

**PENINSULA HEALTH CARE DISTRICT**

**Financial Statements**

**June 30, 2005**

# PENINSULA HEALTH CARE DISTRICT

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Peninsula Health Care District  
Burlingame, California

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of Peninsula Health Care District (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *State Controllers Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position the governmental activities, the business-type activities, and each major fund of Peninsula Health Care District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The required supplementary information, such as management's discussion and analysis on pages 2 through 5 and budgetary comparison information on page 27, are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it

Vavrinek, Trine, Day & Co., LLP  
Palo Alto, California

September 22, 2005

# PENINSULA HEALTH CARE DISTRICT

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2005. This information is presented in conjunction with the audited financial statements that follow this section.

### FINANCIAL HIGHLIGHTS

- The District's cash balances increased by \$1.8 million
- The District's net fixed assets decreased by \$.1 million
- The District's fund balance increased by \$1.7 million

### USING THIS ANNUAL REPORT

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

### OVERVIEW OF BASIC FINANCIAL STATEMENTS

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

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

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

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

following discussion and analysis will generally be equally applicable to the Government-Wide and Fund Financial Statements.

### *Fund Financial Statements*

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses Government and Proprietary fund accounting to ensure and demonstrate compliance with financial-related legal requirements. As indicated above, 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, Expenses, 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.

*Notes to Basic Financial Statements*

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

REQUIRED FINANCIAL STATEMENTS

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

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

STATEMENT OF NET ASSETS

	<u>2004-2005</u>	<u>2003-2004</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	\$21,340,320	\$19,450,932	\$1,889,388	9.71%
Capital Assets	<u>22,099,233</u>	<u>22,192,520</u>	<u>(93,287)</u>	(0.42%)
Total Assets	<u>\$43,439,553</u>	<u>\$41,643,452</u>	<u>\$1,796,101</u>	4.31%
Current Liabilities	<u>\$1,082,226</u>	<u>\$1,041,667</u>	<u>\$ 40,559</u>	3.89%
Total Liabilities	<u>\$1,082,226</u>	<u>\$1,041,667</u>	<u>\$ 40,559</u>	3.89%
Invested in Capital Assets	\$22,099,233	\$22,192,520	\$ (93,287)	(0.42%)
Unrestricted	<u>20,258,094</u>	<u>18,409,265</u>	<u>\$1,848,829</u>	10.04%
Total Net Assets	<u>\$42,357,327</u>	<u>\$40,601,785</u>	<u>\$1,755,542</u>	4.32%

Total net assets increased by \$1.7 million. The increase reflects an increase in cash of \$1.8 million and a net reduction in capital assets of \$.1 million.

REVIEW OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	<u>2004-2005</u>	<u>2003-2004</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenues				
Tax revenue	\$3,234,792	\$3,341,139	\$(106,347)	(3.18%)
Lease income	1,785,714	1,785,714	-	-
Interest income	523,572	444,078	79,494	17.90%
Gains and losses	3,000	5,200	(2,200)	(42.31%)
Other revenue	<u>17,687</u>	<u>9,270</u>	<u>8,417</u>	90.80%
Total revenue	<u>5,564,765</u>	<u>5,585,401</u>	<u>(20,636)</u>	((0.37%)
Expenditures				
Administration	31,618	29,343	2,275	7.75%
Communications	90,322	53,196	37,126	69.79%
Consulting	26,010	123,571	(97,561)	(78.95%)
Depreciation	1,621,334	2,201,155	(579,821)	(26.34%)
Grants	1,452,913	1,582,177	(129,264)	(8.17%)
Legal fees	219,073	160,369	58,704	36.61%
Promotions	73,417	45,547	27,870	61.19%
Other	<u>294,537</u>	<u>102,518</u>	<u>192,019</u>	187.3%
Total expenditures	<u>3,809,224</u>	<u>4,297,876</u>	<u>(488,652)</u>	(11.37%)
Change in net assets	1,755,541	1,287,525	468,016	36.35%
Net assets beginning of year	<u>40,601,786</u>	<u>39,314,261</u>	<u>1,287,525</u>	3.27%
Net assets end of year	<u>\$42,357,327</u>	<u>\$40,601,786</u>	<u>\$1,755,541</u>	4.32%

