



Peninsula Health Care District

**Financial Statements**

**June 30, 2011**

# PENINSULA HEALTH CARE DISTRICT

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Peninsula Health Care District  
Burlingame, California

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of Peninsula Health Care District (the District) as of and for the year ended June 30, 2011, 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, 2011, 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 October 19, 2011, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The required supplementary information such as the management's discussion and analysis on pages 3 through 11 and budgetary comparison schedule on page 34, 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 and supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary budgetary information on pages 36 and 37 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respect in relation to the basic financial statements taken as a whole.

Palo Alto, California  
October 19, 2011



# Peninsula Health Care District

## **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011**

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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, 2011. This information is presented in conjunction with the audited financial statements that follow this section.

### FINANCIAL HIGHLIGHTS

- The District's current assets decreased by \$2.6 million
- The District's net capital assets increased by \$4.3 million
- The District's current liabilities increased by \$29.7 thousand
- The District's governmental fund balance decreased by \$2.6 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. There were no reconciling items for the current fiscal year.

# **PENINSULA HEALTH CARE DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2011**

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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 reserves of fund balances are considered unrestricted. The Fund Financial Statements reduce the unrestricted portion of the fund balance by the amounts assigned 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, 2011

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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 fund financial statements report the following information:

- 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/Statement of Net Assets 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/Expenses and Changes in Fund Balance/Net Assets 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 proprietary fund.

### STATEMENT OF NET ASSETS

	<u>2010-2011</u>	<u>2009-2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	\$ 43,615,721	\$ 46,222,339	\$ (2,606,618)	-5.64%
Capital Assets	11,824,227	7,532,776	4,291,451	56.97%
Other Assets	52,361	-	52,361	
Total Assets	<u>55,492,309</u>	<u>53,755,115</u>	<u>1,737,194</u>	3.23%
Current Liabilities	325,280	295,540	29,740	10.06%
Noncurrent Liabilities	10,716	-	10,716	
Total Liabilities	<u>335,996</u>	<u>295,540</u>	<u>40,456</u>	13.69%
Invested in Capital Assets	11,824,227	7,532,776	4,291,451	56.97%
Unrestricted	43,332,086	45,926,799	(2,594,713)	-5.65%
Total Net Assets	<u>\$ 55,156,313</u>	<u>\$ 53,459,575</u>	<u>\$ 1,696,738</u>	3.17%

Unrestricted Board Assets decreased by \$2.6 million and Capital Assets increased by \$4.3 million due to three transactions: the purchase of 430 N. El Camino, San Mateo; the purchase of 1740 Marco Polo, Burlingame; and, the disposal of all District-owned fixed assets that were not transferred into the new hospital for continue use. Total Net Assets increased by \$1.7 million.

**PENINSULA HEALTH CARE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

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

	<u>2010-2011</u>	<u>2009-2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Revenues</b>				
Tax Revenue	\$ 4,241,883	\$ 4,392,336	\$ (150,453)	-3.43%
Lease Income	1,926,728	1,917,118	9,610	0.50%
Interest and Investment Earnings	455,495	331,522	123,973	37.40%
Other Revenue	34,814	64,972	(30,158)	-46.42%
Other Non-Operating Income	147,657	-	147,657	100.00%
Total Revenue	<u>6,806,577</u>	<u>6,705,948</u>	<u>100,629</u>	1.50%
<b>Expenditures</b>				
Administrative Personnel	371,553	345,628	25,925	7.50%
Tax Administrative Fee	34,108	33,702	406	1.20%
Communications	106,528	128,328	(21,800)	-16.99%
Depreciation	2,344,004	4,549,096	(2,205,092)	-48.47%
Grants	1,846,577	1,885,814	(39,237)	-2.08%
Legal Fees	81,082	125,305	(44,223)	-35.29%
Promotion	49,050	47,731	1,319	2.76%
Rent	16,725	19,570	(2,845)	-14.54%
Property Expenses	27,932	45,846	(17,914)	-39.07%
Other	232,280	90,447	141,833	156.81%
Total Expenditures	<u>5,109,839</u>	<u>7,271,467</u>	<u>(2,161,628)</u>	-29.73%
Change in Net Assets	1,696,738	(565,519)	2,262,257	
Net Assets beginning of Year	<u>53,459,575</u>	<u>54,025,094</u>	<u>(565,519)</u>	-1.05%
Net Assets End of Year	<u>\$ 55,156,313</u>	<u>\$ 53,459,575</u>	<u>\$ 1,696,738</u>	3.17%

**REVENUES**

**Total revenues** increased 1.5% from prior year due to the increase in Investment Earnings and Other Non-operating Income which were greater than the decrease in Tax Revenue.

- Tax revenues were down 3.4% due to the drop in home sales, home values, and property reassessment activity.
- Interest earnings were up more than 37% from the prior year due to redistribution of funds between LAIF and the San Mateo Pooled Fund, and the opening of a new account with City National Bank. LAIF had held the majority of the District's funds and was providing <0.5% interest. The two new properties were purchased for \$6.4M cash taken from LAIF, \$8M was transferred from LAIF to the SM Pooled Fund (0.92% interest rate), and \$7M was transferred from LAIF to a new account with City National Bank (1.23% interest rate).

