



November 14, 2013

The Board of Directors of the  
Peninsula Healthcare District

We have audited the financial statements of the Peninsula Health Care District (the District) for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 12, 2013. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 2 to the financial statements. The District adopted Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective July 1, 2012.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting District's financial statements were:

Management's estimates used in: fair values of investments, depreciation expense and the valuation of capital assets. We evaluated the key factors and assumptions used to develop these estimates in determining that they appeared reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 2, 2013.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

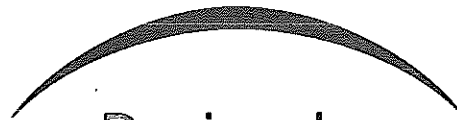
Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. This information is intended solely for the use of governing board and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*Vavrinck, Trine, Day & Co. LLP*

Palo Alto, California  
December 2, 2013



Peninsula  
Health Care  
District

**Annual Financial Report**

**For the Year Ended  
June 30, 2013**

# PENINSULA HEALTH CARE DISTRICT

## TABLE OF CONTENTS

JUNE 30, 2013

---

	<u>Page Number</u>
I. Independent Auditor's Report	1-2
II. Management's Discussion and Analysis	3-10
III. Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements	
Governmental Fund – Balance Sheet	13
Governmental Fund – Statement of Revenues, Expenditures and Changes in Fund Balance	14
Proprietary Fund – Statement of Net Position	15
Proprietary Fund – Statement of Revenues, Expenses and Changes in Fund Net Position	16
Proprietary Fund – Statement of Cash Flows	17
Notes to Financial Statements	18-30
IV. Required Supplementary Information	
General Fund – Budgetary Comparison Schedule	32
V. Supplementary Information	
Proprietary Fund – Budgetary Comparison Schedule	34
All Funds – Budgetary Comparison Schedule	35
VI. Compliance	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	37-38



## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Peninsula Health Care District  
Burlingame, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Peninsula Health Care District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the such as management's discussion and analysis and the General Fund budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Proprietary Fund and all funds budgetary comparison information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Proprietary Fund and all funds budgetary comparison information are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Proprietary Fund and all funds budgetary comparison information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Vavrinek, Trine, Day & Co. LLP*

Palo Alto, California  
December 2, 2013

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

---

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, 2013. This information is presented in conjunction with the audited financial statements that follow this section.

### FINANCIAL HIGHLIGHTS

- The District's current assets increased by \$744 thousand
- The District's net capital assets increased by \$269 thousand
- The District's current liabilities increased by \$542 thousand
- The District's governmental fund balance increased by \$201 thousand
- The District's total net position increased by \$471 thousand

### 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 Position 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 Position, Statement of Revenues, Expenses and Changes in Fund Net Position, 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 Position 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.

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

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

---

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, 2013

---

### 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 Position 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 are taken into account regardless of when cash is received or paid.
- The Balance Sheets/Statement of Net Position 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 Position 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, and capital and non-capital activities for the proprietary fund.

### STATEMENT OF NET POSITION

	2012-2013	2011-2012	Dollar Change	Percent Change
Current Assets	\$ 45,265,015	\$ 44,520,818	\$ 744,197	1.67%
Capital Assets	15,260,506	14,991,210	269,296	1.80%
Total Assets	<u>60,525,521</u>	<u>59,512,028</u>	<u>1,013,493</u>	1.70%
Current Liabilities	902,665	360,263	542,402	150.56%
Noncurrent Liabilities	23,845	23,375	470	2.01%
Total Liabilities	<u>926,510</u>	<u>383,638</u>	<u>542,872</u>	141.51%
Invested in Capital Assets	15,260,506	14,991,210	269,296	1.80%
Unrestricted	44,338,505	44,137,180	201,325	0.46%
Total Net Position	<u>\$ 59,599,011</u>	<u>\$ 59,128,390</u>	<u>\$ 470,621</u>	0.80%

There was positive growth in Current, Capital, and Total Net Position. The increase in Current Liabilities includes mostly the accrued costs of the work to date in planning for the construction of the District's assisted living and memory care facility, and also the commitment to the 3-year Healthy Schools special funding initiative.