REVIEW OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Gross tax revenues actually increased by approximately \$152,000, but after the Education Revenue Augmentation Fund (ERAF) shift of approximately \$258,000, net tax revenues reflect a decrease of \$106,000. SB568 amends the law so that this shift should not apply in the 2005-2006 fiscal year. Interest income increased as rates have increased gradually throughout the year. The overall decrease in expense results primarily from approximately \$580,000 less depreciation. This decrease is primarily a result of assets becoming fully depreciated in the fiscal year ended June 30, 2004. Consulting fees decreased as the negotiations with Mills-Peninsula Health Services came to a conclusion. Fewer applications than anticipated from nursing students were received and across the board reductions in certain other grants resulted in an overall decrease in total grants. The increase in other expenditures is attributable to several factors. Since 2004 was an election year, the District's share of the County election costs was \$100,000. The District approved \$52,000 for a special audit of certain aspects of the lease agreement in response to community concerns. The District Board also approved payment of \$32,000 to the City of Burlingame as a share of the cost to oppose the installation of a high power transmission line down Trousdale Drive. Additional expenses were also incurred with regard to a number of special meetings held for public input and comment relating to new

agreements reached with Mills-Peninsula Health Services upon the completion of negotiations. Some of these additional expenses will be non-recurring in the future.

The District's net assets increased by \$1.8 million.

CAPITAL ASSETS

	<u>2004-2005</u>	<u>2003-2004</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Land and improvements	\$ 731,046	\$ 731,046	\$ -	-
Buildings and improvements	57,415,516	57,673,043	(257,527)	(0.45%)
Equipment	<u>21,816,118</u>	<u>20,210,579</u>	<u>1,605,539</u>	7.94%
Subtotal	79,962,680	78,614,668	1,348,012	1.71%
Less accumulated depreciation	<u>57,863,448</u>	<u>56,422,148</u>	<u>1,441,300</u>	2.55%
Capital Assets, net of depreciation	<u>\$22,099,232</u>	<u>\$22,192,520</u>	<u>\$ (93,288)</u>	(0.42%)

The change of \$.1 million resulted from the excess of depreciation over assets acquired during the year. Assets acquired include building improvements and equipment that were accepted as payment of rent in accordance with the terms of the lease. Additional information is included in Note 3.

ECONOMIC AND OTHER FACTORS

The District must rebuild its hospital by 2013 to be in compliance with State mandated seismic regulations. Accordingly the District has negotiated a new agreement with Mills-Peninsula Health Services for the construction of a new hospital on District owned land and a new long-term lease. Although approved by the District Board in September, 2005 and executed in October, 2005 the agreement will not become final until approved by the District voters. This is expected to occur within the next 12-18 months. Should the new agreement fail for any reason, there are buy-out provisions for the District. For this reason it is incumbent upon the District to accumulate a reserve fund for future capital needs and the District has resolved to do so.

FINANCIAL CONTACT

The financial report is designed to provide interested parties with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. If you have any questions about this report or need additional financial information, contact: Treasurer, Peninsula Health Care District, 1783 El Camino Real, Burlingame, CA 94010.



**PENINSULA HEALTH CARE DISTRICT**

**STATEMENT OF NET ASSETS  
JUNE 30, 2005**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 20,522,462	\$ 645,309	\$ 21,167,771
Interest Receivable	154,100	-	154,100
Prepaid Expense	18,450	-	18,450
Total Current Assets	<u>20,695,012</u>	<u>645,309</u>	<u>21,340,321</u>
<b>Property, Plant, and Equipment - Net</b>	-	22,099,232	22,099,232
Total Assets	<u>20,695,012</u>	<u>22,744,541</u>	<u>43,439,553</u>
<b>Current Liabilities</b>			
Accounts Payable	30,091	10,468	40,559
Deferred Revenues	-	1,041,667	1,041,667
Total Current Liabilities	<u>30,091</u>	<u>1,052,135</u>	<u>1,082,226</u>
<b>Net Assets</b>			
Invested in Capital Assets	-	22,099,232	22,099,232
Unrestricted	20,664,921	(406,826)	20,258,095
Total Net Assets	<u>\$ 20,664,921</u>	<u>\$ 21,692,406</u>	<u>\$ 42,357,327</u>