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

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- Lease income increased 0.5% due to annual increases per lease agreements for 1600 and 1875 Trousdale in Burlingame. New lease income was received from 430 El Camino starting in May; this was offset by the loss of income from 1600 Trousdale when MPHS terminated its lease May 15, 2011.
- Other Revenue decreased more than 46% (\$30,158) due to mutually agreed upon reductions in monthly repayments by MD and RN Loan recipients who were experiencing financial difficulties and/or could not find RN work. Regular reduced payments are being received. Failure to miss three payments results in the account being turned over to collections.
- Other Non-Operating Income There was none in FY 2010. In FY 2011 reimbursement was received from MPHS for the District-owned movable fixed assets that were not going to be used in the new hospital, which opened May 15, 2011. Each party engaged a different medical liquidator and the valuations came in within \$4000 of each other. The difference was split and MPHS paid the District \$148,000.

### EXPENDITURES

**Total Expenditures** decreased \$2.2 million in FY 2011 as compared to the prior year; however, it is more relevant to management performance to analyze expenditures without the hospital-related depreciation expense. Total Expenditures in FY 2011 increased by \$43,000 when compared to FY 2010 when depreciation is excluded from both.

The areas of **increased expense** were:

- \$26,000 for **Administrative Personnel** costs due to health benefit rate increases, Board approved 2.6% CEO salary increase, increased Accountant hours to support resolution of fixed asset issue with MPHS, and additional staff costs during turnover/transition.
- \$49,500 for **Consulting** services for Olive Grove Consulting for strategic planning support and retreat facilitation, HFS Consulting for fixed asset valuation, and Apple Tree Dental for Phase One of the eldercare dental feasibility study.
- \$92,000 in **Other** was the net increase due to a mid-year Board approved gift to the American Red Cross of \$100,000 to establish a Resource and Recovery Center in downtown San Bruno to support the victims of the 9/9/10 PG&E explosion disaster.

The areas of **decreased expense** were:

- \$21,800 less was spent for **Communications** because FY 2010 included an information campaign in response to the H1N1 flu epidemic and support of a countywide women's health summit, neither of which occurred in FY'11.
- \$39,200 less in **Grants** due to the lower birth rate in the county than was projected for the use of approved grant fund for the Community Health Network for the Underserved OB Program, a partnership with local physicians, Mills-Peninsula Health Services, and the County.
- \$44,200 less in **Legal Fees** because of decreased activity for Guardian lawsuit.

\$18,000 less for **Property Expenses** because the Sedway Consulting Property Analysis Project spanned the two fiscal years with the majority of the payment having occurred in FY 2010.

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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### BUDGET

Actual performance was **\$871,600 favorable** to budget when comparing to the consolidated budgets for both the General and Proprietary Funds. This schedule can be found in the Supplementary Section of this report, page 37.

- **Total Revenues** were **\$259,500 favorable** to budget due to the improved investment earnings and fixed asset settlement with MPHS.
- **Total Expenses** were **\$612,000 favorable** to budget. This was due to:
  - \$303,400 in **Grants** was underutilized by the Community Network for the Underserved OB Program and the MD Recruitment Home Loan Program. In the latter case, the physician asked and received Board approval for a one year extension, which now carries this loan opportunity out to September 30, 2012.
  - \$245,000 in **Other** was below budget because the Board incumbents were not challenged in the November 2010 election and therefore the \$295,000 budgeted election expense was not used.
  - \$49,000 in **Legal Fees** was under budget due to less than anticipated activity on the Guardian lawsuit.
  - \$26,000 in **Promotion** expense was held below budget to adjust for the \$21,500 over budget spent on community outreach fairs and materials for distribution.
  - \$22,000 in **Property Expenses** was below budget due to the capitalization of the assisted living feasibility study expense into the Aegis assisted living/memory care project.

**Administrative Personnel** was \$17,600 **over** budget. Salary increases and possible performance bonuses for the CEO are not budgeted. The Board approved both effective 2/1/11 for a total salary impact of \$2,100 and bonus of \$15,000. The remaining \$500 negative to budget was the net difference between health benefit increases and a reduction in regularly schedule staff hours.

