



**Annual Financial Report**

**For the Year Ended  
June 30, 2014**

# PENINSULA HEALTH CARE DISTRICT

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## 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 (District) as of and for the year ended June 30, 2014, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2014, 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 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.

## **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated October 13, 2014 on our consideration of the District's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

*Vavrinek, Trine, Day & Co. LLP*

Palo Alto, California

October 13, 2014

# **PENINSULA HEALTH CARE DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014**

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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, 2014. This information is presented in conjunction with the audited financial statements that follow this section.

### **FINANCIAL HIGHLIGHTS**

- The District's current assets increased by \$3.4 million
- The District's net capital assets increased by \$1.9 million
- The District's current liabilities increased by \$138 thousand
- The District's noncurrent liabilities increased by \$4.5 million
- The District's governmental funds balance decreased by \$19.6 million
- The District's total net position increased by \$672 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, 2014

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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, 2014

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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 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

	<u>2013-2014</u>	<u>2012-2013</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	\$ 48,680,233	\$ 45,265,015	\$ 3,415,218	7.54%
Capital Assets	17,186,101	15,260,506	1,925,595	12.62%
Other Assets	230	-	230	100.00%
Total Assets	<u>65,866,564</u>	<u>60,525,521</u>	<u>5,341,043</u>	<u>8.82%</u>
Current Liabilities	1,041,018	902,665	138,353	15.33%
Noncurrent Liabilities	<u>4,554,275</u>	<u>23,845</u>	<u>4,530,430</u>	<u>18999.50%</u>
Total Liabilities	<u>5,595,293</u>	<u>926,510</u>	<u>4,668,783</u>	<u>503.91%</u>
Invested in Capital Assets	17,527,004	15,260,506	2,266,498	14.85%
Restricted	25,505,630	-	25,505,630	100.00%
Unrestricted	<u>17,238,637</u>	<u>44,338,505</u>	<u>(27,099,868)</u>	<u>-61.12%</u>
Total Net Position	<u>\$ 60,271,271</u>	<u>\$ 59,599,011</u>	<u>\$ 672,260</u>	<u>1.13%</u>

There was positive growth in Current, Capital, and Total Assets. Total Net Position increase was held to 1.1% due to the increases in Current and Noncurrent Liabilities primarily due to accrued costs and construction related expense for the District's assisted living and memory care project.

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

	2013-2014	2012-2013	Dollar Change	Percent Change
<b>Revenues</b>				
Tax Revenue	\$ 5,110,429	\$ 4,839,003	\$ 271,426	5.61%
Lease Income	2,254,602	2,396,870	(142,268)	-5.94%
Interest and Investment Earnings	342,259	388,493	(46,234)	-11.90%
Realized and Unrealized Investment Ga	427,513	(300,825)	728,338	242.11%
Other Revenue	11,209	13,550	(2,341)	-17.28%
Total Revenue	<u>8,146,012</u>	<u>7,337,091</u>	<u>808,921</u>	11.03%
<b>Expenses</b>				
Administrative and Overhead	400,942	419,421	(18,479)	-4.41%
Tax Administrative Fee	38,902	36,636	2,266	6.19%
Communications	82,778	114,172	(31,394)	-27.50%
Depreciation	114,012	218,066	(104,054)	-47.72%
Grants	2,155,295	1,992,190	163,105	8.19%
Legal Fees	57,906	61,636	(3,730)	-6.05%
Promotion	45,093	40,213	4,880	12.14%
Property Expenses	283,674	407,443	(123,769)	-30.38%
Other	108,612	255,393	(146,781)	-57.47%
Special Board Initiatives Cost	4,186,538	3,321,300	865,238	100.00%
Total Expenses	<u>7,473,752</u>	<u>6,866,470</u>	<u>607,282</u>	8.84%
Change in Net Position	672,260	470,621	201,639	42.85%
Net Position beginning of Year	59,599,011	59,128,390	470,621	0.80%
Net Position End of Year	<u>\$ 60,271,271</u>	<u>\$ 59,599,011</u>	<u>\$ 672,260</u>	1.13%

### **REVENUES**

**Total Revenues** increased 11% from the prior year due to increased tax revenues, increased values of investments, and Lehman Bros. recovery payments.

**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 within the District's boundaries in San Mateo County. Tax Revenues represented approximately 63% of the District's financial support for fiscal year 2014 and were up 5.6% from a modest increase in regular ad valorem property taxes and the District's pro rata share of the remaining redistribution of Redevelopment Agency property tax revenues.



# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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**Interest and Investment Earnings** were down from prior year due to the continued low interest earnings from LAIF and the San Mateo Pooled Fund. Board action was taken mid-year to reduce the LAIF investment from \$5 million to less than a \$1,000 due to the 0.24% return, and to launch research into the San Mateo Pooled Fund investment priorities to ensure alignment with the District's priorities and financial requirements. The San Mateo Pooled Fund held \$23 million of District cash reserves and gave a 0.65% return which was significantly below that of the other District investment managers.

