land – the site for the new hospital), rental payments converted to annual payments, at a rate of \$1,500,000/year. To convert to annual rent payments MPHS was required to pay all rent due through August 31, 2007. Beginning in September 2007, MPHS makes annual lease payments of \$1,500,000, adjusted, based on CPI, on every three-year anniversary of the first modification of rent payments under the Pre-Closing Agreement (September 1, 2005), with the first such adjustment to occur on September 1, 2008. The lessee is obligated for all operating, maintenance and other costs of the facility.

When the new hospital has been completed and available for use, currently estimated to be January 2011, a fifty-year Ground Lease will become effective. The Ground Lease replaces and supersedes the Construction Ground Lease, but continues the same lease payments and three-year CPI adjustments. The initial lease payment under the Ground Lease is the same as the last annual lease payment payable under the Construction Ground Lease (the initial rate of \$1,500,000, as adjusted over the life of the Construction Ground Lease) and will continue to be adjusted based on CPI. The Ground Lease grants MPHS an option to extend the Ground Lease for an additional 25-year period.

The District leases three additional buildings to MPHS, 1600 Trousdale (Note 4), 1875 Trousdale and 1848-50 El Camino Real. The 1600 Trousdale lease commenced on April 1, 2007, has an initial term of two (2) years, with MPHS having three options to extend for one year each at fair market value, subject to the District’s right to terminate the lease early upon 180 days’ prior written notice. 1875 Trousdale is leased under a December 23, 2008 agreement with an initial five (5) year term three options for one year each. The 1848-50 El Camino Real lease commenced on November 1, 2006, has an initial term of one (1) year, with MPHS having an option to extend for one year, subject to either party’s right to terminate the lease early upon 180 days’ prior written notice. MPHS exercised its extension option for an additional year. Under all three leases, the lessee (MPHS) is obligated for all operating, maintenance and other costs of the facility. On July 3, 2008 the District sold the property located at 1848-1850 El Camino Real, Burlingame, CA to Cecil Chan for \$1,700,000. The lease agreement in effect between the District and the lessee, Mills Peninsula Health Services was assigned to the buyer.

**PENINSULA HEALTH CARE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

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Payments received during the current year and expected base rents through the end of the existing leases are:

Year ended June 30,	<u>1600</u>	<u>1875</u>	<u>1501</u>	<u>1848</u>	<u>Totals</u>
	<u>Trousdale</u>	<u>Trousdale</u>	<u>Trousdale</u>	<u>El Camino</u>	
2009	\$ 170,624	\$ 77,937	\$ 1,573,149	\$ 720	\$ 1,822,430
2010	175,741	152,280	1,587,778		1,915,799
2011	181,013	152,280	1,587,778		1,921,071
2012	138,791	152,280	1,587,778		1,878,849
2013		101,520	1,587,778		1,689,298
2014			1,587,778		1,587,778
2015-2019			7,938,890		7,938,890
2020-2024			7,938,890		7,938,890
2025-2029			7,938,890		7,938,890
2030-2034			7,938,890		7,938,890
2035-2039			7,938,890		7,938,890
Thereafter			35,725,005		35,725,005

**NOTE 6 - DEFINITIVE AGREEMENTS**

The Definitive Agreements between the District and MPHS became effective on November 1, 2006. Under these agreements, MPHS will construct and equip a new hospital on land leased from the District, and then demolish the existing hospital facility. These agreements also settled litigation initiated in 1997 against MPHS seeking to rescind 1985 lease agreement and related property transfers.

**NOTE 7 - CONTINGENCIES**

Under the Definitive Agreements, the District is obligated as follows:

If MPHS cannot complete the new hospital and other improvements because MPHS cannot, despite reasonable efforts, obtain the required approvals therefore, then MPHS may terminate the Definitive Agreements and the District must reimburse MPHS for the costs and expenses that MPHS incurred up to the date of termination for the development and construction of new hospital improvements on the District's property.

If MPHS fails to complete the new hospital and other improvements due to a breach by MPHS of its obligations under the Definitive Agreements, the District has the option to terminate the Definitive Agreement and acquire from MPHS all of the approvals and constructed improvements for the new hospital and complete the construction itself. In such case, the District must reimburse MPHS for all of the costs and expenses that MPHS incurred for the development and construction of new hospital improvements on the District's property. The first

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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\$5,000,000 of such reimbursement is due three (3) months after the termination date, with any additional reimbursement amount due twelve (12) months after the termination date.

At the end of the Ground Lease, or upon the District's early termination of the Definitive Agreements (which is only allowed if MPHS commits a "Paramount Default" as defined in Section 5.01.B of the Master Agreement of the Definitive Agreements at any time after MPHS opens the new hospital), the District is obligated to reimburse MPHS for certain items. Depending on the circumstances and timing of the termination of the Ground Lease, these obligations could include the Net Book Value (NBV) all Post Term Assets (certain equipment and hospital building improvements either specifically approved by the District board in the 25-year period prior to lease end, required by law, or necessitated by uninsured damage to the new hospital), and/or the Fair Market Value (FMV) of the use of certain hospital building improvements and equipment for whatever term of the Ground Lease remained as of the date of termination.

The Board has addressed the contingencies by adopting the 2007-2010 Strategic Plan in August 2007 and a resolution to establish a long term financial policy to implement the plan and assure preservation of Peninsula Hospital and certain core services both during the term of the lease and at lease end and to improve the health status of District residents and meet critical health care needs of the communities served by the District. The resolution establishes a firm policy goal for the District to accumulate reserves of approximately \$500 million, in 2010 dollars, by the end of the lease; maintain a debt to capitalization ratio that will not exceed 50%; and budget an amount up to 10% of the prior year-end accumulated reserves.