**PENINSULA HEALTH CARE DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

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

	2012-2013	2011-2012	Dollar Change	Percent Change
<b>Revenues</b>				
Tax Revenue	\$ 4,839,003	\$ 4,429,525	\$ 409,478	9.24%
Lease Income	2,396,870	2,446,932	(50,062)	-2.05%
Interest and Investment Earnings	388,493	315,436	73,057	23.16%
Realized and Unrealized Investment Ga	(300,825)	206,721	(507,546)	-245.52%
Other Revenue	13,550	41,315	(27,765)	-67.20%
<b>Total Revenue</b>	<b>7,337,091</b>	<b>7,439,929</b>	<b>(102,838)</b>	<b>-1.38%</b>
<b>Expenses</b>				
Administrative Personnel	419,421	366,916	52,505	14.31%
Tax Administrative Fee	36,636	31,398	5,238	16.68%
Communications	114,172	140,557	(26,385)	-18.77%
Depreciation	218,066	225,102	(7,036)	-3.13%
Grants	1,992,190	2,100,120	(107,930)	-5.14%
Legal Fees	61,636	52,585	9,051	17.21%
Promotion	40,213	31,315	8,898	28.41%
Property Expenses	407,443	343,497	63,946	18.62%
Other	255,393	176,362	79,031	44.81%
Special Board Initiatives Cost	3,321,300	-	3,321,300	100.00%
<b>Total Expenses</b>	<b>6,866,470</b>	<b>3,467,852</b>	<b>3,398,618</b>	<b>98.00%</b>
Change in Net Position	470,621	3,972,077	(3,501,456)	-88.15%
Net Position beginning of Year	59,128,390	55,156,313	3,972,077	7.20%
Net Position End of Year	<b>\$ 59,599,011</b>	<b>\$ 59,128,390</b>	<b>\$ 470,621</b>	<b>0.80%</b>

**REVENUES**

**Total Revenues** decreased 1.4% from the prior year due to the change in market value of the managed fund portfolios. This resulted in a net Realized & Unrealized Investment Loss of \$301 thousand which reduced net investment earnings to \$88 thousand.

- **Tax Revenues** are levied by San Mateo County on the District's behalf and are available to help finance the District's activities. Amounts are levied on the basis of the most current assessed values of taxable property on record with San Mateo County. Tax Revenues represented approximately 66% of the District's financial support for fiscal year 2013 and were up 9.2% from the prior year and 5.2% over budget due to \$350 thousand from the redistribution of Redevelopment tax revenues and a slight increase in regular ad valorem property taxes.
- **Interest and Investment Earnings** were 83.2% behind prior year due to the reduced value of managed portfolios and the continued low interest earnings from all four District managed funds: LAIF, San Mateo

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

---

Pooled Fund, City National Bank and Fiduciary Trust. There was a positive pick up of \$79 thousand from Lehman settlement payments.

- **Lease Income** represents lease revenue received by the District from the lease of land and five buildings owned by the District. Lease income represented approximately 32.7% of the District's financial support for fiscal year 2013 and was down 2.0% from the prior fiscal year as a result of tenant turnover, more competitive lease rates for Class C medical/dental office space in the 1740 Marco Polo building, and the retention of 1,500 vacant square feet in 1740 Marco Polo for the relocation of the District office in May 2014.

### EXPENSES

Total Expenses increased 98.0% over the prior year due to two Special Board Initiatives totaling \$3.32 million that provided community funding over and above the annual grants program. The two special initiatives were: County Access to Care for Everyone (ACE) Program to which the Board committed \$4.6 million over the fiscal years 2013 and 2014 to provide comprehensive health services to indigent residents; and the Healthy Schools Initiative to which the Board committed \$4.0 million paid out over fiscal years 2013, 2014, and 2015 to provide funding for school wellness coordinators, nurses, counselors and physical education instructors serving thirty-nine K-8 schools and more than 20,000 children and families within the District's boundaries.

It is more relevant in analyzing management's performance to compare expenses without the Special Initiatives and the Depreciation Expense. When both are removed from fiscal year 2013 and compared to fiscal year 2012 minus Depreciation, total expenditures in fiscal year 2013 increased \$90 thousand or 2.7%.

Fiscal year 2013 (in millions): \$6.866 - (\$3.321 + \$0.218)	=	\$3.33
Fiscal year 2012 (in millions): \$3.468 - \$0.225	=	<u>3.24</u>
Increase (in millions) (minus Depreciation and Special Initiatives)		\$0.09

The areas of material **Increased Expense** over the prior year were in the following categories:

- Administration and Overhead: \$53 thousand due to increased costs for health benefits, CalPERS pension employer contribution, and staff salary increases of 2%. In June 2013, the District researched and selected a new provider for Dental, Vision and Life benefits that will lower the costs for those three benefits by more than 40% in fiscal year 2014. Effective July 1, 2013, CalPERS Pension Program reduced the District's employer contribution from 22% of all employee base salaries to less than 15% for the CEO and less than 6% for non-exempt staff.
- Property Expenses: \$64 thousand: for architectural services and a traffic flow/parking study for the master plan/health-focused campus development.
- Other: \$79 thousand over prior year due to consulting services for the review of the Board's Long Term Financial Policy and the upgrading/updating the District website.

