



Annual Financial Report

**For the Fiscal Year
Ended**

June 30, 2018

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PENINSULA HEALTH CARE DISTRICT

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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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, 2018, 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.

Opinions

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, 2018, 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, general fund budgetary comparison information, schedule of changes in net pension liability and related ratios and schedule of pension contributions 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. Such information is 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 is 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 November 1, 2018 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 the District's internal control over financial reporting and compliance.

Vavrinck, Trine, Day & Co. LLP

Palo Alto, California
November 1, 2018

PENINSULA HEALTH CARE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

As management of the Peninsula Health Care District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements and accompanying notes to the basic financial statements.

The Government-Wide Financial Statements present the financial position of the District using the economic resources measurement focus and the accrual basis of accounting. These statements present governmental activities and business-type activities separately. Also, these statements include all assets and deferred outflows of resources of the District, as well as all liabilities, including long-term debt and deferred inflows or resources.

The Fund Financial Statements include governmental and proprietary funds. The governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. A reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences between the two different set of statements. The proprietary fund financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources by \$76,375,933. Of this amount, \$5,762,310 is unrestricted net position.
- The District's total net position increased by \$5,222,734 because the District's property tax collections are higher than the expenses. The amounts are included in the District's reserves which will be used for the construction and operations of the assisted living/memory care project.
- The District's current assets decreased by \$20,718,466 primarily due to decrease in cash and investments. The decrease in cash and investments was related to amounts paid to construct the assisted living/memory care project.
- The District's current liabilities decreased by \$1,368,087 mostly due to construction related payables.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The discussion and analysis provided here are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

PENINSULA HEALTH CARE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

The Statement of Net Position and the Statement of Activities report information about the District as a whole and its activities. These statements include all assets, deferred outflows, liabilities and deferred inflows of the District using the accrual basis of accounting and economic resources measurement focus, which is similar to the accounting used by most private-sector entities. Under the economic resources measurement focus, revenues are recognized when earned and expenses are recorded when the liability is incurred.

The Statement of Net Position reports the District's net position. Net position is the difference between assets, deferred outflows, liabilities and deferred inflows, which is one way to measure the District's financial health, or financial position.

Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating.

The Statement of Activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows.

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through lease revenues (business-type activities). The governmental activities of the District include: general government, developing and launching new programs, community grants, and one-time special funding initiatives. The business-type activities of the District include the dental operations of Sonrisas and the leasing and property development function of the District.

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/property 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, 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. The differences between the governmental fund financial statements and the government-wide financial statements are explained in a reconciliation following the government-wide financial statements.

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.

PENINSULA HEALTH CARE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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 tax revenues.

Proprietary (Enterprise) fund accounting uses the full accrual basis of accounting. Proprietary funds are reported in the same way in that all activities are reported in the Statement of net position and the statement of revenues, expenses, and change in net position. The District's enterprise fund is the same as the business-type activities reported in the government-wide financial statements.

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 and Other Supplementary Information

A budgetary comparison schedule for the general fund is included as required supplementary information following the notes to the basic financial statements. Also included are the required disclosures relating to the District's net pension liability. A budgetary comparison schedule for the leasing fund and a combined budgetary comparison schedule for all funds of the district are included in this report, following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The government-wide financial statements provide long-term and short-term information about the District's overall financial condition. This analysis addresses the financial statements of the District as a whole.

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$76,375,933 at the close of the most recent fiscal year.

	Condensed Statement of Net Position							
	Governmental Activities		Business-Type Activities		Total		Increase (Decrease)	
	2018	2017	2018	2017	2018	2017	\$	%
Current assets	\$ 13,011,573	\$ 11,465,504	\$ 29,347,232	\$ 51,611,767	\$ 42,358,805	\$ 63,077,271	\$ (20,718,466)	-32.8%
Capital assets	2,825,706	3,089,464	83,453,856	48,195,518	86,279,562	51,284,982	34,994,580	68.2%
Internal Balances	250,000	-	(250,000)	-	-	-	-	100.0%
Other assets	380,795	367,602	14,697	1,677,374	395,492	2,044,976	(1,649,484)	-80.7%
Total Assets	16,468,074	14,922,570	112,565,785	101,484,659	129,033,859	116,407,229	14,276,114	12.3%
Deferred outflows of resources	150,856	120,827	-	-	150,856	120,827	30,029	24.9%
Current liabilities	63,822	209,050	4,912,165	6,135,024	4,975,987	6,344,074	(1,368,087)	-21.6%
Non-current liabilities	-	-	47,660,290	38,525,290	47,660,290	38,525,290	9,135,000	23.7%
Total Liabilities	63,822	209,050	52,572,455	44,660,314	52,636,277	44,869,364	7,766,913	17.3%
Deferred inflows of resources	172,505	505,493	-	-	172,505	505,493	(332,988)	-65.9%
Net investment in capital assets	2,825,706	2,839,464	33,483,672	23,704,128	36,309,378	26,543,592	9,765,786	36.8%
Restricted	7,500,000	7,500,000	26,804,245	33,120,217	34,304,245	40,620,217	(6,315,972)	-15.5%
Unrestricted	6,056,897	3,989,390	(294,587)	-	5,762,310	3,989,390	1,772,920	44.4%
Total net position	\$ 16,382,603	\$ 14,328,854	\$ 59,993,330	\$ 56,824,345	\$ 76,375,933	\$ 71,153,199	\$ 5,222,734	7.3%

PENINSULA HEALTH CARE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

The largest portion of the District's net position (92.4%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment) and resources that are subject to external restrictions on how they may be used, less any related outstanding debt that was used to acquire those assets. The District uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of \$5,762,310 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors. At the end of the current fiscal year, the District is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Governmental Activities

During the current fiscal year, net position for governmental activities increased \$2,053,749 from the prior fiscal year for an ending balance of \$16,382,603. The increase in the overall net position of governmental activities is the result of a combination of increased property tax revenue, decreased special board initiatives and decreased transfers to business-type activities. Property taxes increased by \$492,626 due to an increase in property tax collections which are dependent on home values and assessed values.

