
**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
(A California Political Subdivision)**

REPORT ON AUDIT OF FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2009

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Los Medanos Community Healthcare District
Pittsburg, California

We have audited the accompanying financial statements of the governmental activities and business-type activities of Los Medanos Community Healthcare District as of and for the year ended June 30, 2009, which collectively comprise Los Medanos Community Healthcare District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Los Medanos Community Healthcare District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about where the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of Los Medanos Community Healthcare District as of June 30, 2009, and the respective changes in financial position and cash flows where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2011 on our consideration of Los Medanos Community Healthcare 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Los Medanos Community Healthcare District's basic financial statements. The required supplementary information, management's discussion and analysis on pages 3 through 9 and budgetary comparison information on page 26, are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. The supplementary budgetary information on page 26 is presented for purpose of additional analysis and is not a required part of the basic financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information and supplementary information. However, we did not audit the information and express no opinion on it.

Patricia A. Adams

Oakland, California
September 26, 2011

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2009**

INTRODUCTION

This report presents Management's analysis of the Los Medanos Community Healthcare District's (the "District") financial condition and activities as of and for the year ended June 30, 2009. Management's Discussion and Analysis ("MD&A") is intended to serve as an introduction to the District's basic financial statements.

This document has been prepared based on reporting requirements included in Statement No. 34 of the Governmental Accounting Standards Board (GASB). GASB 34 has made changes to the contents and the format of the financial statement of governmental agencies, which include the Government-wide Financial Statements on a full accrual basis including the cost of the capital assets and related depreciation.

This information should be read in conjunction with the District's audited financial statements.

The information in the MD&A includes the following elements:

- Organization and Business
- Overview of Basic Financial Statements
- Financial Analysis
- Capital Assets
- Economic Factors and Future Plans
- Request for information.

ORGANIZATION AND BUSINESS

The Los Medanos Community Healthcare District is a governmental entity legally constituted as a special district under California law, and is located in Pittsburg, California. Los Medanos Community Healthcare District identifies local healthcare needs and collaboratively develops solutions.

District tax revenues are used for programs and activities related to health, wellness and disease prevention. The District is also actively involved in organizing and sponsoring programs to raise the community's awareness about important health issues, and is considered a full-fledged healthcare partner within the Pittsburg/Bay Point area as well as unincorporated portions of Clayton, Clyde, Antioch, and Concord.

The District is able to address health needs by partnership with other healthcare providers and agencies, providing financial support in lieu of direct services. In terms of facility use, the District has structured a lease agreement with Contra Costa Health services that leverages the building asset to provide high level of healthcare services to include a CCHS and other public health services.

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2009**

OVERVIEW OF BASIC FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses Government and Proprietary fund accounting to ensure and demonstrate compliance with financial-related legal requirements. As indicated above, the Governmental Fund is used to account for the District's basic services and the Proprietary Fund is used to account for the District's leasing activity.

Governmental fund accounting uses a flow of current resources measurement focus and the modified accrual basis of accounting. Modified accrual accounting recognizes revenues when available for current operations, normally those revenues that will be received within 90 days of year end. For the current year, substantially all revenues receivable at year end were collected within the 90 day period resulting in no difference between modified and full accrual in these financial statements. Proprietary (Enterprise) fund accounting uses the full accrual basis of accounting.

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2009**

The District's financial statements include:

Balance Sheet

The Governmental Fund Balance Sheet presents information on the District's assets and liabilities, with the difference between the two reported as a 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.

The Governmental Fund Balance Sheet provides detail of assets and liabilities and describes the components of the \$1.3 million fund balance.