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

**PENINSULA HEALTH CARE DISTRICT**

**STATEMENT OF ACTIVITIES  
YEAR ENDING JUNE 30, 2005**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Governmental Activities:</b>				
Community Grants	\$ 1,452,910	\$ -	\$ -	\$ -
General Administration:				
Administration Fees	31,618	-	-	-
Communication	90,322	-	-	-
Consulting	26,010	-	-	-
Legal Fees	68,881	-	-	-
Promotions	73,417	-	-	-
Other	294,539	-	-	-
<b>Total Governmental Activities</b>	<b>2,037,697</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Business Type Activities:</b>				
Leasing	-	1,785,714	-	-
Depreciation	1,621,335	-	-	-
Legal	150,192	-	-	-
Gain (Loss) on Disposal of Assets	-	3,000	-	-
Other	-	17,687	-	-
<b>Total Business Activities</b>	<b>1,771,527</b>	<b>1,806,401</b>	<b>-</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 3,809,224</b>	<b>\$ 1,806,401</b>	<b>\$ -</b>	<b>\$ -</b>

General Revenues:

Property Taxes

Interest and Investment Earnings

Transfers Between Funds

**Subtotal - General Revenue**

**Change in Net Assets**

**Net Assets - Beginning of Year**

**Net Assets - End of Year**

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

**Changes in Net Assets**

<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
\$ (1,452,910)	\$ -	\$ (1,452,910)
(31,618)	-	(31,618)
(90,322)	-	(90,322)
(26,010)	-	(26,010)
(68,881)	-	(68,881)
(73,417)	-	(73,417)
(294,539)	-	(294,539)
<u>(2,037,697)</u>	<u>-</u>	<u>(2,037,697)</u>
-	1,785,714	1,785,714
-	(1,621,335)	(1,621,335)
-	(150,192)	(150,192)
-	3,000	3,000
-	17,687	17,687
<u>-</u>	<u>34,874</u>	<u>34,874</u>
<u>(2,037,697)</u>	<u>34,874</u>	<u>(2,002,823)</u>
3,234,792	-	3,234,792
523,572	-	523,572
772,815	(772,815)	-
<u>4,531,179</u>	<u>(772,815)</u>	<u>3,758,364</u>
2,493,482	(737,941)	1,755,541
18,171,439	22,430,347	40,601,786
<u>\$ 20,664,921</u>	<u>\$ 21,692,406</u>	<u>\$ 42,357,327</u>

**PENINSULA HEALTH CARE DISTRICT**

**GOVERNMENTAL FUND  
BALANCE SHEET  
JUNE 30, 2005**

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	<u>General Fund</u>
<b>Current Assets</b>	
Cash and Cash Equivalents	\$ 20,522,462
Interest Receivable	154,100
Prepaid Expense	18,450
Total Assets	<u>\$ 20,695,012</u>
<b>Current Liabilities</b>	
Accounts Payable	\$ 30,091
Total Liabilities	<u>30,091</u>
<b>Fund Balance</b>	
Designated for Future Capital Needs	19,764,921
Unreserved/Undesignated	900,000
Total Fund Balance	<u>20,664,921</u>
Total Liabilities and Fund Balance	<u>\$ 20,695,012</u>

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

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

**PENINSULA HEALTH CARE DISTRICT**

**GOVERNMENTAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE  
YEAR ENDED JUNE 30, 2005**

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	<u>General Fund</u>
<b>Revenues</b>	
Tax Revenue	\$ 3,234,792
Interest Income	523,572
Total Revenues	<u>3,758,364</u>
<b>Expenditures</b>	
Administration Fees	31,618
Communications	90,322
Consulting	26,010
Grants	1,452,910
Legal Fees	68,881
Promotions	73,417
Other	294,539
Total Expenditures	<u>2,037,697</u>
Excess of Revenue Over Expenditures	1,720,667
Transfers In	<u>772,815</u>
Net Change in Fund Balance	2,493,482
Fund Balance - Beginning of Year	<u>18,171,439</u>
Fund Balance - End of Year	<u>\$ 20,664,921</u>

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

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

**PENINSULA HEALTH CARE DISTRICT**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2005**

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	<u><b>Business-Type Activities</b></u>
	<u><b>Enterprise Fund</b></u>
	<u><b>Leasing</b></u>
<b>Current Assets</b>	
Cash and Cash Equivalents	\$ 645,309
Total Current Assets	<u>645,309</u>
<b>Property, Plant, and Equipment - Net</b>	<u>22,099,232</u>
Total Assets	<u>22,744,541</u>
<b>Current Liabilities</b>	
Accounts Payable	10,468
Deferred Revenues	1,041,667
Total Liabilities	<u>1,052,135</u>
<b>Fund Balance</b>	
Unrestricted	(406,826)
Invested in Capital Assets	<u>22,099,232</u>
Total Fund Balance	<u>\$ 21,692,406</u>