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

### BUDGET

Actual performance was \$1.2 million favorable to budget. [The "All Funds Budgetary Comparison Schedule" can be found in the Supplementary Information section of this report.]

Total Revenues were \$129 thousand below budget, due to the disappointing performance of Investments and Investment Earnings discussed earlier.

Total Expenses were \$1.3 million below budget. This was the result of \$1.43 million not used as budgeted netted against \$141 thousand of expense over the final budget primarily due to Consulting and Other Property Expenses approved mid-year, including extension of the HGA contract for master planning, Fehr & Peers Traffic Study, and Verite Consulting to conduct a review of the Long Term Financial Strategy and Policy.

Funds not used as anticipated included:

Grants:	\$ 158,000 (MD Recruitment relocation loan; available through September 30, 2013)
Other:	296,000 (Election costs not used; incumbents ran unopposed.)
Initiatives:	500,000 (Lesley Housing project delayed; no call on funds in fiscal year 2013)
	480,000 (Healthy Schools ramp up slower than anticipated.)
	\$1,434,800 Budgeted Expense not utilized

### SUMMARY OF PERFORMANCE TO BUDGET:

Total Change in Net Position was \$689 thousand or 173% positive to budget due to the budgeted funds not used as listed above. The Board's strategic and financial objectives were carried out through investments to address community health priorities (Annual Grant Program and Special Funding Initiatives), progress in establishing an assisted living and memory care facility, planning for the development of a health-focused campus on District-owned land, and effective management of variable expenses to achieve overall target performance.

### CAPITAL ASSETS

	2012-2013	2011-2012	Dollar Change	Percent Change
Land and Improvements	\$ 11,297,698	\$ 11,297,698	\$ -	0.00%
Building and Improvements	4,891,871	4,404,509	487,362	11.07%
Equipment	1,710,776	1,710,776	-	0.00%
Subtotal	17,900,345	17,412,983	487,362	2.80%
Less Accumulated Depreciation	2,639,839	2,421,773	218,066	9.00%
Capital Assets - Net of Depreciation	\$ 15,260,506	\$ 14,991,210	\$ 269,296	1.80%

**Building and Improvements** The increase includes the capitalized costs for research, planning, and development activities in preparation to construct an assisted living and memory care facility on the District's land at 1600 Trousdale in Burlingame. Groundbreaking is targeted for the summer of 2014.

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

---

### ECONOMIC AND FUTURE CHALLENGES

The Board's Long Term Finance Policy ("the Policy"), established in 2007, set out a balance between spending today and saving for tomorrow's financial obligations memorialized in the 50-year Master Agreement between the District and Mills-Peninsula Health Services, a nonprofit public benefit corporation, whose sole corporate member is Sutter Health. The Policy sets parameters for the District's annual operating budget and annual targets for growth in District assets over the life of the Master Agreement. Every budget since FY 2007 has been well within these parameters and every year's performance has generated revenues over expenses that have met or exceeded targets. Fiscal year 2013 was an exception due to the Special Funding Initiatives approved by the Board to address critical health needs within the District.

The protracted economic crisis resulted in increased numbers of residents unemployed, uninsured, or underinsured. Demand for access to basic health services exceeded capacity. The District responded by approving special funding initiatives such as the County's ACE Program and the Healthy Schools Initiative. This action was approved knowing the contribution to the Fund Balance would be below the target set for June 30, 2013; however, the Ending Fund Balance did meet the target of \$59.6 million.

### Capital Projects

The District is moving forward on a number of major capital projects.

- Construction of a 124-unit Assisted Living/Memory Care Facility on District land in Burlingame
- Creation of a Dental Health Center to be operated in District-owned property in San Mateo
- Master planning for a health-focused, destination campus on eight acres of District land west of Mills-Peninsula Medical Center; programs and facilities under consideration include:
  - Skilled Nursing Facility
  - Senior independent and assisted living units
  - Medical/Dental office space.
  - Multi-generational community center

These capital projects and the annual community investments through the grants process caused the Board to launch a thorough re-assessment of its Policy. To that end, the Board engaged Verite Consulting to conduct a strategic review factoring in the current and projected economic environment, the Affordable Care Act, and the Board's property development plans. The engagement was conducted over 10 months with the final report presented at the District's June 2013 Board meeting. Verite's recommendations were incorporated into a revised Strategic Financial Policy summarized below:

Short Term – Hold off on funding any additional "special initiatives"; maintain annual grants budget at \$2 million, and continue financial analysis of funding and operating implications for various projects under review for the health-focused campus.