Statement of Revenues, Expenses, and Changes in Fund Balance

While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the Statement of Revenues, Expenditures, and Changes in Fund Balance present the results of the District's operations over the course of the fiscal year and information as to how the fund balance changed over the year. This can be used as an indicator of the extent to which the District has successfully recovered its costs through user fees (rental income) or other funds received (tax revenues). All changes in fund balance are reported during the period on the modified accrual method of accounting which had no significant differences from full accrual accounting, in which the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Statement of Cash Flows

The Proprietary Fund Statement of Cash Flows presents changes in cash and cash equivalents resulting from operational, capital, non-capital, and investing activities. This statement summarizes the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligations or receipt and excludes non-cash accounting measures of depreciation or amortization of assets.

Notes to Basic Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report may present certain required supplementary information comparing budget to actual results of operations. The District is not required to adopt an annual budget; however, during the fiscal 2009 the District approved and adopted a budget.

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2009**

FINANCIAL ANALYSIS

Financial Highlights

- Total assets of the District exceeded total liabilities at June 30, 2009 by \$3,656,245.
- Fund equity of the District decreased by \$3,533 for the year ended June 30, 2009.
- Property tax revenue for the year ended June 30, 2009, decreased by \$768 from the previous year.
- The District received a \$20,000 grant from Kaiser that was restricted to expenses for a “Get Fit” outreach program. As of June 30, 2009, there were funds of \$257 to be carried over into the next fiscal year.
- The District invested funds into an interest bearing account. For the year ending June 30, 2009 interest income of \$20,186 was earned.
- 64% of the total expenditures were paid out to various organizations in the form of direct Health Partnership Grants. A total of \$504,334 was given out in the year ended June 30, 2009.

Financial Position

During the year, the District’s net assets decreased by \$3,274 (0.10%) over the prior year. Tables 1 and 2 provide summarized Government-Wide comparative information reported by Fund statement classifications. The functional expenses are detailed on the Statement of Activities and consist of grants and program expenses for Community Non-Profit Organizations and General Administration expenses.

TABLE 1 - Comparative Statement of Net Assets is presented in the following table:

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>Increase (Decrease)</u>	<u>%</u>
Current Assets	\$ 1,462,858	\$ 1,284,026	\$ 178,832	13.9%
Capital assets, net	3,521,799	3,680,204	(158,405)	(4.3%)
Total assets	<u>4,984,657</u>	<u>4,964,230</u>	<u>20,426</u>	<u>0.41%</u>
Current liabilities	263,740	210,861	52,879	25.08%
Long-term debt	1,064,672	1,093,589	(28,917)	(2.64%)
Total liabilities	<u>1,328,412</u>	<u>1,304,450</u>	<u>(23,962)</u>	<u>1.84%</u>
Net Assets:				
Invested in capital assets, net	2,355,101	2,486,615	(131,514)	5.2%
Temporarily Restricted	257	257	-0-	0.0%
Unrestricted	1,300,887	1,172,908	127,979	10.91%
Total net assets	<u>\$ 3,656,245</u>	<u>\$ 3,659,780</u>	<u>\$ (3,535)</u>	<u>(0.10%)</u>

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2009**

Net assets invested in capital assets represent the net value of these assets less outstanding debt or commitment against those assets. These net assets invested in capital assets represent 64% of the District's fund equity at June 30, 2009. These assets are used to provide direct health care services, as the District leases the District's hospital building to Contra Costa County Health Services. These assets are not available for future spending.

Analysis of Changes in Fund Equity: The District had a net loss of (\$3,535) for the year ended June 30, 2009.

Table 2 – Comparative Statement of Activities

	Year Ended June 30, 2009	Year Ended June 30, 2008	Increase (Decrease)	%
Revenues & Support				
Tax Revenues	\$ 881,434	\$ 854,867	\$ 26,566	3.11%
Lease Income	100,000	100,000	-0-	0%
Program Income	20,000	30,000	(10,000)	(33.33%)
Investment Income	20,186	-0-	20,186	20186%
Total Revenues	1,021,620	984,867	36,753	3.73%
Expenses				
Grant & Grant Admin	\$540,345	520,041	20,304	3.90%
Property	237,458	237,610	(152)	(0.06%)
Administrative	186,972	107,537	79,435	73.87%
County Fees/Dues	60,380	181,129	42,251	233.06%
Total Expenses	1,025,155	883,317	141,838	16.06%
Net income	\$ (3,535)	\$ 101,551	\$ (105,086)	(103.48%)

The increase in administrative expenses is due to activity in each of the following expense categories:

- Increase in legal fees (\$20,000)
- Hiring of a part-time Executive Director (\$30,000)
- Increase in audit fees and accounting fees (18,000)
- Increase in training and office supplies (\$11,000)

CAPITAL ASSETS

There were no significant additions of capital assets in the fiscal year ended June 30, 2009.