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

**PENINSULA HEALTH CARE DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2005**

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	<u>Business-Type Activities</u>
	<u>Enterprise Fund</u>
	<u>Leasing</u>
<b>Operating Revenues</b>	
Leasing Income	\$ 1,785,714
Gain on Disposal of Assets	3,000
Other	17,687
Total Operating Revenues	<u>1,806,401</u>
<b>Operating Expenses</b>	
Depreciation	1,621,335
Legal Fees	150,192
Total Operating Expenditures	<u>1,771,527</u>
Operating Income	34,874
Transfers Out	<u>(772,815)</u>
Change in Net Assets	(737,941)
Net Assets - Beginning of Year	<u>22,430,347</u>
Net Assets - End of Year	<u>\$ 21,692,406</u>

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

**PENINSULA HEALTH CARE DISTRICT**

**STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND  
 YEAR ENDED JUNE 30, 2005**

	<u><b>Business-Type Activities</b></u> <u><b>Proprietary Fund</b></u>
<b>Cash Flows from Operating Activities:</b>	
Other Revenues	\$ 9,520
Legal Fees	(139,724)
Net Cash Used by Operating Activities	<u>(130,204)</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
Transfers to the General Fund	(772,815)
Net Cash Used in Noncapital Financing Activities	<u>(772,815)</u>
<b>Cash Flows from Capital Financing Activities</b>	
Proceeds From Sale of Equipment	3,000
Cash Received from Leasing	265,835
Net Cash Provided by Capital Financing Activities	<u>268,835</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(634,184)
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>1,279,493</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 645,309</u>
<b>Reconciliation of Net Income to Net Cash Provided  by Operating Activities</b>	
Income from Operations	\$ 34,874
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities	
Depreciation	1,621,335
Gain on Disposal of Assets	(3,000)
Property, Plant and Equipment Accepted in Payment of Lease	(1,785,714)
Property, Plant and Equipment Accepted as Other Revenue	(8,167)
Increase in Accounts Payable	10,468
Net Cash Used by Operating Activities	<u>\$ (130,204)</u>

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



# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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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. It was organized in 1947 and owns the land, buildings and equipment of Peninsula Hospital (the "Hospital"). The District operated the Hospital until January 31, 1985, at which time the operation of the Hospital was transferred, through a leasing arrangement, to Mills-Peninsula Health Services (previously known as Mills-Peninsula Hospitals). The District is not subject to state or federal taxes on income.

#### Basis of Presentation - Fund Accounting

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

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

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

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

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

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the District and for each governmental function. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

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

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

**Governmental Funds** All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

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

### 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

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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### Investments

Investments held at June 30, 2005, 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.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net assets. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is the same as those used for the capital assets of governmental funds.

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.

### 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.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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### **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. The district received approximately 58% in 2005 and 60% in 2004 of its financial support from property taxes. Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments due November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 15. The County of San Mateo bills and collects the taxes for the District. Tax revenues are recognized by the District when received. The County remits all taxes due to the District when due, therefore there are no taxes receivable, uncollectible, or deferred taxes.

### **Administrative Services**

Certain administrative functions are performed for the District by Mills-Peninsula Health Services for no compensation. The value of these services is not recorded in the financial statements as it is not readily determinable and is considered immaterial to the financial statements taken as a whole.

### **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..

### **Changes in Accounting Principles**

In March 2003, the Governmental Accounting Standards Board (GASB) issued GASBS No. 40, *Deposit and Investment Risk Disclosures an amendment of GASB Statement No. 3*. This Statement addressed common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in the Statement also should be disclosed. As such, the District has made the applicable required disclosures.

### **New Accounting Pronouncements**

In November 2003, GASB issued GASBS No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes guidance for accounting and reporting for impairment of capital assets and for insurance recoveries, whether associated with an impaired capital asset or not. This Statement is effective for periods beginning after December 31, 2004, or during the 2005-06 fiscal year. Implementation of this pronouncement will not impact future financial statements nor require restatement of prior periods.

In July 2004, GASB issued GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement will require local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the government-wide financial statements of net assets and activities. This Statement establishes standards for the measurement, recognition, and display of OPEB

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employers.

Current financial reporting practices for OPEB generally are based on pay-as-you-go financing approaches. They fail to measure or recognize the cost of OPEB during the periods when employees render the services or to provide relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations.

This Statement generally provides for prospective implementation - that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2009. The District currently does not offer post employment benefits.