#### Long Term:

- Assure credit-worthiness by managing to achieve set financial ratios
- Monitor financial ratio expectations of rating agencies and adjust targeted values as needed
- Explicitly build reserves by reducing discretionary expenses under certain circumstances

# **PENINSULA HEALTH CARE DISTRICT**

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

**JUNE 30, 2013**

---

- If, in the last 25 years of the Master Agreement, the District approves a capital item for Mills-Peninsula Medical Center that will have a book value at the end of the lease, the District should escrow funds specifically to fund that future obligation.

### **IN SUMMARY**

The District's continued performance to budget, annual grant funding, special funding initiatives, master planning and property development activities, and strategic financial policy review carried out over the past year are all evidence of the Board's effective stewardship of taxpayer assets as it carries out its vision, mission and values.

### **FINANCIAL CONTACT**

This 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: Chief Executive Officer, Peninsula Health Care District, and 1600 Trousdale Drive, Suite 1210, Burlingame, CA 94010.

**PENINSULA HEALTH CARE DISTRICT**

**STATEMENT OF NET POSITION  
YEAR ENDED JUNE 30, 2013**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Investments	\$ 44,558,561	\$ 465,741	\$ 45,024,302
Interest Receivable	183,062	-	183,062
Rent and Tenant Receivable	-	28,724	28,724
Prepaid Expense	22,466	6,461	28,927
Total Current Assets	<u>44,764,089</u>	<u>500,926</u>	<u>45,265,015</u>
<b>Property, Plant, and Equipment - Net</b>			
Depreciable	-	4,009,107	4,009,107
Non-Depreciable	-	11,251,399	11,251,399
Total Property, Plant, and Equipment - Net	<u>-</u>	<u>15,260,506</u>	<u>15,260,506</u>
Total Assets	<u>44,764,089</u>	<u>15,761,432</u>	<u>60,525,521</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts Payable	413,442	198,912	612,354
Accrued Payroll	12,142	-	12,142
Deferred Revenues	-	278,169	278,169
Total Current Liabilities	<u>425,584</u>	<u>477,081</u>	<u>902,665</u>
<b>Noncurrent Liabilities</b>			
Tenant Deposits	-	23,845	23,845
Total Liabilities	<u>425,584</u>	<u>500,926</u>	<u>926,510</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	-	15,260,506	15,260,506
Unrestricted	44,338,505	-	44,338,505
Total Net Position	<u>\$ 44,338,505</u>	<u>\$ 15,260,506</u>	<u>\$ 59,599,011</u>

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

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

**PENINSULA HEALTH CARE DISTRICT**

**STATEMENT OF ACTIVITIES  
JUNE 30, 2013**

Functions/Programs	Expenses	Program Revenues	Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services and Sales	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>					
Community Grants	\$ 1,992,190	\$ -	\$ (1,992,190)	\$ -	\$ (1,992,190)
<b>General Administration:</b>					
Administrative Personnel	419,421	-	(419,421)	-	(419,421)
Tax Administration Fee	36,636	-	(36,636)	-	(36,636)
Communication	114,172	-	(114,172)	-	(114,172)
Legal Fees	50,319	-	(50,319)	-	(50,319)
Promotion	40,213	-	(40,213)	-	(40,213)
Other	255,393	-	(255,393)	-	(255,393)
<b>Total Governmental Activities</b>	<b>2,908,344</b>	<b>-</b>	<b>(2,908,344)</b>	<b>-</b>	<b>(2,908,344)</b>
<b>Business Type Activities:</b>					
Leasing	-	2,396,870	-	2,396,870	2,396,870
Depreciation	218,066	-	-	(218,066)	(218,066)
Legal Fees	11,317	-	-	(11,317)	(11,317)
Rental Expenses	195,346	-	-	(195,346)	(195,346)
Other Property Expenses	212,097	-	-	(212,097)	(212,097)
<b>Total Business Activities</b>	<b>636,826</b>	<b>2,396,870</b>	<b>-</b>	<b>1,760,044</b>	<b>1,760,044</b>
<b>Total Primary Government</b>	<b>\$ 3,545,170</b>	<b>\$ 2,396,870</b>	<b>(2,908,344)</b>	<b>1,760,044</b>	<b>(1,148,300)</b>
<b>General Revenues:</b>					
Property Taxes			4,839,003	-	4,839,003
Interest Earnings			388,493	-	388,493
Realized and Unrealized Investment Gains			(300,825)	-	(300,825)
Other			13,550	-	13,550
Transfers Between Funds			1,490,748	(1,490,748)	-
<b>Subtotal - General Revenue</b>			<b>6,430,969</b>	<b>(1,490,748)</b>	<b>4,940,221</b>
<b>Change in Net Position Before Special Item</b>			<b>3,522,625</b>	<b>269,296</b>	<b>3,791,921</b>
<b>Special Item:</b>					
Special Board Initiatives Cost			3,321,300	-	3,321,300
<b>Change in Net Position</b>			<b>201,325</b>	<b>269,296</b>	<b>470,621</b>
<b>Net Position - Beginning of Year</b>			<b>44,137,180</b>	<b>14,991,210</b>	<b>59,128,390</b>
<b>Net Position - End of Year</b>			<b>\$ 44,338,505</b>	<b>\$ 15,260,506</b>	<b>\$ 59,599,011</b>