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2009**

DEBT ADMINISTRATION

LMCHD operated the Los Medanos Community Hospital up until 1994, when the hospital closed due to financial difficulties and the District was forced to declare bankruptcy. The California Statewide Office of Health Planning and Development (OSHPD) were entitled to file a \$1.4 million claim in the District's bankruptcy. However, in place of this claim the District entered into a contractual agreement with OSHPD whereby the District assigned all rental income from the hospital facility from August 1, 1998 to January 31, 2026 to OSHPD.

The terms of the OSHPD agreement are as follows:

1. 08/01/1998 – 7/31/2018: \$100,000 per year
2. 08/01/2018 – 7/31/2020: \$500,000 per year, minimum
3. 03/01/2020 – 1/31/2026: all rental income, if any

For the year ended June 30, 2009, the District assigned \$100,000 of its lease income to the State to satisfy the District's contractual obligation.

Additional information on the District's long-term debt obligations can be found in Note 5 to the accompanying financial statements.

ECONOMIC FACTORS AND FUTURE PLANS

The District adopted a two-year strategic plan in August 2006. The District is in the process of updating a new strategic plan. The 2006 plan included the following:

- On-going monitoring of the health profile and status of District resident to create a broad-based community approach to health care.
- Implementation of a Community Grants Program that will allow the District to continue to provide healthcare services by supporting the existence of existing organizations.
- Increase the District's financial stability.
- Provide continued Health Center Oversight as facility owner and advocate for District resident for the provision of healthcare services.
- Continuation of Health Program Partnerships with Contra Costa Health Services and other healthcare organizations.

LMCHD has restructured its financial management approach to incorporate prudent financial decision-making. The District was able to retire a portion of the bankruptcy debt early, relieving taxpayers of an additional five years of debt service (or approximately \$440,000 in interest expense).

The District hired an Executive Director to oversee and develop a grant making process, assist the Board of Trustees with the development of a new strategic plan, and expand the health program partnerships and outreach to the community.

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2009**

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the LMCHD's finances and to demonstrate the District's accountability for the monies it receives. If you have any questions about this report or need additional information, please contact Barbara Kee @ the Los Medanos Community Healthcare District, 2311 Loveridge Road, Pittsburg, CA 94565. Telephone number 925-432-2200.

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2009

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 1,460,740	\$	\$ 1,460,740
Prepaid Expenses	2,118		2,118
Capital assets, net of depreciation		<u>3,521,799</u>	<u>3,521,799</u>
TOTAL ASSETS	<u>\$ 1,462,858</u>	<u>\$ 3,521,799</u>	<u>\$ 4,984,657</u>
LIABILITIES			
Accounts Payable	\$ 37,404	\$	\$ 37,404
Payroll liabilities	1,523		1,523
Grants Payable	122,787		122,787
Accrued interest		73,109	73,109
Non-current liabilities:			
Due within one year		28,917	28,917
Due in more than one year		<u>1,064,672</u>	<u>1,064,672</u>
Total liabilities	<u>161,714</u>	<u>1,166,698</u>	<u>1,328,412</u>
NET ASSETS			
Temporary restricted	257		257
Invested in Capital assets		2,355,101	2,355,101
Unrestricted	<u>1,300,887</u>		<u>1,300,887</u>
Total Net Assets	<u>\$ 1,301,144</u>	<u>\$ 2,355,101</u>	<u>\$ 3,656,245</u>