**Realized and Unrealized Investment Gains** increased 242% over prior year due to the increased market values of the investments and \$254,000 of Lehman repayments.

**Lease Income** represents revenue received from the lease of 21 acres of land to MPHS on which the new Mills-Peninsula Medical Center is located, and five buildings owned by the District. Lease income represented approximately 28% of the District's financial support for fiscal year 2014 and was down 6.0%. This decrease was a result of increased vacancies due to retirement from practice by four long term tenants, 1,500 square feet being held for potential relocation of the District office to make way for the new assisted living project, and seven months of vacancy at 430 N. El Camino pending the commencement of the 10-year lease with Apple Tree Dental. Losses were mitigated by recruitment of four new tenants for the 1720 and 1740 professional office buildings.

### **EXPENSES**

**Total Expenses** increased 8.8% over the prior year due to three Special Board Initiatives totaling \$4.2 million that provided community funding over and above the annual \$2 million community grants program. The Special Funding Initiatives were: \$2.3 million for the County Access to Care for Everyone Program (ACE Adult Clinic), \$1.3 million for the Healthy Schools Initiative, and \$600 thousand for the launching of the Apple Tree Dental Care Center.

In order to analyze management's performance, it is more relevant to compare expenses without the Special Initiatives and Depreciation Expense. When both are removed from fiscal year 2014 and fiscal year 2013, total expenditures were essentially flat from fiscal 2013 to 2014 (Down by \$160 thousand).

Fiscal year 2013 (in millions): \$6.866 minus (\$3.321 + \$0.218) =	\$3.33
Fiscal year 2014 (in millions): \$7.474 minus (\$4.187 + \$0.114)	<u>\$3.17</u>
Increase (in millions) (minus Depreciation and Special Initiatives)	<\$0.16>

**Increased Expense** The two areas of material increase in fiscal year 2014 over fiscal year 2013 were in Community Grants (\$163 thousand) and Special Initiatives (\$865 thousand). For Community Grants, the difference was that the full budgeted amount was dispersed in fiscal year 2014 unlike the prior year in which a \$150,000 MD recruitment loan was not used by the physician. For the Special Initiative Funding the increase was due to greater utilization of the 3-year Healthy Schools funding in year two (2014) with all programs fully implemented, over year one (2013), wherein recruitment and ramp up time drew down available funds at a lower rate. The other contributor to the increase was the new Apple Tree Dental funding initiative that was approved in August 2013.

**Decreased Expense** Nearly all areas of expense were slightly below prior year. Two were materially below: Property Expenses were down \$124 thousand, and Other Expenses were down \$147 thousand. Both were due to a reduction of consulting expense.

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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### BUDGET

Actual Performance to Budget is summarized on the “All Funds Budgetary Comparison Schedule” found in the Supplementary Information section, Page 36, of this report.

**Total Revenues** were \$981 thousand or 13.7% favorable to budget due to increased property tax revenues, realized and unrealized investment gains, and Lehman Brothers repayments.

**Total Expenses:** Actual Expenses in all areas were below budget except in “grants” as previously discussed which resulted in Actual Total Expense performance being \$180 thousand over Budget. When the Special Initiative Funding Expense is subtracted from both Budget and Actual, net actual performance was 5.3% favorable to Budget.

### **SUMMARY OF PERFORMANCE TO BUDGET:**

**Excess Revenues Over Expenditures was \$802 thousand favorable to Budget.** This was achieved because of increased revenues and effective operating expense management.

### CAPITAL ASSETS

	2013-2014	2012-2013	Dollar Change	Percent Change
Land and Improvements	\$ 11,297,698	\$ 11,297,698	\$ -	0.00%
Building and Improvements	6,931,478	4,891,871	2,039,607	41.69%
Equipment	1,710,776	1,710,776	-	0.00%
Subtotal	19,939,952	17,900,345	2,039,607	11.39%
Less Accumulated Depreciation	2,753,851	2,639,839	114,012	4.32%
Capital Assets - Net of Depreciation	<u>\$ 17,186,101</u>	<u>\$ 15,260,506</u>	<u>\$ 1,925,595</u>	12.62%

**Building and Improvements:** The \$2 million increase in Building Improvements reflects the spending of construction funds as of June 30, 2014 for The Trousdale – the District’s assisted living/memory care project.

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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### ECONOMIC AND FUTURE CHALLENGES

#### Overview:

The District covers six cities and 206,000 of the County's 720,000 residents. Its constituents are culturally/racially diverse, with the Latino and Asian /Pacific Islander populations growing dramatically; and it is an aging population – by 2020, 25% of the population of the County will be over 65 years of age. It is also a highly educated community with 46% of the adults holding a Bachelor's Degree or Graduate Degree.

#### **Local Economy:**

The general economy of San Mateo County is improving with significant growth in technology and software jobs and the vibrant real estate market. (Median cost for a family home in San Mateo County is \$1 million). The County government and the cities within the District are all experiencing improved revenues and financial stability. The County was successful in passing a sales tax measure in November 2013 that has generated a needed source of revenue for its general fund and the County Board of Supervisors have been diligent in allocating the funds to address high priority needs – many healthcare related.