**This performance, when the unrelated hospital depreciation expense is removed, resulted in total Revenue over Expense of \$4,040,700, or 27.5% more than the budgeted target of \$3,170,000.**

In summary, Management achieved the Board's strategic and financial objectives through effective operations oversight while carrying out activities and seeking opportunities to:

- Address health needs (Assisted living/memory care and elder care dental projects).
- Expand reach and diversity of community health investments through effective grant process.
- Provide oversight of the Master Agreement terms with MPHS/Sutter (Resolution of fixed asset issue).
- Improve return on cash assets (Property analysis, property purchases, and redistribution of investment funds, and selection of a third investment fund/manager),
- Serve as visible representative of the Board throughout the community (Outreach activities, use of newsletters and Facebook media, health education forums.)
- Address unanticipated, urgent community needs (San Bruno Resource and Recovery Center)

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

### CAPITAL ASSETS

	<u>2010-2011</u>	<u>2009-2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Land and Improvements	\$ 9,181,102	\$ 5,401,004	\$ 3,780,098	69.99%
Building and Improvements	3,129,020	58,412,125	(55,283,105)	-94.64%
Equipment	<u>1,710,776</u>	<u>21,160,795</u>	<u>(19,450,019)</u>	-91.92%
Subtotal	14,020,898	84,973,924	(70,953,026)	-83.50%
Less Accumulated Depreciation	<u>2,196,671</u>	<u>77,441,148</u>	<u>(75,244,477)</u>	-97.16%
Capital Assets - Net of Depreciation	<u>\$ 11,824,227</u>	<u>\$ 7,532,776</u>	<u>\$ 4,291,451</u>	56.97%

The District's **Land and Improvements** increased 70% with the purchase of 430 N. El Camino in San Mateo and 1740 Marco Polo in Burlingame. **Building and Improvements** decreased by 95% because the District's hospital, which opened in 1954, was closed in May 2011 and will be completely demolished and removed over the next year. The 92% drop in **Equipment** relates to the end of the hospital's life and the fixed asset settlement with MPHS. Additional information on capital assets can be found in Note 3 in the financial statements.

### ECONOMIC AND OTHER FACTORS

#### Economic

The National economic crisis continues to have an impact on the District's tax revenue and investment earnings. The Board has taken steps to ensure prudent fiduciary oversight; these include setting a conservative operating budget, carrying out a redistribution of reserve funds between managers, selecting an additional investment manager (City National Bank), conducting a property analysis to ascertain "best and highest uses" for District-owned properties, and purchasing new properties that provide greater ROI than the investment funds have over the last couple of years, as well as, provide parcels for future development opportunities.

The Board's Long Term Planning Committee, comprised of professionals from medicine, healthcare policy, development, banking, construction, and bond financing, meet regularly and have advised the Board on a number of strategic and financial areas, including the Investment Policy, ROI targets, and senior housing development.

The Board's Finance Policy sets parameters for the annual operating budget, including targets for growth in the cash reserves to achieve sufficient assets to meet the financial obligations defined in of the Master Agreement with MPHS/Sutter. Every budget since FY 2007 has been well within these parameters and every year's actual performance has generated revenues over expenses that have met or exceeded targets.

#### Directors and Officers:

The District Board was assured two more years of stability as there were no challengers in the November 2010 election. However, Board succession planning is an on-going part of the leadership work. This is carried out through Director and CEO visibility, increased community awareness of the work and value of the District, participation on civic and community boards, and recruitment of community leaders to serve on the District Board's committees.

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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Board development and on-going education is also an important focus. Materials are regularly distributed to Directors to help keep them informed about local, State, and National policy issues that would impact the community's health and healthcare system. Guest speakers are invited to present to the Board at the beginning of every public board meeting on a broad range of health topics. The speakers for FY 2011 were:

- July: **Removing Barriers to Care**, Michael Helgeson, DDS, CEO of Apple Tree Dental
- Sept.: **New Hospital Transition Plan**, Robert Merwin, MPHS President/CEO
- Oct.: **The Patient Protection and Accountable Care Act, 2010**, Daniel Ullyot, MD, Chair of the California Technology Assessment Forum and Chair of the PHCD Board of Directors
- Dec.: **Revising Medicare Payment Structure**, Khoa Nguyen, Health Plan of San Mateo
- Jan.: **Annual Community Partners Meeting**; all grant recipients present on their services.
- Feb.: **“Workforce and Senior Housing Needs – the County’s Perspective**, Janet Stone, County Housing and Development Manager
- March: **Update on Behavioral Health -Trends and Services**, Dan Becker, MD, Medical Director of Behavioral Health for MPHS
- April: **211bayarea.org- Where to find help in San Mateo County**, Betty Creary, United Way
- May: **The new hospital is open!** Robert Merwin, MPHS President/CEO,
- June: Meeting cancelled

### Strategic Planning:

The Board's Strategic Plan development for 2011-2015 was launched in May of 2010. Olive Grove Consulting was engaged to assist in the data gathering and analyses steps, to assist in the external and internal “SWOT” (Strengths, weaknesses, opportunities and threats) analysis, and to facilitate an all-day Board retreat in April 2011. Mission, vision and values were revisited and reaffirmed; strategic priorities were identified, and areas of planning continue to be discussed at the regular public sessions of the Board. A final written plan is targeted for Board approval in December 2011.

### FUTURE CHALLENGES

The on-going national economic situation has strained County and city budgets which have forced cutbacks in safety net health services at a time when unemployment, the number of un- or underinsured is on the rise, and the number of residents seeking shelter, food, and healthcare is at an all-time high in this County.