Condensed Statement of Activities

	Governmental Activities		Business-Type Activities		Total		Total % Change
	2018	2017	2018	2017	2018	2017	
Revenues:							
Program Revenues:							
Leasing Revenue	\$ -	\$ -	\$ 2,618,701	\$ 2,451,669	\$ 2,618,701	\$ 2,451,669	6.8%
Dental Services Revenue	-	-	1,397,284	-	1,397,284	-	100.0%
General Revenues:							
Property Taxes	6,867,978	6,375,352	-	-	6,867,978	6,375,352	7.7%
Other Revenues	32,508	22,370	354,008	-	386,516	22,370	1627.8%
Investment Income	114,143	471,040	132,349	(337,784)	246,492	133,256	85.0%
Total Revenues	7,014,629	6,868,762	4,502,342	2,113,885	11,516,971	8,982,647	28.2%
Expenses:							
General Government	853,283	1,001,901	-	-	853,283	1,001,901	-14.8%
Grants	1,938,853	2,049,661	-	-	1,938,853	2,049,661	-5.4%
Special Board Initiatives	50,000	633,000	-	-	50,000	633,000	-92.1%
Leasing	-	-	468,611	897,465	468,611	897,465	-47.8%
Dental	-	-	3,068,496	-	3,068,496	-	100.0%
Total Expenses	2,842,136	3,684,562	3,537,107	897,465	6,379,243	4,582,027	39.2%
Transfers	(2,118,744)	(3,777,957)	2,118,744	3,777,957	-	-	0.0%
Change in Net Position	2,053,749	(593,757)	3,083,979	4,994,377	5,137,728	4,400,620	16.8%
Net Position - Beginning Restated	14,328,854	14,922,611	56,909,351	51,829,968	71,238,205	66,752,579	6.7%
Net Position - Ending	\$ 16,382,603	\$ 14,328,854	\$ 59,993,330	\$ 56,824,345	\$ 76,375,933	\$ 71,153,199	7.3%

PENINSULA HEALTH CARE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Business-type Activities

For the District business-type activities, the results for the current fiscal year were an overall net position increase to an ending balance of \$59,993,330. The total increase in net position for business-type activities was \$3,083,979 or 5.4% from the prior fiscal year. The growth, in large part, is attributable to transfers from the general fund, collections of rental revenue from tenants, and the addition of the Sonrisas operations.

In August 2017, the Sonrisas Dental fund became a component unit of the District. The District controls the voting majority of the governing board of the Dental Fund and provides substantial financial support to the Dental Fund. Therefore, due to the change in this relationship between the District and Sonrisas, the financial statements of Sonrisas are now included in the District's financial statements as a blended component unit as of July 1, 2017.

GOVERNMENTAL FUND FINANCIAL ANALYSIS

Governmental Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned or assigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the District itself, or a group or individual that has delegated authority to assign resources for particular purposes by the District's Board. At June 30, 2018, the District's governmental funds reported fund balance of \$13,197,751, an increase of \$1,691,297 in comparison with the prior year. Approximately 43% of this amount (\$5,697,751) constitutes assigned fund balance, which is available for spending at the government's discretion but was assigned for future healthcare projects and programs. The remainder of the fund balance is restricted for particular purposes in the amount of \$7,500,000.

Proprietary Funds

The District's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The total growth in net position for the leasing fund was \$3,423,572. As noted earlier in the discussion of business-type activities, the increase for the District results from a combination of transfers from the general fund, collection of rental revenue from tenants of District owned healthcare facilities, and the addition of the Sonrisas operations. The decrease in net position in the dental fund in the amount of \$339,593 was due to uncompensated care serving Denti-Cal, low-income and uninsured patients.

GENERAL FUND BUDGETARY HIGHLIGHTS

Original budget compared to final budget

During the year there was no need for any significant amendments to increase either the original estimated revenues or original budgeted appropriations.

PENINSULA HEALTH CARE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

CAPITAL ASSETS

The District's investment in capital assets for its governmental and business-type activities as of June 30, 2018, amounts to \$86,279,562 (net of accumulated depreciation). This investment in capital assets includes construction in progress on the assisted living/memory care project. The total increase in capital assets for the current fiscal year of approximately \$34,994,580 was mainly related to the construction of the assisted living/memory care facility. Additional details about the District's capital assets can be found in note 3.

LONG-TERM DEBT

At the end of the current fiscal year, the District had total certificates of participation outstanding of \$48,475,000. During the year the Board approved borrowing of an additional \$10,000,000 of certificates of participation. At June 30, 2018, the remaining available balance from the borrowing program was \$550. Additional details about the District's debt can be found in note 9.

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: Peninsula Health Care District, 650-697-6900, 1819 Trousdale Drive, Burlingame, CA 94010.

PENINSULA HEALTH CARE DISTRICT

**STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
ASSETS:			
CURRENT ASSETS:			
Cash and investments	\$ 12,930,220	\$ 25,915,792	\$ 38,846,012
Receivables:			
Interest	45,519	141,204	186,723
Patient	-	150,073	150,073
Grants	-	5,725	5,725
Prepaid items	35,834	46,431	82,265
Restricted cash and investments	-	3,081,883	3,081,883
Restricted cash and investments with fiscal agent	-	550	550
Other assets	-	5,574	5,574
TOTAL CURRENT ASSETS	<u>13,011,573</u>	<u>29,347,232</u>	<u>42,358,805</u>
NONCURRENT ASSETS:			
Deposits receivable	-	14,697	14,697
Internal balances	250,000	(250,000)	-
Nondepreciable capital assets	2,120,000	79,360,443	81,480,443
Depreciable capital assets, net	705,706	4,093,413	4,799,119
Net pension asset	380,795	-	380,795
TOTAL NONCURRENT ASSETS	<u>3,456,501</u>	<u>83,218,553</u>	<u>86,675,054</u>
TOTAL ASSETS	<u>16,468,074</u>	<u>112,565,785</u>	<u>129,033,859</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Pension related	150,856	-	150,856
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable	34,054	2,735,013	2,769,067
Accrued payroll liabilities	29,768	-	29,768
Interest payable	-	771,405	771,405
Unearned revenues	-	365,747	365,747
Long-term debt, due within one year	-	1,040,000	1,040,000
TOTAL CURRENT LIABILITIES	<u>63,822</u>	<u>4,912,165</u>	<u>4,975,987</u>
NONCURRENT LIABILITIES:			
Tenant deposits	-	225,290	225,290
Long-term debt, due after one year	-	47,435,000	47,435,000
TOTAL NONCURRENT LIABILITIES	<u>-</u>	<u>47,660,290</u>	<u>47,660,290</u>
TOTAL LIABILITIES	<u>63,822</u>	<u>52,572,455</u>	<u>52,636,277</u>
DEFERRED INFLOWS OF RESOURCES:			
Pension related	172,505	-	172,505
NET POSITION			
Net investment in capital assets	2,825,706	33,483,672	36,309,378
Restricted for:			
Memory care and assisted living facility project	-	24,453,767	24,453,767
Capital projects	-	40,000	40,000
Debt service	-	2,310,478	2,310,478
Debt covenant	7,500,000	-	7,500,000
Unrestricted	6,056,897	(294,587)	5,762,310
TOTAL NET POSITION	<u>\$ 16,382,603</u>	<u>\$ 59,993,330</u>	<u>\$ 76,375,933</u>