The general health of the County is also improving. The District contributed to the production of the 2013 Triennial Community Health Needs Assessment for San Mateo County. Some key findings were:

- Years of potential life lost have decreased dramatically
- Deaths from Heart Disease and Stroke have decreased dramatically
- Cancer mortality is decreasing
- Overweight has begun to decline, but obesity continues to increase
- Diabetes is up 2.5 times over the past 10 years.
- There are significant health disparities based on racial, ethnic, and financial variables

The most significant change on the healthcare access landscape was the roll out of the Accountable Care Act throughout the County. Of the estimated 83,000 uninsured prior to the ACA, >51,000 are now enrolled in new ACA health insurance coverage. The improved economy and the implementation of the ACA have reduced the economic pressure for District support of safety net services through special funding initiatives, over and above, the Board's annual commitment of \$2 million of community health investments through grants. This has allowed the Board to focus its efforts and resources on developing new facilities and services that will address near term and long term needs of its residents.

#### **District's Response:**

The Board's updated Long Term Finance Policy, approved in June 2013, guided operating decisions in fiscal year 2014 and was fully implemented in the development of the budget for fiscal year 2015. The Policy sets parameters for the District's annual operating budget and annual targets for growth of District assets to maintain financial strength and credit worthiness to meet financial obligations contained in the Master Lease Agreement with Mills-Peninsula Medical Center/Sutter Health and to carry out the Board's capital projects. The policy sets out performance benchmarks and short and long term tactics to achieve strategic objectives.

- **Benchmarks:**
  - EBIDA margin of 12% or higher
  - Excess margin of 7% or higher
  - Days Cash on Hand of 265 days or greater
  - Debt service coverage ratio 2.0 times or above

# PENINSULA HEALTH CARE DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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- **Tactics:**
  - 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

The Board established annual health priorities that guided its \$2 million community grants program. It identified gaps in care/services; addressed them through special funding initiatives approved in prior years such as the Healthy Schools and Apple Tree Dental Care Center; and incorporated demographics, trends, and health data into its capital projects and property development planning activities. The District is moving forward on a number of major capital projects:

- Construction of a 132-unit Assisted Living/Memory Care Facility on District land in Burlingame
- Creation of a Dental Health Center to be operated on District property in San Mateo
- Master planning for a health-focused campus on eight acres of District land west of Mills-Peninsula Medical Center

### **IN SUMMARY**

The District has addressed the economic challenges of the past few years through sound fiscal management while at the same time stepping up its level of investments into programs, services, and facilities that address current health priorities and the future needs of its residents.

### **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  
JUNE 30, 2014**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Investments	\$ 24,929,805	\$ 23,449,578	\$ 48,379,383
Interest Receivable	149,140	-	149,140
Property Taxes Receivable	107,934	-	107,934
Rent and Tenant Receivable	-	1,479	1,479
Prepaid Expense	14,634	27,663	42,297
Total Current Assets	<u>25,201,513</u>	<u>23,478,720</u>	<u>48,680,233</u>
<b>Property, Plant, and Equipment - Net</b>			
Depreciable	-	5,934,702	5,934,702
Non-Depreciable	-	11,251,399	11,251,399
Total Property, Plant, and Equipment - Net	<u>-</u>	<u>17,186,101</u>	<u>17,186,101</u>
<b>Other Assets</b>			
Deposits	230	-	230
Total Assets	<u>25,201,743</u>	<u>40,664,821</u>	<u>65,866,564</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts Payable	447,922	243,713	691,635
Accrued Payroll	15,184	-	15,184
Accrued Interest	-	57,449	57,449
Unearned Revenues	-	276,750	276,750
Total Current Liabilities	<u>463,106</u>	<u>577,912</u>	<u>1,041,018</u>
<b>Noncurrent Liabilities</b>			
Tenant Deposits	-	24,275	24,275
Certificates of Participation	-	4,530,000	4,530,000
Total Noncurrent Liabilities	<u>-</u>	<u>4,554,275</u>	<u>4,554,275</u>
Total Liabilities	<u>463,106</u>	<u>5,132,187</u>	<u>5,595,293</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	-	17,527,004	17,527,004
Restricted for Construction	-	18,005,630	18,005,630
Restricted for Debt Covenant	7,500,000	-	7,500,000
Unrestricted	17,238,637	-	17,238,637
Total Net Position	<u>\$ 24,738,637</u>	<u>\$ 35,532,634</u>	<u>\$ 60,271,271</u>