Our County also has a higher number of residents over 65 than most counties in the State, with those 85 and older comprising the fastest growing segment of that senior population. Demand for senior services is up at the same time the State has cut funding to Adult Day Health Programs, which help keep seniors out of institutional settings by providing therapies and socialization activities, cutting back payments forcing three local skilled nursing facilities to close; and eliminating all State support for Ombudsmen Services – the only organization in the County that provides essential oversight of the care provided to more than 9,000 county residents living in institutional settings. Senior healthcare and housing needs are critical trends that will challenge the District Board's community health investment direction in the future.

The Board looks to its Community Health Investment Committee to carry out thorough due diligence in evaluating every grant request that comes to the District. This committee has representatives from the California

# **PENINSULA HEALTH CARE DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011**

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Wellness Foundation, Northern California Grant Makers, San Bruno city government, the San Mateo business community, and local healthcare administration consulting. The grant's program policies, procedures and weighting criteria are reviewed annually at the start of each year's grant cycle. Areas reviewed include: community health priorities, Board funding criteria, requesting organizations' strength, stability, track record of collaboration and achievement; and funding objectives and measures. The committee is advisory to the Board on all grants >\$5,000. Grants of \$5,000 or less are evaluated by the CEO and funded out of the CEO Discretionary Fund. Given the growing number of requests in FY 2011, the committee recommended and the Board approved an increase in the CEO Discretionary Fund up to \$50,000, \$15,000 over the prior year amount. Oversight of the use of the Discretionary Fund is provided by the District Director who chairs the Community Health Investment Committee.; a summary report of all CEO Fund expenditures is also provided to the committee for review and comment.

A major focus of the Board this past fiscal year and going forward into the new one is setting its long term vision for the development of the 5 acres of District land that will revert back to the Board's use when the old hospital is taken down. Skilled nursing, acute rehabilitation, long term care, assisted living, and dementia care – are just some of the facility needs under review. Any one of these will be expensive to build and operate, either independently or in partnership. As the Board assesses the urgent funding requests for safety net services today, it remains focused on these other program needs that will take time to address and will only grow in demand over the next five years and beyond.

Another significant challenge is the national Affordable Care Act of 2010. It will have a profound impact on the demand for services while straining funding sources and workforce availability to address the needs. As proposed, 70,000 San Mateo County residents will be newly insured effective 1/1/14 and will have access to primary care beyond just the safety net providers such as the County Health System. This should have a positive impact on the overall health of the community; however, there is much work ahead to prepare for full implementation in 2014. Examples of challenges include: shortage of primary care physicians, geographic mal-distribution of specialists, increased financial burden on employers which may decrease covered benefits, projected shortage of nurses and other healthcare workers in 2014, and the significant number of illegal residents in this County that will remain uncovered.

### **In Summary**

The District Board and Management provide committed, competent leadership over the real and financial assets of the District, while engaging actively with community health partners in identifying and addressing the health needs of its residents.

### **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, 2011**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Investments	\$ 43,033,039	\$ 250,449	\$ 43,283,488
Interest Receivable	162,393	-	162,393
Property Taxes Receivable	139,482	-	139,482
Prepaid Expense	30,358	-	30,358
Total Current Assets	<u>43,365,272</u>	<u>250,449</u>	<u>43,615,721</u>
<b>Property, Plant, and Equipment - Net</b>			
Depreciable	-	2,643,125	2,643,125
Non-Depreciable	-	9,181,102	9,181,102
Total Property, Plant, and Equipment - Net	<u>-</u>	<u>11,824,227</u>	<u>11,824,227</u>
<b>Other Assets</b>			
Deposits	-	52,361	52,361
Total Assets	<u>43,365,272</u>	<u>12,127,037</u>	<u>55,492,309</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts Payable	20,578	14,249	34,827
Accrued Payroll	12,608	-	12,608
Deferred Revenues	-	277,845	277,845
Total Current Liabilities	<u>33,186</u>	<u>292,094</u>	<u>325,280</u>
<b>Noncurrent Liabilities</b>			
Tenant Deposits	-	10,716	10,716
Total Liabilities	<u>33,186</u>	<u>302,810</u>	<u>335,996</u>
<b>NET ASSETS</b>			
Invested in Capital Assets	-	11,824,227	11,824,227
Unrestricted	43,332,086	-	43,332,086
Total Net Assets	<u>\$ 43,332,086</u>	<u>\$ 11,824,227</u>	<u>\$ 55,156,313</u>