PENINSULA HEALTH CARE DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes in Net Position		Totals
			Governmental Activities	Business-type Activities	
Governmental Activities:					
General government	\$ 853,283	\$ -	\$ (853,283)	\$ -	\$ (853,283)
Community services:					
Community grants	1,938,853	-	(1,938,853)	-	(1,938,853)
Special board initiatives	50,000	-	(50,000)	-	(50,000)
Total governmental activities	2,842,136	-	(2,842,136)	-	(2,842,136)
Business-type Activities:					
Leasing	468,611	2,618,701	-	2,150,090	2,150,090
Dental Services	3,068,496	1,397,284	-	(1,671,212)	(1,671,212)
Total business-type activities	3,537,107	4,015,985	-	478,878	478,878
Total primary government	\$ 6,379,243	\$ 4,015,985	(2,842,136)	478,878	(2,363,258)
General Revenues:					
Property taxes			6,867,978	-	6,867,978
Grants and contributions			-	275,613	275,613
Other revenues			32,508	78,395	110,903
Investment earnings			114,143	132,349	246,492
Transfers			(2,118,744)	2,118,744	-
Total General Revenues and Transfers			4,895,885	2,605,101	7,500,986
Change in Net Position			2,053,749	3,083,979	5,137,728
Net Position, beginning as restated			14,328,854	56,909,351	71,238,205
Net Position, ending			\$ 16,382,603	\$ 59,993,330	\$ 76,375,933

PENINSULA HEALTH CARE DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	<u>General Fund</u>
ASSETS	
Cash and investments	\$ 12,930,220
Receivables:	
Interest receivable	45,519
Prepaid items	35,834
Advances to other funds	250,000
TOTAL ASSETS	<u>\$ 13,261,573</u>
LIABILITIES	
Accounts payable	\$ 34,054
Accrued payroll liabilities	29,768
TOTAL LIABILITIES	<u>63,822</u>
FUND BALANCE	
Restricted	7,500,000
Assigned	5,697,751
TOTAL FUND BALANCE	<u>13,197,751</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 13,261,573</u>

PENINSULA HEALTH CARE DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2018**

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUND		\$ 13,197,751
Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the governmental funds because of the following:		
Capital assets used in Governmental Activities are not current resources and, therefore, are not reported in the governmental funds.		
Capital assets	\$ 2,896,312	
Less: accumulated depreciation	<u>(70,606)</u>	2,825,706
Net pension liability and related deferrals		<u>359,146</u>
Net Position of Governmental Activities		<u><u>\$ 16,382,603</u></u>

PENINSULA HEALTH CARE DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	General Fund
REVENUES:	
Taxes	\$ 6,867,978
Investment earnings	114,143
Other revenue	32,508
	<hr/>
TOTAL REVENUES	7,014,629
	<hr/>
EXPENDITURES:	
Current:	
General government:	
Administration and overhead	696,300
Communications	133,673
Legal fees	33,341
Promotion	51,158
Financial consultant	48,652
Other	252,611
Community services:	
Community grants	1,938,853
Special board initiatives	50,000
	<hr/>
TOTAL EXPENDITURES	3,204,588
	<hr/>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,810,041
	<hr/>
OTHER FINANCING SOURCES (USES):	
Transfers out	(2,118,744)
	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	(2,118,744)
	<hr/>
NET CHANGE IN FUND BALANCE	1,691,297
FUND BALANCE, BEGINNING	11,506,454
	<hr/>
FUND BALANCE, ENDING	\$ 13,197,751
	<hr/> <hr/>

PENINSULA HEALTH CARE DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Net change in fund balance		\$	1,691,297
Amounts reported for governmental activities in the Statement of Activities are different because of the following:			
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated lives and reported as depreciation expense.			
Capital outlay expenditures added back to fund balances	\$	6,300	
Depreciation expense not reported in governmental funds		<u>(20,058)</u>	(13,758)
In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This fiscal year, the difference between accrual-basis pension costs and actual employer contribution was:			
			<u>376,210</u>
Change in net position of governmental activities		<u>\$</u>	<u>2,053,749</u>

PENINSULA HEALTH CARE DISTRICT

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018**

	<u>Dental Fund</u>	<u>Leasing Fund</u>	<u>Total Enterprise</u>
ASSETS:			
CURRENT ASSETS:			
Cash and investments	\$ 405,696	\$ 25,510,096	\$ 25,915,792
Accounts receivables			
Interest	-	141,204	141,204
Patient	150,073	-	150,073
Grants	5,725	-	5,725
Prepaid items	42,418	4,013	46,431
Restricted cash and investments	-	3,081,883	3,081,883
Restricted cash and investments with fiscal agent	-	550	550
Other Assets	5,574	-	5,574
TOTAL CURRENT ASSETS	<u>609,486</u>	<u>28,737,746</u>	<u>29,347,232</u>
NONCURRENT ASSETS:			
Deposit receivable	14,697	-	14,697
Advances to Dental Fund	-	1,874,995	1,874,995
Non-depreciable capital assets	-	79,360,443	79,360,443
Depreciable capital assets, net	1,495,734	2,597,679	4,093,413
TOTAL NONCURRENT ASSETS	<u>1,510,431</u>	<u>83,833,117</u>	<u>85,343,548</u>
TOTAL ASSETS	<u>2,119,917</u>	<u>112,570,863</u>	<u>114,690,780</u>
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable and accrued expense	215,463	2,519,550	2,735,013
Interest payable	-	771,405	771,405
Unearned revenues	34,046	331,701	365,747
Long-term debt, due within one year	-	1,040,000	1,040,000
TOTAL CURRENT LIABILITIES	<u>249,509</u>	<u>4,662,656</u>	<u>4,912,165</u>
NONCURRENT LIABILITIES:			
Tenant deposits	-	225,290	225,290
Advances from General Fund	250,000	-	250,000
Advances from Leasing Fund	1,874,995	-	1,874,995
Long-term debt, due after one year	-	47,435,000	47,435,000
TOTAL NONCURRENT LIABILITIES	<u>2,124,995</u>	<u>47,660,290</u>	<u>49,785,285</u>
TOTAL LIABILITIES	<u>2,374,504</u>	<u>52,322,946</u>	<u>54,697,450</u>
NET POSITION:			
Net investment in capital assets	-	33,483,672	33,483,672
Restricted for memory care and assisted living	-	24,453,767	24,453,767
Restricted for capital projects	40,000	-	40,000
Restricted for debt service	-	2,310,478	2,310,478
Unrestricted	(294,587)	-	(294,587)
TOTAL NET POSITION	<u>\$ (254,587)</u>	<u>\$ 60,247,917</u>	<u>\$ 59,993,330</u>