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

**PENINSULA HEALTH CARE DISTRICT**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program</b>	<b>Net (Expenses) Revenues and</b>		
		<b>Revenues</b>	<b>Changes in Net Position</b>		<b>Total</b>
		<b>Charges for</b>	<b>Governmental</b>	<b>Business-</b>	
		<b>Services and</b>	<b>Activities</b>	<b>Type</b>	
		<b>Sales</b>		<b>Activities</b>	
<b>Governmental Activities:</b>					
Community Grants	\$ 2,155,295	\$ -	\$ (2,155,295)	\$ -	\$ (2,155,295)
General Administration:					
Administrative and Overhead	400,942	-	(400,942)	-	(400,942)
Tax Administration Fee	38,902	-	(38,902)	-	(38,902)
Communication	82,778	-	(82,778)	-	(82,778)
Legal Fees	29,596	-	(29,596)	-	(29,596)
Promotion	45,093	-	(45,093)	-	(45,093)
Other	108,612	-	(108,612)	-	(108,612)
<b>Total Governmental Activities</b>	<b>2,861,218</b>	<b>-</b>	<b>(2,861,218)</b>	<b>-</b>	<b>(2,861,218)</b>
<b>Business Type Activities:</b>					
Leasing	-	2,254,602	-	2,254,602	2,254,602
Depreciation	114,012	-	-	(114,012)	(114,012)
Legal Fees	28,310	-	-	(28,310)	(28,310)
Rental Expenses	171,988	-	-	(171,988)	(171,988)
Other Property Expenses	111,686	-	-	(111,686)	(111,686)
<b>Total Business Activities</b>	<b>425,996</b>	<b>2,254,602</b>	<b>-</b>	<b>1,828,606</b>	<b>1,828,606</b>
<b>Total Primary Government</b>	<b>\$ 3,287,214</b>	<b>\$ 2,254,602</b>	<b>(2,861,218)</b>	<b>1,828,606</b>	<b>(1,032,612)</b>
General Revenues:					
Property Taxes			5,110,429	-	5,110,429
Interest Earnings			332,729	9,530	342,259
Realized and Unrealized Investment Gains			427,513	-	427,513
Other			11,209	-	11,209
Transfers Between Funds			(18,433,992)	18,433,992	-
<b>Subtotal - General Revenue</b>			<b>(12,552,112)</b>	<b>18,443,522</b>	<b>5,891,410</b>
<b>Change in Net Position Before Special Item</b>			<b>(15,413,330)</b>	<b>20,272,128</b>	<b>4,858,798</b>
<b>Special Item</b>					
Special Board Initiative Cost			4,186,538	-	4,186,538
<b>Change in Net Position</b>			<b>(19,599,868)</b>	<b>20,272,128</b>	<b>672,260</b>
<b>Net Position - Beginning of Year</b>			<b>44,338,505</b>	<b>15,260,506</b>	<b>59,599,011</b>
<b>Net Position - End of Year</b>			<b>\$ 24,738,637</b>	<b>\$ 35,532,634</b>	<b>\$ 60,271,271</b>

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

**PENINSULA HEALTH CARE DISTRICT**

**GOVERNMENTAL FUND  
BALANCE SHEET  
JUNE 30, 2014**

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	<u>General Fund</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and Investments	\$ 24,929,805
Interest Receivable	149,140
Property Taxes Receivable	107,934
Prepaid Expense	14,634
Total Current Assets	<u>25,201,513</u>
<b>Other Assets</b>	
Deposits	230
Total Assets	<u>\$ 25,201,743</u>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>Current Liabilities</b>	
Accounts Payable	\$ 447,922
Accrued Payroll	15,184
Total Liabilities	<u>463,106</u>
<b>Fund Balance</b>	
Restricted for Debt Covenants	7,500,000
Assigned and Reserved for Capital Requirements	17,238,637
Total Fund Balance	<u>24,738,637</u>
Total Liabilities and Fund Balance	<u>\$ 25,201,743</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

## GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2014

	<u>General Fund</u>
<b>Revenues</b>	
Tax Revenue	\$ 5,110,429
Interest Earnings	332,729
Realized and Unrealized Investment Gains	427,513
Other Revenue	11,209
Total Revenues	<u>5,881,880</u>
<b>Expenditures</b>	
Community Grants	2,155,295
General Administration:	
Administrative and Overhead	400,942
Tax Administration Fee	38,902
Communications	82,778
Legal Fees	29,596
Promotion	45,093
Other	108,612
Total Expenditures	<u>2,861,218</u>
Excess of Expenditures Over Revenue	<u>3,020,662</u>
<b>Other Use</b>	
Transfers Out	<u>(18,433,992)</u>
Net Change in Fund Balance Before Special Item	<u>(15,413,330)</u>
<b>Special Item</b>	
Special Board Initiative Cost	4,186,538
Net Change in Fund Balance	<u>(19,599,868)</u>
Fund Balance - Beginning of Year	44,338,505
Fund Balance - End of Year	<u>\$ 24,738,637</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