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

**PENINSULA HEALTH CARE DISTRICT**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>	<b>Net (Expenses) Revenues and Changes in Net Assets</b>		
		<b>Charges for Services and Sales</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Governmental Activities:</b>					
Community Grants	\$ 1,846,577	\$ -	\$ (1,846,577)	\$ -	\$ (1,846,577)
General Administration:					
Administrative Personnel	371,553	-	(371,553)	-	(371,553)
Tax Administration Fee	34,108	-	(34,108)	-	(34,108)
Communication	106,528	-	(106,528)	-	(106,528)
Legal Fees	66,041	-	(66,041)	-	(66,041)
Promotion	49,050	-	(49,050)	-	(49,050)
Rent	16,725	-	(16,725)	-	(16,725)
Other	232,280	-	(232,280)	-	(232,280)
<b>Total Governmental Activities</b>	<b>2,722,862</b>	<b>-</b>	<b>(2,722,862)</b>	<b>-</b>	<b>(2,722,862)</b>
<b>Business Type Activities:</b>					
Leasing	-	1,926,728	-	1,926,728	1,926,728
Gain from Sale of Property	-	147,657	-	147,657	147,657
Depreciation	2,344,004	-	-	(2,344,004)	(2,344,004)
Legal Fees	15,041	-	-	(15,041)	(15,041)
Property Expenses	27,932	-	-	(27,932)	(27,932)
<b>Total Business Activities</b>	<b>2,386,977</b>	<b>2,074,385</b>	<b>-</b>	<b>(312,592)</b>	<b>(312,592)</b>
<b>Total Primary Government</b>	<b>\$ 5,109,839</b>	<b>\$ 2,074,385</b>	<b>(2,722,862)</b>	<b>(312,592)</b>	<b>(3,035,454)</b>
General Revenues:					
Property Taxes			4,241,883	-	4,241,883
Interest Earnings			397,073	-	397,073
Realized and Unrealized Investment Gains			58,422	-	58,422
Other			34,814	-	34,814
Transfers Between Funds			(4,604,043)	4,604,043	-
<b>Subtotal - General Revenue</b>			<b>128,149</b>	<b>4,604,043</b>	<b>4,732,192</b>
<b>Change in Net Assets</b>			<b>(2,594,713)</b>	<b>4,291,451</b>	<b>1,696,738</b>
<b>Net Assets - Beginning of Year</b>			<b>45,926,799</b>	<b>7,532,776</b>	<b>53,459,575</b>
<b>Net Assets - End of Year</b>			<b>\$ 43,332,086</b>	<b>\$ 11,824,227</b>	<b>\$ 55,156,313</b>

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

**PENINSULA HEALTH CARE DISTRICT**

**GOVERNMENTAL FUND  
BALANCE SHEET  
JUNE 30, 2011**

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	<u><b>General Fund</b></u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and Investments	\$ 43,033,039
Interest Receivable	162,393
Property Taxes Receivable	139,482
Prepaid Expense	30,358
Total Assets	<u><u>\$ 43,365,272</u></u>
 <b>LIABILITIES AND FUND BALANCE</b>	
<b>Current Liabilities</b>	
Accounts Payable	\$ 20,578
Accrued Payroll	12,608
Total Liabilities	<u>33,186</u>
<b>Fund Balance</b>	
Assigned and Reserved for Future Capital Needs	43,332,086
Total Liabilities and Fund Balance	<u><u>\$ 43,365,272</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, 2011**

---

	<u>General Fund</u>
<b>Revenues</b>	
Tax Revenue	\$ 4,241,883
Interest Earnings	397,073
Realized and Unrealized Investment Gains	58,422
Other Revenue	34,814
Total Revenues	<u>4,732,192</u>
<b>Expenditures</b>	
Community Grants	1,846,577
General Administration:	
Administrative Personnel	371,553
Tax Administration Fee	34,108
Communications	106,528
Legal Fees	66,041
Promotion	49,050
Rent	16,725
Other	232,280
Total Expenditures	<u>2,722,862</u>
Excess of Revenue Over Expenditures	<u>2,009,330</u>
Transfers Out	<u>(4,604,043)</u>
Net Change in Fund Balance	(2,594,713)
Fund Balance - Beginning of Year	<u>45,926,799</u>
Fund Balance - End of Year	<u>\$ 43,332,086</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, 2010**

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	<b>Business-Type Activities Enterprise Fund Leasing</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and Investments	\$ 250,449
<b>Property, Plant, and Equipment - Net</b>	
Depreciable	2,643,125
Non-Depreciable	9,181,102
Total Property, Plant, and Equipment - Net	<u>11,824,227</u>
<b>Other Assets</b>	
Deposits	52,361
Total Assets	<u>12,127,037</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts Payable	14,249
Deferred Revenues	277,845
Total Current Liabilities	<u>292,094</u>
<b>Noncurrent Liabilities</b>	
Tennant Deposits	10,716
Total Liabilities	<u>302,810</u>
<b>NET ASSETS</b>	
Invested in Capital Assets	11,824,227
Total Net Assets	<u>\$ 11,824,227</u>

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

**PENINSULA HEALTH CARE DISTRICT**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND**

**NET ASSETS**

**PROPRIETARY FUND**

**YEAR ENDED JUNE 30, 2011**

---

	<b>Business-Type Activities Enterprise Fund Leasing</b>
<b>Operating Revenues</b>	
Leasing Income	\$ 1,926,728
<b>Operating Expenses</b>	
Depreciation	2,344,004
Legal Fees	15,041
Property Expenses	27,932
Total Operating Expenditures	<u>2,386,977</u>
Operating Loss	(460,249)
<b>Other Revenues</b>	
Gain from Sale of Property	<u>147,657</u>
Net Loss	(312,592)
Transfers In	<u>4,604,043</u>
Change in Net Assets	4,291,451
Net Assets - Beginning of Year	<u>7,532,776</u>
Net Assets - End of Year	<u><u>\$ 11,824,227</u></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, 2011**