The accompanying notes are an integral part of these financial statements

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

<u>Functions/ Programs</u>	<u>Expenses</u>	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		<u>Total</u>
		Charges for Services	Grants & Contributions	Governmental Activities	Business-type Activities	
Governmental activities:						
Grants to community organizations	\$ 504,334	\$ 20,000		\$ (484,334)		\$ (484,334)
Grant administration	36,011			(36,011)		(36,011)
General administration						
Administrative services						
Advertising and promotion	5,835			(5,835)		(5,835)
Medical records storage	1,056			(1,056)		(1,056)
Professional fees	1,754			(1,754)		(1,754)
Payroll processing fees	36			(36)		(36)
Bank service charges	38			(38)		(38)
Auditing services	18,695			(18,695)		(18,695)
Accounting and bookkeeping	19,534			(19,534)		(19,534)
Sub-total administrative services	46,948			(46,948)		(46,948)
Board election charges	39,768			(39,768)		(39,768)
Board stipend fees	15,750			(15,750)		(15,750)
Continuing education, seminars, travel	11,829			(11,829)		(11,829)
County fees/ district dues	20,612			(20,612)		(20,612)
Insurance	18,982			(18,982)		(18,982)
Legal	50,973			(50,973)		(50,973)
Office expenses	14,959			(14,959)		(14,959)
Wages and payroll taxes	27,529			(27,529)		(27,529)
Total governmental activities	787,695	20,000		(767,695)		(767,695)
Business -type activities:						
Leasing	237,458	100,000			(137,458)	(137,458)
Total business-type activities	237,458	100,000			(137,458)	(137,458)
TOTAL	\$ 1,025,153	\$ 100,000	\$ 20,000	(767,695)	(137,458)	(905,153)
General revenues						
Property taxes				881,434		881,434
Investment earnings and interest				20,186		20,186
Transfers				(5,944)	5,944	
Total general revenues and transfers				895,676	5,944	901,620
Changes in net assets				127,981	(131,514)	(3,533)
Beginning net assets				1,173,163	2,486,615	3,659,778
Ending net assets				\$ 1,301,144	\$ 2,355,101	\$ 3,656,245

The accompanying notes are an integral part of these financial statements

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
GOVERNMENTAL FUND
BALANCE SHEET
JUNE 30, 2009**

		<u>General Fund</u>
ASSETS		
Cash and cash equivalents	\$	1,460,740
Prepaid Expenses		<u>2,118</u>
TOTAL ASSETS	\$	<u><u>1,462,858</u></u>
 LIABILITIES AND FUND BALANCE		
Accounts Payable	\$	37,404
Payroll liabilities		1,523
Grants Payable		<u>122,787</u>
Total Current Liabilities		<u>161,714</u>
 FUND BALANCE		
Temporarily restricted		257
Unreserved / Undesignated		<u>1,300,887</u>
Total Fund Balance		<u>1,301,144</u>
TOTAL LIABILITIES AND FUND BALANCE	\$	<u><u>1,462,858</u></u>

The accompanying notes are an integral part of these financial statements

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2009

	<u>General Fund</u>
REVENUES	
Property tax receipts	\$ 832,719
AB 1290 Pass-through/other	48,715
Interest income	20,186
Kaiser grant revenue	<u>20,000</u>
Total revenues	<u>921,620</u>
COMMUNITY AND HEALTH PROGRAM EXPENSES	
Health program grants	504,334
Community expenses	3,028
Payroll taxes and insurance	1,940
Wages	24,494
Website	<u>6,549</u>
Total community and health program expenses	<u>540,345</u>
OPERATING EXPENSES	
EXPENDITURES	
Accounting/bookkeeping	19,534
Advertising and promotion	5,835
Auditing services	18,695
Board election charge	39,768
Board stipend fees	15,750
Medical records storage	1,056
Continuing education/seminars	11,829
County admin fees	8,856
District dues and fees	11,756
Equipment rental	1,016
Insurance-D&O	18,982
Legal services	50,973
Miscellaneous	1,251
Office supplies	8,414
Payroll taxes and insurance	3,035
Phone/fax/internet	2,545
Postage & delivery	785
Professional fees	1,754
Travel	1,022
Wages	<u>24,494</u>
Total operating expenses	<u>247,350</u>
TOTAL EXPENDITURES	<u>787,695</u>
EXCESS OF REVENUE OVER EXPENDITURES	133,925
OTHER FINANCING SOURCES (USES)	
Transfers out	<u>(5,944)</u>
Net Change in fund balance	127,981
Fund balance - beginning of year	<u>1,173,163</u>
Fund balance - end of year	<u>\$ 1,301,144</u>