## PROPRIETARY FUND STATEMENT OF NET POSITION JUNE 30, 2014

	<u>Enterprise Leasing Fund</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and Investments	\$ 23,449,578
Rent and Tenant Receivable	1,479
Prepaid Expenses	27,663
Total Current Assets	<u>23,478,720</u>
<b>Property, Plant, and Equipment - Net</b>	
Depreciable	5,934,702
Non-Depreciable	11,251,399
Total Property, Plant, and Equipment - Net	<u>17,186,101</u>
Total Assets	<u>40,664,821</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts Payable	243,713
Accrued Interest	57,449
Unearned Revenues	276,750
Total Current Liabilities	<u>577,912</u>
<b>Noncurrent Liabilities</b>	
Tenant Deposits	24,275
Certificates of Participation	4,530,000
Total Noncurrent Liabilities	<u>4,554,275</u>
Total Liabilities	<u>5,132,187</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	17,527,004
Restricted for Construction	18,005,630
Total Net Position	<u>\$ 35,532,634</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

FOR THE YEAR ENDED JUNE 30, 2014

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	<u>Enterprise Leasing Fund</u>
<b>Operating Revenues</b>	
Leasing Income	\$ 2,254,602
<b>Operating Expenses</b>	
Depreciation	114,012
Legal Fees	28,310
Rental Expenses	171,988
Other Property Expenses	111,686
Total Operating Expenditures	<u>425,996</u>
Net Operating Income	1,828,606
Interest Earnings	9,530
Transfers In	<u>18,433,992</u>
Change in Net Position	20,272,128
Net Position - Beginning of Year	<u>15,260,506</u>
Net Position - End of Year	<u><u>\$ 35,532,634</u></u>

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

# PENINSULA HEALTH CARE DISTRICT

## PROPRIETARY FUND STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2014

	<u>Enterprise Leasing Fund</u>
<b>Cash Flows from Operating Activities:</b>	
Leasing Income	\$ 2,280,428
Legal Fees	(28,310)
Rental and Other Property Expenses	(260,075)
Deposits Received	430
Net Cash Provided by Operating Activities	<u>1,992,473</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
Transfers from the General Fund	18,433,992
Interest Revenue	9,530
Net Cash Used in Noncapital Financing Activities	<u>18,443,522</u>
<b>Cash Flows from Capital Financing Activities</b>	
Proceeds from Debt	4,530,000
Interest Expense	57,449
Capital Asset Acquisitions	(2,039,607)
Net Cash Provided by Capital Financing Activities	<u>2,547,842</u>
<b>Net Increase in Cash and Cash Equivalents</b>	22,983,837
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>465,741</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 23,449,578</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Income from Operations	\$ 1,828,606
Depreciation adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities	114,012
Decrease in Rent Receivable	27,245
Increase in Prepaid Expenses	(21,202)
Increase in Accounts Payable	44,801
Decrease in Unearned Revenues	(1,419)
Increase in Deposits Held	430
Net Cash Provided by Operating Activities	<u>\$ 1,992,473</u>

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

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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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 as defined in the Business and Professions Code, Section 32000. 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 financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for financial reporting.

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.

#### Blended Component Unit

The Peninsula Health Care District Financing Corporation (Corporation) was established in the current fiscal year for the purpose of providing assistance to the District in financing the acquisition, construction and improvement of public buildings, works and equipment for the District. Although legally separate from the District, the Corporation is reported as if it were part of the primary government because its sole purpose is to provide financing to the District under the debt issuance documents of the District. The operations of the Corporation are accounted for in the District's proprietary fund.

#### 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.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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**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.

### **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.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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**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.

### 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, 2014, 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

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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### Unearned Revenue

Unearned revenue arises when resources are received by the District before revenues are earned. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue is recognized. Deferred Revenue of \$276,750 at June 30, 2014 represents two months prepaid rent from Mills Peninsula Health Services (MPHS) as discussed in Note 6.

### 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.

### Property 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 January 1. Taxes are payable in two installments due December 10 and April 10. Unsecured property taxes are payable in one installment on or before August 31. 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, 2014, are classified in the accompanying financial statements as follows:

General Fund	\$ 24,929,805
Enterprise Fund	23,449,578
Total Deposits and Investments	<u>\$ 48,379,383</u>

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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Deposits and Investments as of June 30, 2014 consist of the following:

	Fair Value	Original Cost Basis
Cash in Banks	\$ 353,015	\$ 353,015
Investment in Torrey Pines	3,005,630	3,005,630
Investment in U.S. Bank	4,870,903	4,870,903
Investment in City National Bank	13,119,978	13,067,922
Investment in Fiduciary Trust	5,041,176	5,090,742
Investment in Local Agency Investment Fund	574	574
Investment in San Mateo County Pool	21,988,107	21,989,205
Total Deposits and Investments	<u>\$ 48,379,383</u>	<u>\$ 48,377,991</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, Fiduciary Trust, U.S. Bank, Torrey Pines, and City National Bank. The District's policy is to follow the California Government Code.

**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, 2014

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**Investment in U.S. Bank** - The District has invested funds with U.S. Bank which are used primarily to purchase certificates of deposits. The investments are recorded at market value.

**Investment Torrey Pines** - The District has invested funds with Torrey Pines which are used primarily to purchase certificates of deposits. The investments are recorded at market value.