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**

**GOVERNMENTAL FUND  
BALANCE SHEET  
JUNE 30, 2013**

---

	<u>General Fund</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and Investments	\$ 44,558,561
Interest Receivable	183,062
Prepaid Expense	22,466
Total Assets	<u>\$ 44,764,089</u>
 <b>LIABILITIES AND FUND BALANCE</b>	
<b>Current Liabilities</b>	
Accounts Payable	\$ 413,442
Accrued Payroll	12,142
Total Liabilities	<u>425,584</u>
<b>Fund Balance</b>	
Assigned and Reserved for Future Capital Needs	44,338,505
Total Liabilities and Fund Balance	<u>\$ 44,764,089</u>

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, 2013**

	<u>General Fund</u>
<b>Revenues</b>	
Tax Revenue	\$ 4,839,003
Interest Earnings	388,493
Realized and Unrealized Investment Gains	(300,825)
Other Revenue	13,550
Total Revenues	<u>4,940,221</u>
<b>Expenditures</b>	
Community Grants	1,992,190
General Administration:	
Administrative Personnel	419,421
Tax Administration Fee	36,636
Communications	114,172
Legal Fees	50,319
Promotion	40,213
Other	255,393
Total Expenditures	<u>2,908,344</u>
Excess of Revenue Over Expenditures	2,031,877
<b>Other Sources</b>	
Transfers In	<u>1,490,748</u>
Net Change in Fund Balance Before Special Item	3,522,625
<b>Special Item</b>	
Special Board Initiative Cost	<u>3,321,300</u>
Net Change in Fund Balance	201,325
Fund Balance - Beginning of Year	44,137,180
Fund Balance - End of Year	<u>\$ 44,338,505</u>

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

**PENINSULA HEALTH CARE DISTRICT**

**PROPRIETARY FUND  
STATEMENT OF NET POSITION  
JUNE 30, 2013**

	<b>Business-Type Activities Enterprise Fund Leasing</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and Investments	\$ 465,741
Rent and Tenant Receivable	28,724
Prepaid Expenses	6,461
Total Current Assets	<u>500,926</u>
<b>Property, Plant, and Equipment - Net</b>	
Depreciable	4,009,107
Non-Depreciable	11,251,399
Total Property, Plant, and Equipment - Net	<u>15,260,506</u>
Total Assets	<u>15,761,432</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts Payable	198,912
Deferred Revenues	278,169
Total Current Liabilities	<u>477,081</u>
<b>Noncurrent Liabilities</b>	
Tenant Deposits	23,845
Total Liabilities	<u>500,926</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	15,260,506
Total Net Position	<u>\$ 15,260,506</u>

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

**PENINSULA HEALTH CARE DISTRICT**

**PROPRIETARY FUND**

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

**NET POSITION**

**YEAR ENDED JUNE 30, 2013**

---

	<b>Business-Type Activities Enterprise Fund Leasing</b>
<b>Operating Revenues</b>	
Leasing Income	\$ 2,396,870
<b>Operating Expenses</b>	
Depreciation	218,066
Legal Fees	11,317
Rental Expenses	195,346
Other Property Expenses	212,097
Total Operating Expenditures	<u>636,826</u>
Operating Income	1,760,044
Transfers Out	<u>(1,490,748)</u>
Change in Net Position	269,296
Net Position - Beginning of Year	14,991,210
Net Position - End of Year	<u>\$ 15,260,506</u>