PENINSULA HEALTH CARE DISTRICT

**STATEMENT OF CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	Dental Fund	Leasing Fund	Total Enterprise
OPERATING REVENUES:			
Lease revenue	\$ -	\$ 2,618,701	\$ 2,618,701
Patient services	1,397,284	-	1,397,284
TOTAL OPERATING REVENUES	1,397,284	2,618,701	4,015,985
OPERATING EXPENSES:			
Salaries and benefits	1,853,401	-	1,853,401
Supplies and other	752,444	-	752,444
Legal fees and purchased services	165,481	31,739	197,220
Rental expenses	29,700	12,901	42,601
Other property expenses	-	341,929	341,929
Depreciation	267,470	82,042	349,512
TOTAL OPERATING EXPENSES	3,068,496	468,611	3,537,107
OPERATING INCOME (LOSS)	(1,671,212)	2,150,090	478,878
NONOPERATING INCOME (EXPENSE):			
Grants and contributions	275,613	-	275,613
Settlement income	75,489	-	75,489
Investment earnings	2,122	130,227	132,349
Other income	2,906	-	2,906
TOTAL NON-OPERATING INCOME (EXPENSE)	356,130	130,227	486,357
INCOME (LOSS) BEFORE TRANSFERS	(1,315,082)	2,280,317	965,235
TRANSFERS:			
Transfers in	975,489	1,143,255	2,118,744
TOTAL TRANSFERS	975,489	1,143,255	2,118,744
Change in Net Position	(339,593)	3,423,572	3,083,979
Net Position, July 1, 2017, as restated	85,006	56,824,345	56,909,351
Net Position, June 30, 2018	<u>\$ (254,587)</u>	<u>\$ 60,247,917</u>	<u>\$ 59,993,330</u>

PENINSULA HEALTH CARE DISTRICT

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Dental Fund</u>	<u>Leasing Fund</u>	<u>Total Enterprise</u>
CASH FLOW FROM OPERATING ACTIVITIES:			
Cash received from tenants	\$ -	\$ 2,856,432	\$ 2,856,432
Cash received from patients	1,434,063	-	1,434,063
Cash paid to suppliers for goods and services	<u>(2,822,082)</u>	<u>(2,031,426)</u>	<u>(4,853,508)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>(1,388,019)</u>	<u>825,006</u>	<u>(563,013)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:			
Principal paid on debt	(139,972)	9,000,000	8,860,028
Purchase of capital assets	-	<u>(18,733,294)</u>	<u>(18,733,294)</u>
NET CASH USED FOR CAPITAL FINANCING ACTIVITIES	<u>(139,972)</u>	<u>(9,733,294)</u>	<u>(9,873,266)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating grants	297,300	-	297,300
Other income	74,722	-	74,722
Transfers in	<u>1,213,275</u>	<u>906,345</u>	<u>2,119,620</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>1,585,297</u>	<u>906,345</u>	<u>2,491,642</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income	<u>2,122</u>	<u>145,480</u>	<u>147,602</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>2,122</u>	<u>145,480</u>	<u>147,602</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	59,428	(7,856,463)	(7,797,035)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FISCAL YEAR	<u>346,268</u>	<u>33,366,559</u>	<u>33,712,827</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE FISCAL YEAR	<u>\$ 405,696</u>	<u>\$ 25,510,096</u>	<u>\$ 25,915,792</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ (1,671,212)	\$ 2,150,090	\$ 478,878
Adjustments to reconcile operating income (loss) to net cash Provided (used) by operating activities:			
Depreciation	267,470	82,042	349,512
(Increase) Decrease in operating assets:			
Rent and tenant receivable	-	49,628	49,628
Patient receivable	2,733	-	2,733
Prepaid items	<u>(29,513)</u>	<u>8,906</u>	<u>(20,607)</u>
Increase (Decrease) in operating liabilities:			
Accounts payable	8,457	(1,653,763)	(1,645,306)
Tenant deposits	-	175,000	175,000
Unearned revenues	<u>34,046</u>	<u>13,103</u>	<u>47,149</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (1,388,019)</u>	<u>\$ 825,006</u>	<u>\$ (563,013)</u>
Noncash Investing, Capital, and Financing Activities			
Interest capitalized to construction in progress	<u>\$ -</u>	<u>\$ 1,527,180</u>	<u>\$ 1,527,180</u>

PENINSULA HEALTH CARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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.
- 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 fiscal year 2013-14 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. In addition, effective as of the beginning of this fiscal year, the Sonrisas Dental, Inc. (Sonrisas) is included in the financial statements as a proprietary component unit because of the financial relationship between the Sonrisas and the District and because the District controls the voting majority of that Sonrisas. The operations of the Corporation and Sonrisas are accounted for in the District's proprietary funds.

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 three broad fund categories: governmental, proprietary, and fiduciary.

PENINSULA HEALTH CARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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. It is the operating fund of the District. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of California.

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. The District has one enterprise fund:

Leasing 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.

Dental 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 dental service 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.

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.

PENINSULA HEALTH CARE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 90 days of the end of the current fiscal period, except for property taxes which are considered to be available if collected within 60 days. 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 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 funds.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and all investments because investments are comprised of highly rated bonds that can be liquidated into cash equivalents in a short period of time. Cash equivalents also include cash with county treasury and state fund balances for purposes of the statement of cash flows. Restricted investments are not considered cash equivalents because they are restricted by debt covenants to remain invested throughout the life of the loan.

Investments

Investments held at June 30, 2018, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at fiscal year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

PENINSULA HEALTH CARE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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. 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>
Leasehold improvements	10-20 years
Dental equipment	5-10 years
Office equipment and furniture	5-10 years

Restricted Assets

Certain proceeds of the District's long-term debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because they are maintained in separate bank accounts and their use is limited by applicable debt covenants.

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. Unearned Revenue of \$365,747 at June 30, 2018 primarily consists of 2 months of prepaid rent for 1501 Trousdale from Mills Peninsula Health Services (MPHS) as discussed in Note 6.

PENINSULA HEALTH CARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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.