### 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, 2014**

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>
Torrey Pines	\$ 3,005,630	2.5
U.S. Bank	4,870,903	0
City National Bank	13,119,978	0
Fiduciary Trust	5,041,176	2.3
San Mateo County Pool	21,988,107	1.7
Local Agency Investment Pool	574	0.6
Total	<u>\$ 48,026,368</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	\$ 21,988,107	Unrated
Local Agency Investment Fund	574	Unrated
Money Market Funds	651,736	Unrated
Certificates of Deposits	7,876,533	Unrated
U.S. Government Bonds & Notes	3,474,194	AAA
Corporate Bonds - Domestic	121,150	AAA
U.S. Agencies	103,662	AAA
U.S. Agencies	7,020,774	AA+
Corporate Bonds - Domestic	556,668	AA+
Corporate Bonds - Domestic	642,497	AA
Municipal Bonds	310,406	AA
Corporate Bonds - Domestic	439,476	AA-
Foreign Bonds	355,012	AA-
Corporate Bonds - Domestic	1,109,819	A+
Corporate Bonds - Domestic	1,366,493	A
Corporate Bonds - Domestic	2,009,267	A-
Total	<u>\$ 48,026,368</u>	

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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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 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, 2014, the District's bank balance did not have significant exposure to custodial credit risk.

### Concentration of Credit Risk

The investment policy of the District contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The District had investments exceeding 5% of the total investments in the following issuers:

Federal National Mortgage Association	\$ 2,904,666
Federal Home Loan Bank	2,583,116
Total Investments in a Single Issuer Exceeding 5% of Total Investments	<u>\$ 5,487,782</u>

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

### NOTE 3 – CAPITAL ASSETS

Activity in capital assets for the year ended June 30, 2014 was as follows:

<b>Capital Assets</b>	<b>June 30, 2013</b>	<b>Additions</b>	<b>Retirements</b>	<b>June 30, 2014</b>
Land	\$ 11,251,399	\$ -	\$ -	\$ 11,251,399
Land Improvements	46,299	-	-	46,299
Buildings and Improvements	4,891,871	2,039,607	-	6,931,478
Equipment	1,710,776	-	-	1,710,776
	<u>17,900,345</u>	<u>2,039,607</u>	<u>-</u>	<u>19,939,952</u>
<b>Accumulated Depreciation</b>				
Land Improvements	3,261	1,187	-	4,448
Buildings and Improvements	925,802	112,825	-	1,038,627
Equipment	1,710,776	-	-	1,710,776
	<u>2,639,839</u>	<u>114,012</u>	<u>-</u>	<u>2,753,851</u>
Capital Assets - Net	<u>\$ 15,260,506</u>	<u>\$ 1,925,595</u>	<u>\$ -</u>	<u>\$ 17,186,101</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 AND NET POSITION

The Governmental fund balance is assigned by the Board for future capital and contingent liabilities in accordance with the 2013 Strategic Long Term Financing Policy discussed in Note 7. An additional Governmental Fund balance is assigned for the requirement by covenants, discussed at Note 11, to maintain liquid assets in an amount equal to at least \$7,500,000.

The Proprietary net position is restricted by the requirements of the covenants, discussed in Note 11, to maintain a minimum deposit of \$3,000,000 with an affiliate of Western Alliance Bank. Additional Proprietary net position is restricted in the amount of \$15,000,000 for construction in accordance with the debt agreement with Western Alliance Bank.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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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 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. As of July 1, 2014, 1600 Trousdale was empty of all tenants in preparation for demolition and construction of the District’s assisted living and memory care facility. 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 N. El Camino Real was leased under a November 1, 2008 agreement with a five (5) year term which expired October 31, 2013. The new tenant will begin tenant improvements in Fall of 2014 and has agreed to a 10 year lease with one 5-year extension. 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, 2014

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

Year ended June 30,	1600 Trousdale	1875 Trousdale	1501 Trousdale	430 El Camino Real	1740 Marco Polo	1720 Marco Polo	Totals
2014	\$ 28,981	\$ 168,206	\$ 1,660,500	\$ 77,769	\$ 181,807	\$ 137,339	\$ 2,254,602
2015	-	114,049	1,773,940	-	211,507	144,460	2,243,956
2016	-	-	1,796,625	-	178,588	132,721	2,107,934
2017	-	-	1,796,625	-	68,010	130,777	1,995,412
2018	-	-	1,796,625	-	49,716	133,626	1,979,967
2019	-	-	1,796,625	-	41,389	-	1,838,014
2020-2024	-	-	8,983,125	-	5,050	-	8,988,175
2025-2029	-	-	8,983,125	-	-	-	8,983,125
2030-2034	-	-	8,983,125	-	-	-	8,983,125
2035-2039	-	-	8,983,125	-	-	-	8,983,125
2040-2044	-	-	8,983,125	-	-	-	8,983,125
Thereafter	-	-	31,446,471	-	-	-	31,446,471

### 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, 2014**

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### **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 loans money to nursing students and physicians within the district. The loans 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, loans 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. Loans 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.

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.

On May 24, 2014 the Board approved a motion to indefinitely suspend both the RN loan forgiveness program and the MD recruitment program.