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	<b><u>Business-Type Activities Enterprise Fund</u></b>
<b>Cash Flows from Operating Activities:</b>	
Leasing Income	\$ 1,939,943
Legal Fees	(7,302)
Property Expenses	(24,031)
Deposits Received	10,716
Deposits Paid	(52,361)
Net Cash Provided by Operating Activities	<u>1,866,965</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
Transfers from the General Fund	4,604,043
<b>Cash Flows from Capital Financing Activities</b>	
Sale of Property	155,758
Purchases of Property	(6,643,556)
Net Cash Used in Capital Financing Activities	<u>(6,487,798)</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(16,790)
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>267,239</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u><u>\$ 250,449</u></u>
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>	
Loss from Operations	\$ (460,249)
Depreciation adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities	2,344,004
Increase in Deposits Paid	(52,361)
Increase in Accounts Payable	11,640
Increase in Deferred Revenues	13,215
Increase in Deposits Held	10,716
Net Cash Provided by Operating Activities	<u><u>\$ 1,866,965</u></u>

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

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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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, 2011

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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. 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 used 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, 2011

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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, 2011, 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 \$277,845 at June 30, 2011 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, 2011

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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. The County of San Mateo remits taxes based on assessed valuations under the Teeter Plan, therefore, taxes receivable, uncollectible, or deferred do not affect the distribution to the District. The County remits all taxes due to the District when due, or within 60 days of year end.

### 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, 2011, are classified in the accompanying financial statements as follows:

Governmental Activities	\$ 43,033,039
Business-Type Activities	<u>250,449</u>
Total Deposits and Investments	<u><u>\$ 43,283,488</u></u>

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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Deposits and investments as of June 30, 2011, consist of the following:

	Fair Value	Original Cost Basis
Cash in Banks	\$ 3,703,767	\$ 3,703,767
Investment in City National Bank	6,985,593	6,996,291
Investment in Local Agency Investment Fund	8,752,045	8,738,269
Investment in San Mateo County Pool	23,842,083	23,789,271
Total Deposits and Investments	<u>\$ 43,283,488</u>	<u>\$ 43,227,598</u>

### 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. District investments were in the County and State investment pools, and City National Bank.

**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 at market value.

**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 at market value.

**Investment in City National Bank** - The District has invested funds with City National Bank which are used primarily to purchase Treasury bonds, Government guaranteed bonds, U.S. Agency bonds, and other bonds whose ratings range from AAA to A. The investment is recorded at market value.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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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 and City National Bank.

**PENINSULA HEALTH CARE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

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.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity in Years</u>
City National Bank	\$ 6,985,593	2.8
San Mateo County Pool	23,842,083	1.5
Local Agency Investment Pool	8,752,045	0.7
Total	<u>\$ 39,579,721</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 rated. The following schedule presents the credit risk of the District:

<u>Investment Type</u>	<u>Fair Value</u>	<u>S&amp;P Rating</u>
San Mateo County Pool	\$ 23,842,083	Unrated
Local Agency Investment Fund	8,752,045	Unrated
Money Market Funds	38,997	Unrated
U.S. Government Bonds & Notes	572,120	AAA
Government Guaranteed Bonds	1,223,742	AAA
U.S. Agencies	2,540,489	AAA
Corporate Bonds - Domestic	211,564	AA
Foreign Bonds	217,344	AA
Municipal Bonds	152,310	AA
U.S. Agencies	445,085	A
Corporate Bonds - Domestic	1,359,786	A
Foreign Bonds	224,156	A
Total	<u>\$ 39,579,721</u>	

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### **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, 2011, the District's bank balance of \$3,765,632 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, 2011**

**NOTE 3 – CAPITAL ASSETS**

Activity in capital assets for the year ended June 30, 2011 was as follows:

<b>Capital Assets</b>	<b>July 1, 2010</b>	<b>Additions</b>	<b>Retirements</b>	<b>June 30, 2011</b>
Land	\$ 4,669,958	\$ 4,912,129	\$ 400,985	\$ 9,181,102
Land Improvements	731,046	-	731,046	-
Buildings and Improvements	58,412,125	1,731,426	57,014,531	3,129,020
Equipment	21,160,795	-	19,450,019	1,710,776
	<u>84,973,924</u>	<u>6,643,555</u>	<u>77,596,581</u>	<u>14,020,898</u>
<b>Accumulated Depreciation</b>				
Land Improvements	731,046	-	731,046	-
Buildings and Improvements	55,762,377	2,169,694	57,446,176	485,895
Equipment	20,947,725	174,308	19,411,257	1,710,776
	<u>77,441,148</u>	<u>2,344,002</u>	<u>77,588,479</u>	<u>2,196,671</u>
Capital Assets - Net	<u>\$ 7,532,776</u>	<u>\$ 4,299,553</u>	<u>\$ 8,102</u>	<u>\$ 11,824,227</u>

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 assigned by the Board for future capital and contingent liabilities in accordance with the 2007-2010 Strategic Plan discussed in Note 7.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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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.