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

**PENINSULA HEALTH CARE DISTRICT**

**PROPRIETARY FUND  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2012**

	<b>Business-Type Activities Enterprise Fund</b>
<b>Cash Flows from Operating Activities:</b>	
Leasing Income	\$ 2,381,819
Legal Fees	(11,317)
Rental and Other Property Expenses	(267,928)
Deposits Received	470
Net Cash Provided by Operating Activities	<u>2,103,044</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
Transfers from the General Fund	<u>(1,490,748)</u>
Net Cash Used in Noncapital Financing Activities	<u>(1,490,748)</u>
<b>Cash Flows from Capital Financing Activities</b>	
Purchases of Property	<u>(487,362)</u>
Net Cash Used in Capital Financing Activities	<u>(487,362)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	124,934
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>340,807</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 465,741</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Income from Operations	\$ 1,760,044
Depreciation adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities	218,066
Decrease in Rent Receivable	(12,939)
Increase in Prepaid Expenses	(3,101)
Increase in Accounts Payable	142,616
Decrease in Deferred Revenues	(2,112)
Increase in Deposits Held	470
Net Cash Provided by Operating Activities	<u>\$ 2,103,044</u>

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

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

---

### 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 Mills-Peninsula Medical Center 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 Mills-Peninsula Medical Center 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 position, financial position, and cash flows. 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, 2013

---

### **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 position should be reported as restricted when constraints placed on net position 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 position. The statement of changes in fund net position 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, 2013

---

### 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, 2013, 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 position. 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.** Capital 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 \$278,169 at June 30, 2013 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, 2013**

---

**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, 2013, are classified in the accompanying financial statements as follows:

Governmental Fund	\$ 44,558,561
Enterprise Fund	465,741
Total Deposits and Investments	<u>\$ 45,024,302</u>

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Deposits and Investments as of June 30, 2013 consist of the following:

	Fair Value	Original Cost Basis
Cash in Banks	\$ 255,225	\$ 255,225
Investment in City National Bank	12,872,011	12,898,298
Investment in Fiduciary Trust	4,981,253	5,043,062
Investment in Local Agency Investment Fund	4,161,015	4,159,878
Investment in San Mateo County Pool	22,754,798	22,839,637
Total Deposits and Investments	<u>\$ 45,024,302</u>	<u>\$ 45,196,100</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 investments are recorded at market value.

**Investment in Fiduciary Trust International** - The District has invested funds with Fiduciary Trust International 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 investments are recorded at market value.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

### General Authorizations

Limitations as they relate to interest rate 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 most of its funds in County and State investment pools, City National Bank, and Fiduciary Trust International.

**PENINSULA HEALTH CARE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2013**

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	\$ 12,872,011	2.8
Fiduciary Trust	4,981,253	2.2
San Mateo County Pool	22,754,798	2.0
Local Agency Investment Pool	4,161,015	0.8
Total	<u>\$ 44,769,077</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 District's 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	\$ 22,754,798	Unrated
Local Agency Investment Fund	4,161,015	Unrated
Money Market Funds	616,939	Unrated
U.S. Government Bonds & Notes	4,089,592	AAA
Corporate Bonds - Domestic	120,007	AAA
Mortgages	144,271	AAA
Government Guaranteed Bonds	355,660	AA+
U.S. Agencies	6,707,238	AA+
Corporate Bonds - Domestic	417,428	AA+
Mortgages	148,409	AA+
Corporate Bonds - Domestic	75,863	AA
Municipal Bonds	322,958	AA-
Corporate Bonds - Domestic	130,766	AA-
Foreign Bonds	547,414	AA-
Corporate Bonds - Domestic	792,142	A+
Corporate Bonds - Domestic	1,338,243	A
Corporate Bonds - Domestic	2,046,334	A-
Total	<u>\$ 44,769,077</u>	

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

---

### **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, 2013, the District's bank balance of \$424,312 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, 2013**

**NOTE 3 – CAPITAL ASSETS**

Activity in capital assets for the year ended June 30, 2013 was as follows:

<b>Capital Assets</b>	<b>June 30, 2012</b>	<b>Additions</b>	<b>Retirements</b>	<b>June 30, 2013</b>
Land	\$ 11,251,399	\$ -	\$ -	\$ 11,251,399
Land Improvements	46,299	-	-	46,299
Buildings and Improvements	4,404,509	503,211	15,849	4,891,871
Equipment	1,710,776	-	-	1,710,776
	<u>17,412,983</u>	<u>503,211</u>	<u>15,849</u>	<u>17,900,345</u>
<b>Accumulated Depreciation</b>				
Land Improvements	2,074	1,187	-	3,261
Buildings and Improvements	708,923	216,879	-	925,802
Equipment	1,710,776	-	-	1,710,776
	<u>2,421,773</u>	<u>218,066</u>	<u>-</u>	<u>2,639,839</u>
Capital Assets - Net	<u>\$ 14,991,210</u>	<u>\$ 285,145</u>	<u>\$ 15,849</u>	<u>\$ 15,260,506</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, 2013

---

### 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 became 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 eight separate parties with various agreement dates and terms. 1720 Marco Polo is being leased to five separate parties with various agreement dates and terms.