The accompanying notes are an integral part of these financial statements

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2009**

	Business-Type Activities Enterprise Fund <u>Leasing</u>
ASSETS	
Noncurrent capital assets:	
Depreciable -	
Building	\$ 4,717,446
Equipment	12,592
Less: accumulated depreciation	<u>(1,702,606)</u>
Depreciable, net	<u>3,027,432</u>
Nondepreciable -	
Land	<u>494,367</u>
Nondepreciable, net	<u>494,367</u>
Net capital assets	<u>3,521,799</u>
Total assets	<u>\$ 3,521,799</u>
LIABILITIES	
Accrued interest	\$ 73,109
Current portion of contractual obligation	28,917
Long term portion of contractual obligation	<u>1,064,672</u>
Total liabilities	<u>1,166,698</u>
Net assets	
Invested in capital assets	<u>2,355,101</u>
Total net assets	<u>\$ 2,355,101</u>

The accompanying notes are an integral part of these financial statements

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2009

	Business-Type Activities Enterprise Fund <u>Leasing</u>
OPERATING INCOME	
Rental income	\$ <u>100,000</u>
Total Revenues	<u>100,000</u>
OPERATING EXPENSES	
Depreciation	158,406
Taxes and Expenses	5,944
Interest	<u>73,109</u>
Total Operating Expenses	<u>237,459</u>
Operating (Loss)	(137,459)
Transfers In	<u>5,944</u>
Change in Net Assets	(131,515)
Net assets - beginning of year	<u>2,486,616</u>
Net assets - end of year	\$ <u><u>2,355,101</u></u>

The accompanying notes are an integral part of these financial statements

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2009**

	Business Proprietary Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from tenants	\$ 100,000
Payment to suppliers	(5,944)
Payment for interest	(73,109)
Cash provided by operating activities	20,947
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from the General Fund	5,944
Cash provided by noncapital financing activities	5,944
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal paid on long term obligation	(26,981)
Cash used by financing activities	(26,981)
Net increase in cash and cash equivalents	-0-
Cash and cash equivalents - beginning of year	-0-
Cash and cash equivalents - end of year	\$ -0-
Reconciliation of Operating loss to net cash provided by operating activities:	
Loss from operations	\$ (137,459)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	158,406
Cash Flows from Operating Activities	\$ 20,947

The accompanying notes are an integral part of these financial statements

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Reporting Entity*

Los Medanos Community Healthcare District (LMCHD or the “District”) is a California Political Subdivision that was established in 1946 in accordance with provisions of the Health and Safety Code of the State of California. It is governed by a Board of Directors who is elected from the community they serve which includes Pittsburg, Bay Point and portions of Clayton, Clyde, Antioch and Concord. The primary source of funding is a share of the one percent property tax revenue.

LMCHD operated the Los Medanos Community Hospital until 1994 when the hospital closed due to financial difficulty. To settle this bankruptcy, the District accepted long-term debt from California’s Statewide Office of Health Planning and Development (OSHPD) and entered into a contractual agreement to assign rental income to OSHPD.