With the completion and availability for use of the new hospital, 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 five additional buildings to various tenants. 1600 Trousdale is currently being leased on a month to month basis. 1875 Trousdale is leased under a December 23, 2008 agreement with an initial five (5) year term and three options for one year each. 430 El Camino Real is leased under a November 1, 2008 agreement with an initial five (5) year term and two options for five years each. 1740 Marco Polo is being leased to ten separate parties with various agreement dates and terms. 1720 Marco Polo, which was purchased July 8, 2011 is being leased to six separate parties with various agreement dates and terms.

**PENINSULA HEALTH CARE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

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>430</u>	<u>1740</u>	<u>1720</u>	<u>Totals</u>
	<u>Trousdale</u>	<u>Trousdale</u>	<u>Trousdale</u>	<u>El Camino</u> <u>Real</u>	<u>Marco</u> <u>Polo</u>	<u>Marco</u> <u>Polo</u>	
2011	\$ 151,069	\$ 157,021	\$ 1,587,778	\$ 23,342	\$ 7,518	\$ -	\$ 1,926,728
2012	24,000	158,580	1,587,778	175,064	159,376	239,868	2,344,666
2013	-	105,720	1,587,778	175,064	146,717	80,836	2,096,115
2014	-	-	1,587,778	58,355	88,846	55,804	1,790,783
2015	-	-	1,587,778	-	19,071	17,666	1,624,515
2016	-	-	1,587,778	-	-	2,666	1,590,444
2017-2021	-	-	7,938,890	-	-	-	7,938,890
2022-2026	-	-	7,938,890	-	-	-	7,938,890
2027-2031	-	-	7,938,890	-	-	-	7,938,890
2032-2036	-	-	7,938,890	-	-	-	7,938,890
2037-2041	-	-	7,938,890	-	-	-	7,938,890
Thereafter	-	-	32,549,449	-	-	-	32,549,449

**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 fails to complete the 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 \$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.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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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.

### **Board Reserve for Contingencies.**

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. The Strategic Plan was reviewed during the current year and no changes were considered necessary.

### **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, 2011 the District has determined that three grants were in default amounting to \$12,394. During the year the District recovered \$8,330 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, 2011

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### NOTE 9 – RETIREMENT PLAN

The District contracted with the California Public Employees' Retirement System (CalPERS) during the current year and began contributions to the plan in October 2009.

#### **Plan Description.**

CalPERS is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issue a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

The District has elected a 2 percent at 60 modified formula and 3 percent cost of living adjustment plan. In addition to currently active employees, 92 past employees who had previously been covered by CalPERS under a previous District plan and one current employee who had been covered by another employer CalPERS plan, are covered under the current plan which resulted in an actuarially determined unfunded liability of \$85,000. The unfunded liability will be amortized by District contributions over the period ending 2021. District employees contribute 7 percent to the retirement plan.

#### **Funding Policy**

The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the current fiscal year was 15.949 percent of covered payroll which included 3.89 percent to amortize the unfunded liability. These rates are subject to change based upon assumptions and demographic changes in July 2012. The District's contribution to CalPERS for the fiscal years ending June 30, 2011 was \$39,267 and equaled 100 percent of the required contributions.

### NOTE 10 - LITIGATION

The District is the sole remaining 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's challenges to that ground lease transaction have been defeated. In the only remaining claim, Plaintiff seeks a declaration that the expenditures for the 2006 campaign materials were improper and seeks attorney's fees.

# **PENINSULA HEALTH CARE DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

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The District 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 trial court denied the motion. The District appealed, and the matter is before the Court of Appeal. Estimation of the likelihood of an unfavorable outcome of this litigation would be unduly 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. The District could be awarded some of its legal fees if it prevails on the pending special motion to strike. Under FAS 5 the amount is not measurable and thus no liability is recorded.

### **NOTE 11 – COMMITMENTS**

The District has approved \$549,318 in grants to community organizations for funding during the 2011-2012 fiscal year.

### **NOTE 12 – SUBSEQUENT EVENT**

On July 8, 2011 the District purchased real property located at 1720 Marco Polo Way, Burlingame CA for a purchase price of \$3,000,000. The property had six existing tenants whose leases were assigned to the District. The expected rental revenue is included in Note 5.