As of June 30, 2014 the District has determined that two loans were in default amounting to \$5,147. During the year the District recovered \$11,159 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.

**PENINSULA HEALTH CARE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 9 – RETIREMENT PLAN**

**Plan Description**

The District contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating entities within the State of California. The benefits for the public agencies are established by contract with CalPERS in accordance with the provisions of the Public Employees Retirement Law.

CalPERS issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for CalPERS. A copy of that report may be obtained by writing to CalPERS, Central Supply, P.O. Box 942715, Sacramento, CA 94229-2715.

**Funding Policy**

Employees are required to contribute 7% of covered salary to CalPERS if hired before January 1, 2013. Employees hired starting January 1, 2013 are required to contribute 6.5% of covered salary to CalPERS. The District is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants and adopted by the CalPERS Board of Administration. For the fiscal year ended June 30, 2014 the employer contribution rate was 14.346% for employees hired before January 1, 2013 and 6.7% for employees hired starting January 1, 2013.

**Funding Status and Progress**

As of June 30, 2012, the most recent actuarial valuation date the plan was 98.9% funded. The actuarial accrued liability was \$2,046,756 and the actuarial value of assets was \$2,024,946. The following schedule shows the status of the plan for the three most recent actuarial valuations:

Actual Valuation Date	Actuarial Value of Assets	Actual Accrued Liability (Entry Age Normal)	Unfunded (Overfunded) Actuarial Accrued Liability (OAAL)	Funded Status	Annual Covered Payroll	UAAL as a Percentage Covered Payroll
6/30/2010	\$ 2,322,920	\$ 2,389,967	\$ 67,047	97.2%	\$ 235,013	28.5%
6/30/2011	2,130,787	2,212,984	82,197	96.3%	250,245	32.8%
6/30/2012	2,024,946	2,046,756	21,810	98.9%	252,032	8.7%

**NOTE 10 – COMMITMENTS**

Over the next fiscal year, the District has the final year of funding for two multi-year Special Initiative commitments: \$1.7 million for the K-8 school districts under the Health Schools Special initiative, and \$1.35 million for the launching of the Apple Tree Dental Care Center. These are in addition to the annual community grants budget of \$1.8 million for fiscal year 2015.



# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

### NOTE 11 – CERTIFICATES OF PARTICIPATION AND DEVELOPMENT PROJECT

During the current year the District entered into a debt agreement with Western Alliance Bank in the maximum principal amount of \$40,000,000 for the purpose of financing the costs of construction and equipping of a memory care and assisted living facility at 1600 Trousdale Drive, Burlingame, CA.

The District drew \$4,530,000 as of June 30, 2014 with a planned draw of the remaining amount in fiscal year 2015. The debt interest rate is 3.91% and matures February 1, 2034.

The anticipated debt servicing for the Certificates of Participation is as follows:

Year Ending June 30,	COP Payment	Interest Payment
2015	\$ -	\$ 302,997
2016	-	1,564,000
2017	525,000	1,564,000
2018	1,000,000	1,543,473
2019	1,040,000	1,504,373
2020-2024	5,895,000	6,876,126
2025-2029	7,190,000	5,626,295
2030-2034	24,350,000	4,101,199
Total	40,000,000	<u>\$ 23,082,461</u>
Less Amounts to be Drawn	(35,470,000)	
Certificates of Participation balance at 6-30-14	<u>\$ 4,530,000</u>	

The Certificates of Participation are subject to the following covenants:

- The District is to maintain Liquid Assets in an amount equal to at least \$7,500,000, to be tested semi-annually
- Beginning for the fiscal year ending June 30, 2017 the District's revenues less expenses, plus depreciation, amortization and interest expense shall equal at least 1.2 times total debt service for such fiscal year
- The District shall not issue any additional obligations unless the District's revenues less expenses, plus depreciation, amortization and interest expense shall be at least 1.25 times total debt service following such issuance for each fiscal year
- The District will deposit and maintain deposited, during the term of this agreement, with an affiliate of Western Alliance Bank, a minimum amount of \$3,000,000

No covenant violations have occurred for the year ended June 30, 2014.

### NOTE 12 – SUBSEQUENT EVENTS

On October 13, 2014 the District purchased property located at 1819 Trousdale Drive, Burlingame, CA for \$2,686,262.