**PENINSULA HEALTH CARE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

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

Year ended	1600 Trousdale	1875 Trousdale	1501 Trousdale	430 El Camino Real	1740 Marco Polo	1720 Marco Polo	Totals
June 30,							
2013	\$ 27,985	\$ 164,379	\$ 1,660,500	\$ 175,063	\$ 234,258	\$ 134,684	\$ 2,396,869
2014	-	108,788	1,660,500	58,355	177,639	138,603	2,143,885
2015	-	-	1,660,500	-	169,479	88,843	1,918,822
2016	-	-	1,660,500	-	129,996	68,032	1,858,528
2017	-	-	1,660,500	-	35,281	53,999	1,749,780
2018	-	-	1,660,500	-	24,516	49,691	1,734,707
2019-2023	-	-	8,302,500	-	12,439	50,105	8,365,044
2024-2028	-	-	8,302,500	-	-	-	8,302,500
2029-2033	-	-	8,302,500	-	-	-	8,302,500
2034-2038	-	-	8,302,500	-	-	-	8,302,500
2039-2043	-	-	8,302,500	-	-	-	8,302,500
Thereafter	-	-	30,727,774	-	-	-	30,727,774

**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:

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.



# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

---

### Board Reserve for Contingencies

The Board addressed the contingencies created by the Master Agreement and Construction agreements with MPHS by adopting a Strategic Plan and Finance Policy in December 2007. The Policy established parameters for the annual operating budgets and set annual growth targets for the Board Reserve Fund. In 2012, this Policy was revisited in light of the District's special funding initiatives and property development activities. A revised Strategic Finance Policy was approved in July 2013 that sets out short term and long term indicators to drive operating budgets, program development, and community health investments while maintaining the District's credit-worthiness.

### 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. The MD Recruitment Program provides practice start-up or relocation assistance to recruit needed specialties into the District. In fiscal year 2013, a Forgivable Home Loan Agreement was offered to a surgical oncologist.

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, 2013 the District has determined that two grants were in default amounting to \$5,147. During the year the District recovered \$13,250 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, 2013

---

### NOTE 9 – RETIREMENT PLAN

The District contracted with the California Public Employees' Retirement System (CalPERS) 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 20.716 percent of covered payroll which included 2.256 percent to amortize the unfunded liability. These rates are subject to change based upon assumptions and demographic changes. The District's contribution to CalPERS for the fiscal years ending June 30, 2013, June 30, 2012 and June 30, 2011, were \$51,953, 31,476 and \$39,267, respectively and equaled 100 percent of the required contributions.

### NOTE 10 – COMMITMENTS

Over the next two fiscal years, 2014 and 2015, the District has special funding commitments to community organizations totaling \$9.5 million. These are in addition to the annual community grants budget of \$1.8 million for fiscal year 2014.

**Required Supplementary Information**

**PENINSULA HEALTH CARE DISTRICT**

**GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2013**

	Budgetary Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b>Revenues</b>				
Tax Revenue	\$ 4,600,000	\$ 4,600,000	\$ 4,839,003	\$ 239,003
Interest Income	405,486	405,486	388,493	(16,993)
Realized and Unrealized Investment Losses	-	-	(300,825)	(300,825)
Other Revenue	30,000	30,000	13,550	(16,450)
<b>Total Revenues</b>	<u>5,035,486</u>	<u>5,035,486</u>	<u>4,940,221</u>	<u>(95,265)</u>
<b>Expenditures</b>				
Grants	2,150,000	2,150,000	1,992,190	157,810
Administrative Personnel	408,500	408,500	419,421	(10,921)
Communications	100,000	100,000	114,172	(14,172)
Newsletter	50,000	50,000	40,213	9,787
Consulting	235,000	235,000	138,949	96,051
Legal Fees	50,000	50,000	50,319	(319)
Other	449,850	449,850	153,080	296,770
Special Board Initiatives	2,000,000	4,300,000	3,321,300	978,700
<b>Total Expenditures</b>	<u>5,443,350</u>	<u>7,743,350</u>	<u>6,229,644</u>	<u>535,006</u>
<b>Excess Revenue Over Expenditures</b>	<u>(407,864)</u>	<u>(2,707,864)</u>	<u>(1,289,423)</u>	<u>1,418,441</u>
<b>Fund Balance - Beginning of Year</b>	<u>44,137,180</u>	<u>44,137,180</u>	<u>44,137,180</u>	<u>-</u>
<b>Fund Balance - End of Year</b>	<u>\$43,729,316</u>	<u>\$ 41,429,316</u>	<u>42,847,757</u>	<u>\$ 1,418,441</u>
<b>Reconciling Items</b>				
Transfers from Other Funds			1,490,748	
<b>Ending Fund Balance - GAAP Basis</b>			<u>\$ 44,338,505</u>	