Paid Time Off

It is the District's policy to permit employees to accumulate a limited amount of earned but unused paid time off (PTO), which will be paid to employees upon separation from service, up to a maximum of 45 days after 10 or more years of service. The PTO liability balance is included in the accrued payroll liabilities in the financial statements.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

PENINSULA HEALTH CARE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

New Accounting Pronouncements

The GASB has issued the following accounting pronouncements that will become effective in future fiscal years:

- GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.
- GASB Statement No. 81 – Irrevocable Split-Interest Agreements.
- GASB Statement No. 83 – Certain Asset Retirement Obligations.
- GASB Statement No. 84 – Fiduciary Activities.
- GASB Statement No. 85 – Omnibus 2017.
- GASB Statement No. 86 – Certain Debt Extinguishment Issues.
- GASB Statement No. 87 – Leases.
- GASB Statement No. 88 – Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.
- GASB Statement No. 89 – Accounting for Interest Cost Incurred Before the End of Construction Period.

The District has not determined the effect of these statements.

NOTE 2 – DEPOSITS AND INVESTMENTS

Classification

The cash and investments are classified in the financial statements as shown below, based on whether or not its use is restricted under the terms of District debt instruments or District agreements.

Statement of Net Position:

Cash and Investments	\$ 38,846,012
Restricted Cash and Investments	3,081,883
Restricted Cash and Investments with fiscal agent	<u>550</u>
Total Cash and Investments	<u><u>\$ 41,928,445</u></u>

Cash and Investments as of June 30, 2018 consists of the following:

Cash in Bank	\$ 2,336,910
Investments	<u>39,591,535</u>
Total Cash and Investments	<u><u>\$ 41,928,445</u></u>

PENINSULA HEALTH CARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 Bank, 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. The pool is not registered with the SEC.

Investment in the State Investment Pool – The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. The District's investment in the pool is reported in the accompanying financial statement at amounts based upon the District's pro-rata share of the amortized cost basis provided by LAIF for the entire LAIF portfolio which approximates fair value. The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on an amortized cost basis. The pool is not registered with the SEC.

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 BBB+. 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 BBB+. The investments are recorded at market value.

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 Bank – The District has invested funds with Torrey Pines Bank, a Division of Western Alliance Bank, which are used primarily to purchase certificates of deposits. The investments are recorded at market value.

PENINSULA HEALTH CARE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the Peninsula Health Care District (District) by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds, Notes, and 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 Deposition	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 Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
San Mateo Count Pooled Investment Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$50 million
Joint Powers Authority Pools	N/A	None	None

PENINSULA HEALTH CARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Investments Authorized by Debt Agreements

Investment of debt proceeds held by trustees is governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds, Notes, and Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
Commercial Paper (A or higher)	None	None	None
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Time Deposits	None	None	None
Time Deposits (Unsecured)	None	None	None
Medium Term Notes	5 years	30%	None
Money Market Funds	N/A	None	None
San Mateo Count Pooled Investment Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Certificates of Deposit	None	None	None

PENINSULA HEALTH CARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming closer to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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:

	Carrying Amount	Remaining Maturity (in Months)				
		12 Months Or Less	13 to 24 Months	25-36 Months	37-48 Months	49-60 Months
Held in District's Accounts:						
State Investment Pool (LAIF)	\$ 3,046,646	\$ 3,046,646	\$ -	\$ -	\$ -	\$ -
San Mateo County Pooled Investment Fund	3,310,793	3,310,793	-	-	-	-
Money Market Funds	1,419,895	1,419,895	-	-	-	-
U.S. Treasury Obligations	9,310,048	556,500	2,630,039	2,829,108	2,032,686	1,261,715
U.S. Agency Securities	5,042,165	948,129	2,876,926	1,217,110	-	-
Corporate Bonds	12,082,270	669,827	1,553,976	6,357,504	2,587,871	838,103
Municipal Bonds	2,297,835	1,224,747	330,689	742,399	-	-
Certificate of Deposit	3,081,883	3,081,883	-	-	-	-
	<u>\$ 39,591,535</u>	<u>\$ 14,258,420</u>	<u>\$ 7,391,630</u>	<u>\$ 11,146,121</u>	<u>\$ 4,620,557</u>	<u>\$ 2,099,818</u>

PENINSULA HEALTH CARE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Disclosures Relating to Credit Risk

Generally, 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 rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code and the District's investment policy, and the actual rating as of fiscal year end for each investment type.

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End		
				AAA	AA+	AA
State Investment Pool (LAIF)	\$ 3,046,646	None	\$ -	\$ -	\$ -	\$ -
San Mateo County Pool	3,310,793	None	-	-	-	-
Money Market Funds	1,419,895	None	-	-	-	-
U.S. Treasury Obligations	9,310,048	N/A	9,310,048	-	-	-
U.S. Agency Securities	5,042,165	None	-	1,217,110	3,825,055	-
Corporate Bonds	12,082,270	None	-	2,229,852	54,758	150,676
Municipal Bonds	2,297,835	None	-	619,554	191,750	1,323,626
Certificate of Deposit	3,081,883	None	-	-	-	-
Total	\$ 39,591,535		\$ 9,310,048	\$ 4,066,516	\$ 4,071,563	\$ 1,474,302

Investment Type	Rating as of Fiscal Year End					
	AA-	A+	A	A-	BBB+	Not Rated
State Investment Pool (LAIF)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,046,646
San Mateo County Pool	-	-	-	-	-	3,310,793
Money Market Funds	-	-	-	-	-	1,419,895
U.S. Treasury Obligations	-	-	-	-	-	-
U.S. Agency Securities	-	-	-	-	-	-
Corporate Bonds	705,779	1,931,468	1,452,543	2,946,134	2,611,060	-
Municipal Bonds	128,302	34,603	-	-	-	-
Certificate of Deposit	-	-	-	-	-	3,081,883
Total	\$ 834,081	\$ 1,966,071	\$ 1,452,543	\$ 2,946,134	\$ 2,611,060	\$ 10,859,217

PENINSULA HEALTH CARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in one issuer that represents 5% or more of total District investments (other than U.S. Treasury Obligations and U.S. Agency Securities).

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. As of June 30, 2018, \$2,090,355 of the District's deposits with financial institutions in excess of federal depository insurance limits was held in collateralized accounts.

Custodial Credit Risk – Investments

The custodial credit 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 California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF and the San Mateo County Investment Pool).

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. These principles recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Investments reflect prices quoted in active markets;
- Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered active; and,
- Level 3: Investments reflect prices based upon unobservable sources.