## **Required Supplementary Information**

**PENINSULA HEALTH CARE DISTRICT**

**GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgetary Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b>Revenues</b>				
Tax Revenue	\$ 4,600,000	\$ 4,600,000	\$ 5,110,429	\$ 510,429
Interest Revenue	318,500	318,500	332,729	14,229
Realized and Unrealized Investment Losses	-	-	427,513	427,513
Other Revenue	5,000	5,000	11,209	6,209
Total Revenues	<u>4,923,500</u>	<u>4,923,500</u>	<u>5,881,880</u>	<u>958,380</u>
<b>Expenditures</b>				
Grants	2,150,000	2,150,000	2,155,295	(5,295)
Administrative and Overhead	424,350	424,350	400,942	23,408
Communications	85,000	85,000	82,778	2,222
Newsletter	50,000	50,000	45,093	4,907
Consulting	25,000	25,000	6,852	18,148
Legal Fees	70,000	70,000	29,596	40,404
Other	137,400	137,400	140,662	(3,262)
Special Board Initiatives	3,950,000	3,950,000	4,186,538	(236,538)
Total Expenditures	<u>6,891,750</u>	<u>6,891,750</u>	<u>7,047,756</u>	<u>(156,006)</u>
<b>Excess Revenue Over Expenditures</b>	<u>(1,968,250)</u>	<u>(1,968,250)</u>	<u>(1,165,876)</u>	<u>802,374</u>
<b>Fund Balance - Beginning of Year</b>	<u>44,338,505</u>	<u>44,338,505</u>	<u>44,338,505</u>	<u>-</u>
<b>Fund Balance - End of Year</b>	<u>\$42,370,255</u>	<u>\$ 42,370,255</u>	<u>43,172,629</u>	<u>\$ 802,374</u>
<b>Reconciling Items</b>				
Transfers to Other Funds			(18,433,992)	
<b>Ending Fund Balance - GAAP Basis</b>			<u>\$ 24,738,637</u>	

## **Supplementary Information**

**PENINSULA HEALTH CARE DISTRICT**

**PROPRIETARY FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgetary Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b>Revenues</b>				
Leasing Income	\$ 2,308,030	\$ 2,241,386	\$ 2,254,602	\$ 13,216
Interest Revenue	-	-	9,530	9,530
Total Revenues	<u>2,308,030</u>	<u>2,241,386</u>	<u>2,264,132</u>	<u>22,746</u>
<b>Expenses</b>				
Legal Fees	25,000	25,000	28,310	(3,310)
Rental Expenses	165,500	165,500	171,988	(6,488)
Consulting	75,000	98,750	111,686	(12,936)
Total Expenses	<u>265,500</u>	<u>289,250</u>	<u>311,984</u>	<u>(22,734)</u>
<b>Excess Expenses Over Revenue</b>	2,042,530	1,952,136	1,952,148	12
<b>Fund Balance - Beginning of Year</b>	<u>15,260,506</u>	<u>15,260,506</u>	<u>15,260,506</u>	-
<b>Fund Balance - End of Year</b>	<u>\$17,303,036</u>	<u>\$ 17,212,642</u>	<u>17,212,654</u>	<u>\$ 12</u>
<b>Reconciling Items</b>				
Less Depreciation Expense			(114,012)	
Add Transfers from Other Funds			18,433,992	
Total Reconciling Items			<u>18,319,980</u>	
<b>Ending Fund Balance - GAAP Basis</b>			<u>\$ 35,532,634</u>	

**PENINSULA HEALTH CARE DISTRICT**

**ALL FUNDS  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgetary Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b>Revenues</b>				
Tax Revenue	\$ 4,600,000	\$ 4,600,000	\$ 5,110,429	\$ 510,429
Leasing Income	2,308,030	2,241,386	2,254,602	13,216
Interest Revenue	318,500	318,500	342,259	23,759
Realized and Unrealized Investment Losses	-	-	427,513	427,513
Other Revenue	5,000	5,000	11,209	6,209
Total Revenues	<u>7,231,530</u>	<u>7,164,886</u>	<u>8,146,012</u>	<u>981,126</u>
<b>Expenditures</b>				
Grants	2,150,000	2,150,000	2,155,295	(5,295)
Administrative and Overhead	424,350	424,350	400,942	23,408
Communications	85,000	85,000	82,778	2,222
Newsletter	50,000	50,000	45,093	4,907
Consulting	100,000	123,750	118,538	5,212
Legal Fees	95,000	95,000	57,906	37,094
Rental Expenses	165,500	165,500	171,988	(6,488)
Other	137,400	137,400	140,662	(3,262)
Special Board Initiatives	3,950,000	3,950,000	4,186,538	(236,538)
Total Expenditures	<u>7,157,250</u>	<u>7,181,000</u>	<u>7,359,740</u>	<u>(178,740)</u>
<b>Excess Revenue Over Expenditures</b>	74,280	(16,114)	786,272	802,386
<b>Fund Balance - Beginning of Year</b>	<u>59,599,011</u>	<u>59,599,011</u>	<u>59,599,011</u>	-
<b>Fund Balance - End of Year</b>	<u>\$59,673,291</u>	<u>\$59,582,897</u>	<u>60,385,283</u>	<u>\$ 802,386</u>
<b>Reconciling Items</b>				
Less Depreciation Expense			(114,012)	
<b>Ending Fund Balance - GAAP Basis</b>			<u>\$ 60,271,271</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, business-type activities, and each major fund of Peninsula Health Care District (District) as of and for the year ended June 30, 2014, which collectively comprise the Peninsula Health Care District's basic financial statements and have issued our report thereon dated October 13, 2014. 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 of the financial statements, we considered District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

*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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



## **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, Trine, Day & Co. LLP

Palo Alto, California  
October 13, 2014