**Supplementary Information**

**PENINSULA HEALTH CARE DISTRICT**

**PROPRIETARY FUND  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2013**

	Budgetary Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
Leasing Income	\$ 2,431,000	\$ 2,431,000	\$ 2,396,870	\$ (34,130)
<b>Expenses</b>				
Legal Fees	30,000	30,000	11,317	18,683
Rental Expenses	194,500	194,500	195,346	(846)
Consulting			196,248	(196,248)
Other Expenses	-	-	15,849	(15,849)
Total Expenses	224,500	224,500	418,760	(194,260)
<b>Excess Expenses Over Revenue</b>	2,206,500	2,206,500	1,978,110	(228,390)
<b>Fund Balance - Beginning of Year</b>	14,991,210	14,991,210	14,991,210	-
<b>Fund Balance - End of Year</b>	<u>\$17,197,710</u>	<u>\$ 17,197,710</u>	16,969,320	<u>\$ (228,390)</u>
<b>Reconciling Items</b>				
Less Depreciation Expense			(218,066)	
Less Transfers to Other Funds			(1,490,748)	
Total Reconciling Items			<u>(1,708,814)</u>	
<b>Ending Fund Balance - GAAP Basis</b>			<u>\$ 15,260,506</u>	

**PENINSULA HEALTH CARE DISTRICT**

**ALL FUNDS  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2013**

	Budgetary Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b>Revenues</b>				
Tax Revenue	\$ 4,600,000	\$ 4,600,000	\$ 4,839,003	\$ 239,003
Leasing Income	2,431,000	2,431,000	2,396,870	(34,130)
Interest Income	405,486	405,486	388,493	(16,993)
Realized and Unrealized Investment Losses	-	-	(300,825)	(300,825)
Other Revenue	30,000	30,000	13,550	(16,450)
<b>Total Revenues</b>	<u>7,466,486</u>	<u>7,466,486</u>	<u>7,337,091</u>	<u>(129,395)</u>
<b>Expenditures</b>				
Grants	2,150,000	2,150,000	1,992,190	157,810
Administrative Personnel	408,500	408,500	419,421	(10,921)
Communications	100,000	100,000	114,172	(14,172)
Newsletter	50,000	50,000	40,213	9,787
Consulting	235,000	235,000	335,197	(100,197)
Legal Fees	80,000	80,000	61,636	18,364
Rental Expenses	194,500	194,500	195,346	(846)
Other Property Expenses	-	-	15,849	(15,849)
Other	449,850	449,850	153,080	296,770
Special Board Initiatives	2,000,000	4,300,000	3,321,300	978,700
<b>Total Expenditures</b>	<u>5,667,850</u>	<u>7,967,850</u>	<u>6,648,404</u>	<u>1,319,446</u>
<b>Excess Revenue Over Expenditures</b>	1,798,636	(501,364)	688,687	1,190,051
<b>Fund Balance - Beginning of Year</b>	59,128,390	59,128,390	59,128,390	-
<b>Fund Balance - End of Year</b>	<u>\$60,927,026</u>	<u>\$58,627,026</u>	59,817,077	<u>\$ 1,190,051</u>
<b>Reconciling Items</b>				
Less Depreciation Expense			(218,066)	
<b>Ending Fund Balance - GAAP Basis</b>			<u>\$ 59,599,011</u>	

## **Compliance**





**INDEPENDENT AUDITOR'S 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, 2013, which collectively comprise the Peninsula Health Care District's basic financial statements and have issued our report thereon dated December 2, 2013. 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*.

## Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinck, Trinc, Day & Co. LLP

Palo Alto, California

December 2, 2013