PENINSULA HEALTH CARE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Fair Value Measurements

The District has the following recurring fair value measurements as of June 30, 2018:

Investments by Fair Value	Total	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Funds	\$ 1,419,895	\$ 1,419,895	\$ -	\$ -
U.S. Treasury Obligations	9,310,048	9,310,048	-	-
U.S. Agency Securities	5,042,165	5,042,165	-	-
Corporate Notes	12,082,270	-	12,082,270	-
Municipal Bonds	2,297,835	2,297,835	-	-
	<u>\$ 30,152,213</u>	<u>\$ 18,069,943</u>	<u>\$ 12,082,270</u>	<u>\$ -</u>

The State Investment Pool and San Mateo County Pooled Investment Fund are not levels because deposits and withdrawals from the pools are made on a \$1 cost basis. In addition, the District's certificates of deposits are non-negotiable certificates of deposits and therefore they were not included within the categorization above.

PENINSULA HEALTH CARE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

Governmental Activities:	Balance at July 1, 2017	Additions	Deletions	Transfers	Balance at June 30, 2018
Capital Assets, not being depreciated:					
Land	\$ 2,120,000	\$ -	\$ -	\$ -	\$ 2,120,000
Total Capital Assets, not being depreciated	<u>2,120,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,120,000</u>
Capital Assets, being depreciated:					
Buildings and improvements	770,013	6,300	-	-	776,313
Total Capital Assets, being depreciated	<u>770,013</u>	<u>6,300</u>	<u>-</u>	<u>-</u>	<u>776,313</u>
Less Accumulated Depreciation	<u>(50,549)</u>	<u>(20,058)</u>	<u>-</u>	<u>-</u>	<u>(70,607)</u>
Total Capital Assets, being depreciated, net	<u>719,464</u>	<u>(13,758)</u>	<u>-</u>	<u>-</u>	<u>705,706</u>
Total Capital Assets, Net	<u>\$ 2,839,464</u>	<u>\$ (13,758)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,825,706</u>

Depreciation expense of \$20,058 was allocated to general government expense on the statement of activities.

Business-type Activities:					
Leasing Enterprise Fund	Balance at July 1, 2017	Additions	Deletions	Transfers	Balance at June 30, 2018
Capital Assets, not being depreciated:					
Land	\$ 11,262,110	\$ 2,239	\$ -	\$ -	\$ 11,264,349
Construction in Progress	34,308,239	33,787,855	-	-	68,096,094
Total Capital Assets, not being depreciated	<u>45,570,349</u>	<u>33,790,094</u>	<u>-</u>	<u>-</u>	<u>79,360,443</u>
Capital Assets, being depreciated:					
Land improvements	11,100	-	-	-	11,100
Buildings and improvements	3,692,466	1,068,142	-	-	4,760,608
Equipment	1,710,776	1,126,841	-	-	2,837,617
Total Capital Assets, being depreciated	<u>5,414,342</u>	<u>2,194,983</u>	<u>-</u>	<u>-</u>	<u>7,609,325</u>
Less Accumulated Depreciation	<u>(2,789,173)</u>	<u>(726,739)</u>	<u>-</u>	<u>-</u>	<u>(3,515,912)</u>
Total Capital Assets, being depreciated, net	<u>2,625,169</u>	<u>1,468,244</u>	<u>-</u>	<u>-</u>	<u>4,093,413</u>
Total Capital Assets, Net	<u>\$ 48,195,518</u>	<u>\$ 35,258,338</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,453,856</u>

PENINSULA HEALTH CARE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 4 – FUND BALANCES AND NET POSITION

Net Position

Net position is divided into three captions. These captions apply only to net position as determined at the government-wide level, and are described below:

Net Investment in Capital Assets describes the portion of net position, which is represented by the current net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District cannot unilaterally alter.

Unrestricted describes the portion of net position which is not restricted as to use.

The Governmental activities net position is restricted by the requirements of the liquidity covenant, as discussed in Note 9, to maintain liquid assets of \$7,500,000. The Enterprise Fund net position is restricted by the requirements of the covenants, discussed in Note 9, to maintain a minimum deposit of \$3,000,000 with an affiliate of Western Alliance Bank. Additional net position is restricted in the amount of \$30,691,798 for construction and other expenses in accordance with the debt agreement with Western Alliance Bank.

When both restricted and unrestricted net position are available, restricted resources are depleted first before the unrestricted resources are used.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (District ordinances).

PENINSULA HEALTH CARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of the Board of Directors. Those committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balance classifications may be redeployed for other purposes with appropriate due process. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available.

Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

NOTE 5 – LEASE AGREEMENTS

The District transitioned its prior hospital facilities and equipment lease into a Master Agreement with Mills-Peninsula Health Services (MPHS) effective November 1, 2006. This agreement included lease of the hospital facilities, a Construction Ground lease, and rental of additional District land upon which MPHS constructed the new Mills-Peninsula Medical Center and Palo Alto Foundation Clinic. On May 15, 2011 the new hospital was completed and available for use and the 50-year Ground Lease between the District and MPHS became effective.

The lease rate for the District land was set on November 1, 2006 at \$1,500,000/year with a CPI adjustment every 3 years over the term of the Ground Lease. Adjustments were made 9/1/2008, 9/1/2011, 6/1/2014, and 9/1/2017. MPHS has an option to extend the Ground Lease for an additional 25 year period.

The District leases four additional buildings to various tenants. 1875 Trousdale is leased under a February 8, 2017 agreement which expired February 28, 2018. The tenant notified the District that it would not renew but would continue on a month to month basis. The lease was terminated as of June 30, 2018. 430 N. El Camino Real was leased under a November 2014 agreement with a ten (10) year term which expires January 1, 2025, not including one 5 year extension. 1740 Marco Polo is being leased to ten separate parties with various agreement dates and terms. 1720 Marco Polo is being leased to six separate parties with various agreement dates and terms.

PENINSULA HEALTH CARE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Expected base rents through the end of the existing leases are:

Fiscal Year Ended June 30,	1501 Trousdale	430 El Camino Real	1740 Marco Polo	1720 Marco Polo
2019	\$ 1,969,203	\$ 189,948	\$ 239,052	\$ 138,538
2020	1,969,203	189,948	107,890	95,541
2021	1,969,203	189,948	16,409	78,063
2022	1,969,203	189,948	-	61,128
2023	1,969,203	189,948	-	-
2024-2028	9,846,015	284,922	-	-
2029-2033	9,846,015	-	-	-
2034-2038	9,846,015	-	-	-
2039-2043	9,846,015	-	-	-
2044-2048	9,846,015	-	-	-
Thereafter	25,435,539	-	-	-

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) of 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, 2018

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 completion of the new hospital, 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 – RETIREMENT PLAN

General Information about the Pension Plan

Plan Description

All qualified employees are eligible to participate in the District's Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plan (Plan) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of individual rate plans (benefit tiers) within a miscellaneous risk pool. Plan assets may be used to pay for benefits for any employer rate plan of the miscellaneous plan. Accordingly, rate plans within the miscellaneous pool is not a separate plan. Individual employers may sponsor more than one rate plan in the miscellaneous pool. The District sponsors two rate miscellaneous rate plans. Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

PENINSULA HEALTH CARE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The rate plan provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-67	52-67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	7%	6.50%
Required employer contribution rates	11.444%	7.045%

Contributions

Section 20814 (c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employees be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

The District's contributions to the Plan for the fiscal year ended was \$39,492.