**Required Supplementary Information**

**PENINSULA HEALTH CARE DISTRICT**

**GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
JUNE 30, 2011**

	<b>Budgetary Amounts</b>		<b>Variance</b>
	<b><u>Original and Final</u></b>	<b><u>Actual</u></b>	<b><u>Favorable</u></b>
			<b><u>(Unfavorable)</u></b>
<b>Revenues</b>			
Tax Revenue	\$ 4,250,000	\$ 4,241,883	\$ (8,117)
Interest an Investment Earnings	294,072	455,495	161,423
Other Revenue	32,300	34,814	2,514
Total Revenues	<u>4,576,372</u>	<u>4,732,192</u>	<u>155,820</u>
<b>Expenditures</b>			
Grants	2,150,000	1,846,577	303,423
Administrative Personnel	354,000	371,553	(17,553)
Tax Administration Fees	35,000	34,108	892
Communications	85,000	106,528	(21,528)
Legal Fees	50,000	66,041	(16,041)
Promotion	75,000	49,050	25,950
Rent	22,000	16,725	5,275
Other	476,910	232,280	244,630
Total Expenditures	<u>3,247,910</u>	<u>2,722,862</u>	<u>525,048</u>
<b>Excess Revenue Over Expenditures</b>	1,328,462	2,009,330	680,868
<b>Transfer From Other Funds</b>	<u>(4,604,043)</u>	<u>(4,604,043)</u>	<u>-</u>
<b>Excess of Revenue Over Expenditures and</b>			
<b>Transfers To Other Funds</b>	(3,275,581)	(2,594,713)	680,868
<b>Fund Balance - Beginning of Year</b>	<u>45,926,799</u>	<u>45,926,799</u>	<u>-</u>
<b>Fund Balance - End of Year</b>	<u><u>\$ 42,651,218</u></u>	<u><u>\$ 43,332,086</u></u>	<u><u>\$ 680,868</u></u>

## **Supplementary Information**

**PENINSULA HEALTH CARE DISTRICT**

**PROPRIETARY FUND  
BUDGETARY COMPARISON SCHEDULE  
JUNE 30, 2011**

	<b>Budgetary Amounts</b>		<b>Variance</b>
	<b><u>Original and Final</u></b>	<b><u>Actual</u></b>	<b><u>Favorable</u></b> <b><u>(Unfavorable)</u></b>
<b>Revenues</b>			
Leasing Income	\$ 1,970,728	\$ 1,926,728	\$ (44,000)
Gain from Sale of Property	-	147,657	147,657
Total Revenues	<u>1,970,728</u>	<u>2,074,385</u>	<u>103,657</u>
<b>Expenses</b>			
Depreciation	2,344,004	2,344,004	-
Legal Fees	80,000	15,041	64,959
Property Expenses	50,000	27,932	22,068
Total Expenses	<u>2,474,004</u>	<u>2,386,977</u>	<u>87,027</u>
<b>Excess Expenses Over Revenue</b>	<u>(503,276)</u>	<u>(312,592)</u>	<u>190,684</u>
<b>Transfer to Other Funds *</b>	<u>4,604,043</u>	<u>4,604,043</u>	<u>-</u>
<b>Excess of Revenue Over Expenses and</b>			
<b>Transfers From Other Funds</b>	4,100,767	4,291,451	190,684
<b>Fund Balance - Beginning of Year</b>	<u>7,532,776</u>	<u>7,532,776</u>	<u>-</u>
<b>Fund Balance - End of Year</b>	<u>\$ 11,633,543</u>	<u>\$ 11,824,227</u>	<u>\$ 190,684</u>

\* The District does not budget transfers.

**PENINSULA HEALTH CARE DISTRICT**

**ALL FUNDS  
BUDGETARY COMPARISON SCHEDULE  
JUNE 30, 2011**

	<b>Budgetary Amounts</b>		<b>Favroable</b>
	<b><u>Original and Final</u></b>	<b><u>Actual</u></b>	<b><u>(Unfavorable)</u></b>
<b>Revenues</b>			
Tax Revenue	\$ 4,250,000	\$ 4,241,883	\$ (8,117)
Leasing Income	1,970,728	1,926,728	(44,000)
Interest and Investment Earnings	294,072	455,495	161,423
Gain from Sale of Property	-	147,657	147,657
Other Revenue	32,300	34,814	2,514
Total Revenues	<u>6,547,100</u>	<u>6,806,577</u>	<u>259,477</u>
<b>Expenditures</b>			
Grants	2,150,000	1,846,577	303,423
Depreciation	2,344,004	2,344,004	-
Administrative Personnel	354,000	371,553	(17,553)
Tax Administration Fees	35,000	34,108	892
Communications	85,000	106,528	(21,528)
Legal Fees	130,000	81,082	48,918
Promotion	75,000	49,050	25,950
Property Expenses	50,000	27,932	22,068
Rent	22,000	16,725	5,275
Other	476,910	232,280	244,630
Total Expenditures	<u>5,721,914</u>	<u>5,109,839</u>	<u>612,075</u>
<b>Excess Expenditures Over Revenue</b>	825,186	1,696,738	871,552
<b>Fund Balance - Beginning of Year</b>	<u>53,459,575</u>	<u>53,459,575</u>	-
<b>Fund Balance - End of Year</b>	<u>\$ 54,284,761</u>	<u>\$ 55,156,313</u>	<u>\$ 871,552</u>

## **Compliance**

**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, 2011, which collectively comprise the Peninsula Health Care District's basic financial statements and have issued our report thereon dated October 19, 2011. 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 deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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.

Palo Alto, California  
October 19, 2011