The primary purpose of the District is to improve the quality of healthcare in the community. LMCHD is actively involved in organizing and sponsoring programs that provide wellness and prevention services as well as raises the community’s awareness about important health issues. The District has developed a Community Grant Program and various Health Program Partnerships that allow the District to provide healthcare services by supporting the efforts of existing organizations and developing new programs and initiatives to address the needs of its residents. A list of these programs is detailed in Note 6.

As further described in Note 4, LMCHD partners with Contra Costa County Health Services (CCHS) by leasing the District’s hospital for purposes of a providing a health clinic.

B. *Basis of Presentation and Accounting*

The District’s basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

These Standards require that the financial statements described below be presented:

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government (the District). These statements include the financial activities of the overall District. These statements distinguish between the *governmental* and *business-type* activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operation needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds. Separate statements for each fund category – *government and proprietary* – are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column.

Proprietary fund *operating* revenues such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

C. Major Funds

The District's major governmental and business-type funds are identified and presented separately in the fund financial statements.

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grant total. The General Fund is always a major fund. The District may also select other funds it believes should be presented as major funds.

The District reported the following major funds in the accompanying financial statements:

General Fund – The general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Proprietary Fund – This enterprise fund accounts for the operation, maintenance and capital improvement projects for the building which are funded by rental income.

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

D. Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the full accrual basis. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Measurable means the amount of the transaction can be determined and available means the amount is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The District follows Statement and interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

Non-exchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include taxes and grants. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed.

Other revenue susceptible to accrual are investment earnings.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred (generally thirty days). An exception to this general rule is principal and interest on governmental funds' long-term debt which is recognized when due. Financial resources usually are appropriated in other funds for transfer to a debt service fund in the period in which maturing debt principal and interest must be paid. Such amounts thus not current liabilities of the debt service fund as their settlement will not require expenditure of existing fund assets.

Certain indirect costs are included in program expenses reported for individual functions and activities.

E. Property Tax Revenue

The District has the authority to collect taxes on property within its political subdivision. Taxes are received by the County of Contra Costa, which has the responsibility for their collection. The District received approximately 81.5% of its financial support from property taxes for fiscal year ending June 30, 2009. Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installment dues November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31.

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

The County of Contra Costa bills and collects property taxes that are allocated by the County Auditor's Office to the District and various other taxing entities per state legislation implementing Proposition 13. The method of allocation used by the County is subject to review by the State of California.

The District's property tax revenues are recognized in the fiscal year, for which taxes have been levied, provided they become available. "Available" means due or past due and receivable within the current period, or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

F. Property and Equipment

Property, plant and equipment are stated on the cost basis, or in the case of donated items, on the basis of fair market value at the date of donation. Expenditures that increase values, change capacities or extend useful lives are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to five years for office furniture and equipment, and thirty years for building and improvements. Routine maintenance and repairs are charged to expense as incurred. The threshold for capitalizing capital expenses is \$1,500.

G. Use of Estimates

The basic financial statements have been prepared in conformity with U.S. generally accepted accounting principles, and as such, include amounts based on informed estimated and judgments of management with consideration given to materiality. Actual results could differ from those estimates.

H Depreciation Expense

Depreciation is accumulated computed using the straight-line method over the useful lives of the assets. Depreciation expense was \$158,406 for the year ended June 30, 2009.

I. Risk Management

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the preceding years.

Financial instruments that potentially subject the District to concentrations of credit risk are primarily cash investments and accounts receivable. The District places its cash limited amounts in banks that are insured and in investment grade debt instruments, many of which are backed by the U.S. Government or other governmental authorities. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000.

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 2 - CASH AND CASH EQUIVALENTS

A. *Policies*

California Law requires California banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the District's name and places the District ahead of general creditors of the institutions.

The District considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents consist principally of money market accounts. Unrestricted cash and cash equivalents at June 30, 2009 consist of cash in banks in the amount of \$1,460,740.