### NOTE 8 – RESTRICTED GRANTS AND LOANS

As part of the District's mission to promote the healthcare interests of the communities it serves, it grants money to nursing students and physicians within the district. The grants are subject to repayment if certain agreed upon requirements are not met.

In order to encourage the pursuit of nursing careers and graduate nurses to locate within the jurisdiction of the District, grants of up to \$4,000 are made to selected nursing students enrolled in two-year nursing programs. If the student completes the program and then completes two post graduate years in a nursing position within specified communities, the District forgives the loan in full. Grants of up to \$20,000 are made to selected nursing students enrolled in four-year nursing programs at local universities or colleges. If the student completes the four-year program and then completes four post graduate years in a nursing position within specified communities, the District forgives the loan in full.

These payments are recorded as grant expenditures. If a student or physician does not fulfill their obligation then all or part of the payment (based on the agreed upon schedules) is recognized as a loan receivable with a related recognition of revenue.

As of June 30, 2009 the District has determined that five grants were in default amounting to \$43,353. During the year the District recovered \$13,013 and has established payment plans. Because of the uncertainty of recovering the amounts owed, the District has fully reserved the receivable and will report recoveries when received. The amount of reserves will be reevaluated after the District is able to establish a collection history.

# **PENINSULA HEALTH CARE DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

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### **NOTE 9 - LITIGATION**

The District is defendant in a lawsuit: Peninsula Guardians, Inc. v. Warren Slocum, San Mateo County Chief Election Officer, Peninsula Health Care District, and Mills-Peninsula Health Services [“MPHS”], No. SCV-456563 (San Mateo County, California Superior Court).

Plaintiff, by its current Third Amended Complaint, contends that certain materials the District distributed in connection with an August 2006 election were improper. In that election, the voters approved a ground lease transaction facilitating the construction by MPHS of a state-of-the-art hospital for the residents of the District on land leased to it by the District. Plaintiff seeks a declaration that the materials were improper political expenditures and seeks attorney’s fees.

The District recently brought a special motion to strike the complaint under section 425.16 of the Code of Civil Procedure, the “anti-SLAPP” statute, on the grounds that the materials the District distributed are protected speech. The court denied the motion. The District appealed, and the matter is before the Court of Appeals. Estimation of the likelihood of an unfavorable outcome of this litigation would be speculative. The District’s exposure to damages at this point in the litigation according to its attorneys is limited to attorney’s fees incurred by the Plaintiff.

### **NOTE 10 – COMMITMENTS**

The District has approved \$1,270,463, \$559,604 and \$366,000 in grants to community organizations for funding during the 2009-10, 2010-11 and 2011-12 fiscal years respectively.

**Required Supplementary Information**

**PENINSULA HEALTH CARE DISTRICT**

**GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
JUNE 30, 2009**

	<b><u>Budgetary Amounts</u> <u>Original and Final</u></b>	<b><u>Actual</u></b>	<b><u>Variance</u></b>
<b>Revenues</b>			
Tax Revenue	\$ 4,000,000	\$ 4,521,513	\$ 521,513
Interest Earnings	1,300,000	897,582	(402,418)
Investment Loss	-	(897,895)	(897,895)
Other Revenue	5,100	36,227	31,127
Total Revenues	<u>5,305,100</u>	<u>4,557,427</u>	<u>(747,673)</u>
<b>Expenditures</b>			
Administrative Personnel	283,600	305,198	(21,598)
Tax Administration Fees	30,000	31,445	(1,445)
Communications	105,000	83,691	21,309
Consulting	25,000	4,841	20,159
Grants	2,000,000	1,737,645	262,355
Legal Fees	45,000	49,005	(4,005)
Promotions	75,000	66,134	8,866
Rent	19,000	18,864	136
Other	308,000	100,687	207,313
Total Expenditures	<u>2,890,600</u>	<u>2,397,510</u>	<u>493,090</u>
<b>Excess Revenue Over Expenditures</b>	2,414,500	2,159,917	(254,583)
<b>Transfer From Other Funds *</b>	<u>3,273,747</u>	<u>3,273,747</u>	<u>-</u>
<b>Excess of Revenue Over Expenditures and Transfers To Other Funds</b>	5,688,247	5,433,664	(254,583)
<b>Fund Balance - Beginning of Year</b>	<u>36,509,558</u>	<u>36,509,558</u>	<u>-</u>
<b>Fund Balance - End of Year</b>	<u>\$ 42,197,805</u>	<u>\$ 41,943,222</u>	<u>\$ (254,583)</u>

\* The District does not budget transfers.

**Auditor's Report on Internal Control and Compliance**



VAVRINEK, TRINE, DAY  
& COMPANY, LLP  
*Certified Public Accountants*

VALUE THE DIFFERENCE

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
Peninsula Health Care District  
Burlingame, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Peninsula Health Care District as of and for the year ended June 30, 2009, which collectively comprise the Peninsula Health Care District's basic financial statements and have issued our report thereon dated August 24, 2009. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Peninsula Health Care District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Peninsula Health Care District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Peninsula Health Care District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

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

This report is intended solely for the information and use of the governing board, management, and the State Controller's Office, and is not intended to be and should not be used by anyone other than these specified parties.

*Vavrinek, Irvine, Day : Co., LLP*

Palo Alto, California  
August 24, 2009