Pension Liabilities (Assets), Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2018, the District reported net a pension asset for its proportionate share of the net position asset of the Plan of \$380,795.

The District's net pension asset for the Plan is measured as the proportionate share of the net pension asset/liability. The net pension asset of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension asset was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The District's proportion of the net pension asset was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension asset for the Plan as of June 30, 2017 and 2018 was as follows:

Proportion - June 30, 2017	0.004248%
Proportion - June 30, 2018	0.003840%
Change - Increase (Decrease)	-0.00041%

PENINSULA HEALTH CARE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

For the fiscal year ended June 30, 2018, the Local Government recognized pension expense of \$336,718. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 39,492	\$ -
Contributions in excess of proportionate share	-	(67,878)
Change in assumptions	77,570	(5,915)
Net differences between expected and actual experience	625	(8,957)
Change in proportions	15,626	(89,755)
Net differences between projected and actual earnings on pension plan investments	17,543	-
Total	<u>\$ 150,856</u>	<u>\$ (172,505)</u>

\$39,492 reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and will be recognized as pension expense as follows:

For Year Ended June 30,	
2019	\$ (98,727)
2020	29,777
2021	18,226
2022	(10,416)
Total	<u>\$ (61,140)</u>

PENINSULA HEALTH CARE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry-Age and Service
Investment Rate of Return	7.15% (1)
Mortality	(2)
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit	Contract COLA up to 2.75% until Purchasing Power
Increase	Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) Net of pension plan investment and administrative expenses, includes inflation.

(2) The probabilities of mortality are based on the 2014 CalPERS experience study for the period from 1997 to 2011.

Change of Assumptions

The discount rate of 7.15 percent was used for June 30, 2018 which is a decrease from 7.65 percent used in the prior valuation.

PENINSULA HEALTH CARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10 ¹	Real Return Years 11+²
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.0	0.8	2.3
Inflation Sensitive	6.0	0.6	1.4
Private Equity	12.0	6.6	6.6
Real Estate	11.0	2.8	5.2
Infrastructure and Forestland	3.0	3.9	5.4
Liquidity	2.0	(0.40)	(0.90)

¹ An Expected inflation of 2.5% used for this period.

² An expected inflation of 3.0% used for this period.

PENINSULA HEALTH CARE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Sensitivity of the Proportionate Share of the Net Pension Asset to Changes in the Discount Rate

The following presents the net pension liability/(asset) of the Plan as of the measurement date, calculated using the discount rate of 7.15 percent, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Plan's Net Pension	(\$125,103)	(\$380,795)	(\$592,564)

Pension Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net positions is available in the separately issued CalPERS financial reports.

NOTE 9 – LONG-TERM DEBT

	Balance June 30, 2017	Additions	Deletions	Prior Period Adjustments	Balance June 30, 2018	Due within one year
Business-type Activities						
Certificates of Participation	\$ 39,475,000	10,000,000	\$ (1,000,000)	-	\$ 48,475,000	\$ 1,040,000
Total Business-type Activities	<u>\$ 39,475,000</u>	<u>10,000,000</u>	<u>\$ (1,000,000)</u>	<u>-</u>	<u>\$ 48,475,000</u>	<u>\$ 1,040,000</u>

Certificates of Participation

During the fiscal year 2013-14, the District entered into a debt agreement with Western Alliance Bank in the 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 has drawn down the full \$40,000,000 amount allowed under the agreement. The interest rate is 3.91%, with interest payments due every August 1st and February 1st, commencing August 1, 2014. Principal payments are due every February 1st, commencing February 1st, 2017.

During the fiscal year 2015-16 the District entered into a debt agreement with Western Alliance Bank in the amount of \$10,000,000, also 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 has drawn down the full \$10,000,000 amount allowed by the agreement. The interest rate is 3.47% with interest payments due every August 1st and February 1st, commencing February 1, 2018. Principal payments are due every February 1st, commencing February 1st, 2020.

PENINSULA HEALTH CARE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

The remaining debt service payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,040,000	\$ 1,851,373	\$ 2,891,373
2020	1,375,000	1,810,709	3,185,709
2021	1,430,000	1,758,222	3,188,222
2022	1,490,000	1,703,629	3,193,629
2023	1,545,000	1,646,734	3,191,734
2024-2028	8,690,000	7,300,611	15,990,611
2029-2033	10,555,000	5,503,411	16,058,411
2034-2038	19,450,000	1,260,312	20,710,312
2039-2043	2,900,000	50,315	2,950,315
Totals	<u>\$ 48,475,000</u>	<u>\$ 22,885,316</u>	<u>\$ 71,360,316</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, 2018 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 fiscal year ended June 30, 2018.

NOTE 10 – RESTATEMENT DUE TO ADDITION OF SONRISAS OPERATIONS

In August 2017, the Sonrisas Dental fund became a component unit of the District. The District controls the voting majority of the governing board of the Dental Fund and provides substantial financial support to the Dental fund. Therefore, due to change in this relationship between the District and Sonrisas, the financial statements of Sonrisas are now included in the District's financial statements as a blended component unit as of July 1, 2017. This resulted in an increase to the District's net position as of July 1, 2017 in both, the governmental activities and the Enterprise funds in the amount of \$85,006.

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Required Supplementary Information

PENINSULA HEALTH CARE DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET
PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018**

Schedule of the District's Proportionate Share of the Net Pension Liability – Last 10 Years*

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Proportion of the net pension asset	0.01323%	0.01323%	0.01352%	0.01488%
Proportionate share of the net pension asset	\$ 380,795	\$ 367,602	\$ 486,714	\$ 367,646
Covered payroll	\$ 411,421	\$ 285,319	\$ 332,610	\$ 270,104
Proportionate Share of the net pension asset as a percentage of covered payroll	92.56%	128.84%	146.33%	136.11%
Plan fiduciary net position as a percentage of total pension asset	74.06%	74.06%	79.04%	81.15%

Notes to Schedule

Change in Assumptions: The discount rate was changed from 7.5 percent in 2015 (net of administrative expense) to 7.65 percent in 2016 to correct for an adjustment to exclude administrative expense. Rate was also changed to 7.15 percent in the 2018 fiscal year.

*Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

PENINSULA HEALTH CARE DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018**

Schedule of Contributions – Last 10 Years*

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractual required contribution (actuarially determined)	\$ 39,492	\$ 36,629	\$ 80,628	\$ 31,075
Contributions in relation to the actuarially determined contributions	<u>(39,492)</u>	<u>(36,692)</u>	<u>(36,629)</u>	<u>(32,019)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (63)</u>	<u>\$ 43,999</u>	<u>\$ (944)</u>
Covered payroll	411,421	285,319	332,610	270,104
Contributions as a percentage of covered payroll	9.60%	12.84%	24.24%	11.50%

*Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

PENINSULA HEALTH CARE DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
GENERAL FUND BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>General Fund</u>			Variance with Final Budget Positive (Negative)
	<u>Budget Amounts</u>		<u>Actual</u>	
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes	\$ 6,500,000	\$ 6,500,000	\$ 6,867,978	\$ 367,978
Use of money and property	215,000	215,000	114,143	(100,857)
Other revenue	1,800	1,800	32,508	30,708
TOTAL REVENUES	<u>6,716,800</u>	<u>6,716,800</u>	<u>7,014,629</u>	<u>297,829</u>
EXPENDITURES:				
Current:				
General Government:				
Administration and overhead	777,000	777,000	696,300	80,700
Tax administration fee	50,000	50,000	-	50,000
Communications	175,000	175,000	133,673	41,327
Legal fees	40,000	40,000	33,341	6,659
Promotion	50,000	50,000	51,158	(1,158)
Financial consultant	50,000	50,000	48,652	1,348
Other	390,300	390,300	252,611	137,689
Community Grants	2,000,000	2,000,000	1,988,853	11,147
TOTAL EXPENDITURES	<u>3,532,300</u>	<u>3,532,300</u>	<u>3,204,588</u>	<u>327,712</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>3,184,500</u>	<u>3,184,500</u>	<u>3,810,041</u>	<u>625,541</u>
NET CHANGE IN FUND BALANCES	<u>\$ 3,184,500</u>	<u>\$ 3,184,500</u>	3,810,041	<u>\$ 625,541</u>
Reconciling items:				
Transfers out			(2,118,744)	
FUND BALANCE, BEGINNING			<u>11,506,454</u>	
FUND BALANCE, ENDING			<u>\$ 13,197,751</u>	

Supplementary Information

PENINSULA HEALTH CARE DISTRICT

**SUPPLEMENTARY INFORMATION
LEASING FUND BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	Enterprise Fund			Variance with Final Budget Positive (Negative)
	Budget Amounts		Actual	
	Original	Final		
OPERATING REVENUES:				
Lease revenue	\$ 2,286,900	\$ 2,286,900	\$ 2,618,701	\$ 331,801
TOTAL OPERATING REVENUES	<u>2,286,900</u>	<u>2,286,900</u>	<u>2,618,701</u>	<u>331,801</u>
OPERATING EXPENSES:				
Legal fees	8,000	8,000	31,739	(23,739)
Rental expenses	13,000	13,000	12,901	99
Other property expenses	800,000	800,000	341,929	458,071
Depreciation	-	-	82,042	(82,042)
TOTAL OPERATING EXPENSES	<u>821,000</u>	<u>821,000</u>	<u>468,611</u>	<u>352,389</u>
OPERATING INCOME (LOSS)	<u>1,465,900</u>	<u>1,465,900</u>	<u>2,150,090</u>	<u>684,190</u>
NONOPERATING INCOME (EXPENSE):				
Investment income (loss)	24,000	24,000	130,227	106,227
TOTAL NONOPERATING INCOME (EXPENSE)	<u>24,000</u>	<u>24,000</u>	<u>130,227</u>	<u>106,227</u>
CHANGES IN NET POSITION	<u>\$ 1,489,900</u>	<u>\$ 1,489,900</u>	<u>2,280,317</u>	<u>\$ 790,417</u>
Reconciling items:				
Transfers in			1,143,255	
Dental fund ending net position			(254,587)	
NET POSITION, BEGINNING			<u>56,824,345</u>	
NET POSITION, ENDING			<u>\$ 59,993,330</u>	

PENINSULA HEALTH CARE DISTRICT

**SUPPLEMENTARY INFORMATION – ALL FUNDS BUDGETARY COMPARISON
SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	Budget Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 6,500,000	\$ 6,500,000	\$ 6,867,978	\$ 367,978
Use of money and property	215,000	215,000	114,143	(100,857)
Lease revenue	2,286,900	2,286,900	2,618,701	331,801
Other revenue	1,800	1,800	32,508	30,708
TOTAL REVENUES	<u>9,003,700</u>	<u>9,003,700</u>	<u>9,633,330</u>	<u>629,630</u>
EXPENDITURES/EXPENSES:				
Current:				
General Government:				
Administration and overhead	777,000	777,000	696,300	80,700
Tax administration fee	50,000	50,000	-	50,000
Communications	175,000	175,000	133,673	41,327
Legal fees	40,000	40,000	33,341	6,659
Promotion	50,000	50,000	51,158	(1,158)
Financial consultant	50,000	50,000	48,652	1,348
Other	390,300	390,300	252,611	137,689
Community Grants	2,000,000	2,000,000	1,988,853	11,147
Legal fees	8,000	8,000	31,739	(23,739)
Rental expenses	13,000	13,000	12,901	99
Other property expenses	800,000	800,000	341,929	458,071
Depreciation	-	-	82,042	(82,042)
TOTAL EXPENDITURES/EXPENSES	<u>4,353,300</u>	<u>4,353,300</u>	<u>3,673,199</u>	<u>680,101</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	<u>4,650,400</u>	<u>4,650,400</u>	<u>5,960,131</u>	<u>1,309,731</u>
NONOPERATING INCOME (EXPENSE)				
Investment income (loss)	24,000	24,000	130,227	106,227
TOTAL NONOPERATING INCOME (EXPENSE)	<u>24,000</u>	<u>24,000</u>	<u>130,227</u>	<u>106,227</u>
NET CHANGE IN FUND BALANCE/NET POSITION	<u>\$4,674,400</u>	<u>\$4,674,400</u>	<u>6,090,358</u>	<u>\$1,415,958</u>
Reconciling items:				
Capital Assets, net			2,825,706	
Pension and related deferrals			359,146	
Grants included above to Dental fund			(975,489)	
Dental fund ending net position			(254,587)	
FUND BALANCE/NET POSITION, BEGINNING			<u>68,330,799</u>	
NET POSITION, ENDING			<u>\$ 76,375,933</u>	