In December 2004, GASB issued GASBS No. 46, Net Assets Restricted by Enabling Legislation. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. Although the determination that a particular restriction is not legally enforceable may cause a government to review the enforceability of other restrictions, it should not necessarily lead a government to the same conclusion for all enabling legislation restrictions.

This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2005. The District has adopted this Statement and it had no impact on the financial statements.

### NOTE 2 – DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2005, are classified in the accompanying financial statements as follows:

Governmental Activities	\$ 20,522,462
Business-Type Activities	645,309
Total Deposits and Investments	<u>\$ 21,167,771</u>

Deposits and investments as of June 30, 2005, consist of the following:

Cash on Hand and in Banks	\$ 645,309
Investments	20,522,462
Total Deposits and Investments	<u>\$ 21,167,771</u>

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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### **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.

**Investment in County Treasury** - 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 fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**Investment in the State Investment Pool** - The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of 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 fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

### **General Authorizations**

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

**PENINSULA HEALTH CARE DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

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

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing substantially all of its funds in County and State investment pools.

**Segmented Time Distribution**

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

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months
County Pool	\$ 14,074,488	\$ 7,828,230	\$ 2,144,952	\$ 4,101,306	\$ -
State Investment Pool	6,401,563	6,401,563	-	-	-
Total	<u>\$ 20,476,051</u>	<u>\$ 14,229,793</u>	<u>\$ 2,144,952</u>	<u>\$ 4,101,306</u>	<u>\$ -</u>

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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### Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the Districts' investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	Minimum Legal Rating	Unrated
County Pool	\$ 14,074,488	N/A	\$ 14,074,488
State Investment Pool	6,401,563	N/A	6,401,563
Total	<u>\$ 20,476,051</u>		<u>\$ 20,476,051</u>

### 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, 2005, the District's bank balance of \$670,685 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, 2005**

**NOTE 3 – CAPITAL ASSETS**

Activity in capital assets for the year ended June 30, 2005 was as follows:

<b>Capital Assets</b>	<b>Beginning</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending</b>
Land and Land Improvements	\$ 731,046	\$ -	\$ -	\$ 731,046
Buildings and Improvements	57,673,043	-	257,528	57,415,515
Equipment	20,210,579	1,785,714	180,174	21,816,119
	<u>78,614,668</u>	<u>1,785,714</u>	<u>437,702</u>	<u>79,962,680</u>
<b>Accumulated Depreciation</b>				
Land Improvements	713,659	8,191	-	721,850
Buildings and Improvements	37,615,718	1,307,498	-	38,923,216
Equipment	18,092,771	305,645	180,034	18,218,382
	<u>56,422,148</u>	<u>1,621,334</u>	<u>180,034</u>	<u>57,863,448</u>
Capital Assets - Net	<u>\$ 22,192,520</u>	<u>\$ 164,380</u>	<u>\$ 257,668</u>	<u>\$ 22,099,232</u>

**NOTE 4 – PROPERTY PURCHASE AND LEASE COMMITMENTS**

The District is the lessee of a building near the Hospital. An affiliate of Mills-Peninsula Health Services subleases the building under terms which require identical payments to those required under the primary lease. The lease payments are made by the sublessee directly to the primary lessor; however, the District is still obligated to make such payments should the sublessee not fulfill its obligation. The revenue and expense for these transactions are not recorded in the financial statements because the District considers the payment by the sublessee as an abatement of the rent obligation of the District. The future minimum lease payments required under both the primary lease and sublease should the sublessee not fulfill its obligation, which expires in 2013, are approximately as follows:

Year Ending June 30:	
2006	\$ 113,848
2007	113,848
2008	113,848
2009	123,335
2010	123,335
Thereafter	<u>398,473</u>
Total	<u>\$ 986,687</u>

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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The District has an option to purchase this building and the building's owner has the right, under certain circumstances, to require such purchase. The purchase price, defined by agreement, is \$828,800 as of June 30, 2005. Under the consolidation agreement, if the building is purchased by the District, the District must transfer ownership of the building to Mills-Peninsula Health Services without further consideration.

### NOTE 5 - FUND BALANCES

Fund balance with reservations/designations is composed of the following elements:

	General Fund	Total
Unreserved		
Designated		
Future capital needs	\$ 19,764,921	\$ 19,764,921
Total Designated	19,764,921	19,764,921
Undesignated	900,000	900,000
Total Unreserved	20,664,921	20,664,921
Total	\$ 20,664,921	\$ 20,664,921

During 1995, the Board set aside \$900,000 in cash and investments as unreserved and undesignated. The remainder of the balance in cash and investments is designated by the Board for future capital needs.

### NOTE 6 – LEASE AGREEMENT

The District leases the Hospital's land, buildings and equipment to Mills-Peninsula Health Services (lessee) under an agreement which extends through January 2015. Annual rent payments of \$1,785,714 are required through 2014. The lessee is obligated for all operating, maintenance and other costs of the facility. The lease is the subject of litigation discussed in Note 8 below.

The lessee is entitled to transfer capital improvements and equipment purchased for the Hospital, subject to approval of the District, as rent payments or prepayments. The title to such plant additions remains with the lessee until the termination of the lease, at which time title passes to the District. The District records the original cost and accumulated depreciation through the date of transfer in order to maintain the continuity of the depreciable lives and depreciation method.

# PENINSULA HEALTH CARE DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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### NOTE 7 – 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 \$2,000 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 \$5,000 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.

During the current fiscal year the District loaned \$50,000 to a physician to locate their practice within the District. If the agreed upon duties are performed the loan is forgiven over a four year schedule.

These payments are recorded as grants. 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 and recorded in the financial statements. As of June 30, 2005 there are no amounts recorded as unpaid loans from these transactions.

### NOTE 8 - LITIGATION

In June 1997, the District initiated litigation in the San Mateo County Superior Court (Case No. 401125) against Mills-Peninsula Health Services (MPHS) seeking on conflicts of interest grounds to void the 1985 lease of Peninsula Hospital to MPHS and certain related transfers. MPHS obtained a ruling that the District's action was barred by a stipulated judgment in a separate 1995 action brought by the San Mateo County District Attorney in the San Mateo Superior Court (Case No. 392588). The District moved to have the 1995 stipulated judgment set aside and moved for reconsideration of the ruling dismissing its action to void the lease. The trial court granted the District's motion to set aside the 1995 stipulated judgment on the ground that it was void, and MPHS appealed. On June 28, 2000, the Court of Appeal ruled in favor of the District and affirmed the trial court ruling setting aside the 1995 stipulated judgment. As a consequence, the stipulated judgment is no longer a bar to the District's 1997 action to void the lease. The parties continue attempts to settle the matter through negotiations.

In September 1998, Mills-Peninsula Health Services served the District with a demand for arbitration over certain rent provisions in the lease agreement (Note 4). MPHS alleged that the District breached the lease by refusing to approve certain proposed capital expenditures that would have resulted in a prepaid rent credit to MPHS. The District filed a cross-claim seeking a determination that the lease does not require the District to approve prepaid rent for more than one year in advance, and that the lease does not authorize MPHS to prepay rent in a manner that compels wasteful use of public funds. On August 24, 2000, a settlement agreement was reached. Among its provisions, the District agreed to accept assets with a cost of \$8,928,570, subject to adjustment, as payment for the rent obligation from February 1, 1998 through January 31, 2003.

**Required Supplementary Information**

# PENINSULA HEALTH CARE DISTRICT

## GENERAL FUND BUDGETARY COMPARISON SCHEDULE JUNE 30, 2005

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	<u>Budgetary Amounts Original and Final</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues</b>			
Tax Revenue	\$ 3,400,000	\$ 3,234,792	\$ (165,208)
Interest Income	433,600	523,572	89,972
Total Revenues	<u>3,833,600</u>	<u>3,758,364</u>	<u>(75,236)</u>
<b>Expenditures</b>			
Administration Fees	-	31,618	(31,618)
Communications	100,000	90,322	9,678
Consulting	52,000	26,010	25,990
Grants	1,700,000	1,452,910	247,090
Legal Fees	75,000	68,881	6,119
Other	266,250	294,539	(28,289)
Promotions	125,000	73,417	51,583
Total Expenditures	<u>2,318,250</u>	<u>2,037,697</u>	<u>280,553</u>
<b>Excess Revenue Over Expenditures</b>	1,515,350	1,720,667	205,317
<b>Transfer From Other Funds</b>	<u>1,340,350</u>	<u>772,815</u>	<u>(567,535)</u>
<b>Excess of Revenue Over Expenditures and Transfers From Other Funds</b>	2,855,700	2,493,482	(362,218)
<b>Fund Balance - Beginning of Year</b>	<u>18,171,439</u>	<u>18,171,439</u>	<u>-</u>
<b>Fund Balance - End of Year</b>	<u>\$ 21,027,139</u>	<u>\$ 20,664,921</u>	<u>\$ (362,218)</u>