B. *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 portfolio which approximates fair value. The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

C. *Interest Rate Risk*

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

D. *Classification*

The District's cash and investments consist of the following at June 30, 2009:

Governmental Activities	\$ <u>1,460,740</u>
-------------------------	---------------------

Cash and Investments as of June 30, 2009, consist of the following:

Cash on hand and in banks	210,554
Investment in Local Agency Investment Fund, California	<u>1,250,186</u>
	\$ <u><u>1,460,740</u></u>

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3 – CAPITAL ASSETS

Activity in capital assets for the year ended June 30, 2009 was as follows:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Land	\$ 494,367	\$	\$	\$ 494,367
Building	4,717,446			4,717,446
Equipment	<u>12,592</u>			<u>12,592</u>
Total cost	<u>5,224,405</u>			<u>5,224,405</u>
Less: Accumulated Depreciation				
Building	(1,538,367)	(157,248)		(1,695,615)
Equipment	<u>(5,833)</u>	<u>(1,158)</u>		<u>(6,991)</u>
	<u>(1,554,200)</u>	<u>(158,406)</u>		<u>(1,702,606)</u>
Property, plant and equipment (net)	<u>\$ 3,680,205</u>	<u>\$ (158,406)</u>	<u>\$</u>	<u>\$ 3,521,799</u>

NOTE 4 – LEASE AGREEMENT WITH CONTRA COSTA COUNTY

The District has entered into a lease agreement with Contra Costa County to lease the LMCHD hospital facility over a twenty-year term from August 1, 1998 to July 31, 2018 with two five-year options. The County has renovated the building and reopened the facility. The income from this lease is restricted and has been assigned to the State Office of Health Planning and Development (OSHPD).

The County makes annual lease payments of \$100,000 directly to Cal-Mortgage Insurance Division to satisfy the District’s obligation as described in Note 5. The lease income is reported in the statement of revenue, expenses, and changes in net assets and offsets the contractual obligation as shown on the balance sheet.

NOTE 5 – LEASE ASSIGNMENT

As set forth in the bankruptcy Settlement Agreement dated September 10, 1998, the State Office of Health Planning and Development (OSHPD) were entitled to file a \$1.4 million claim.

In place of this claim, the District entered into a contractual agreement with OSHPD whereby the District has assigned all rental income from the hospital facility as follows:

08/01/1998 – 07/31/2018:	\$100,000 per year
08/01/2018 – 07/31/2020:	\$500,000 per year, minimum
08/01/2020 – 01/31/2026:	all rental income, if any

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

The District's obligation is only to assign and pay over to OSHPD the rental income as specified above. The Settlement Agreement contains a provision that if the District defaults on the repayment provisions, the District owes OSHPD \$1,300,000, with interest thereon at an annual rate of 6.5%, less all of the rental payments received by OSHPD as of the date of the rental payments cease. The District is not in default of these payment provisions.

The assignment is evidenced by an Absolute Assignment of Rents recorded in Contra Costa County as document number 98-2026029 on August 27, 1998. The obligation is secured by a First Deed of Trust on the hospital parcel dated May 1, 2000. The assignment and the loan were part of the bankruptcy plan approved by the court.

The following is a schedule of the lease assignment payable and the related sublease income subsequent to June 30, 2009:

	<u>Assignment of Lease Obligations</u>	<u>Sublease Income- Contra Costa County</u>
Year ending June 30:		
2010	\$100,000	\$100,000
2011	\$100,000	\$100,000
2012	\$100,000	\$100,000
2013	\$100,000	\$100,000
2014	\$100,000	\$100,000
2015 until June 30, 2020	\$1,400,000	\$400,000

The assignment of this contractual obligation is reported in the financial statements as follows:

<u>Balance Jun 30 ,2008</u>	<u>Repayments</u>	<u>Balance Jun 30, 2009</u>	<u>Current</u>	<u>Long Term</u>
\$ 1,120,741	(\$ 27,152)	\$ 1,093,589	\$28,917	\$1,064,672

The California Office of Statewide Health Planning and Development considers the contractual obligation as an assignment of rents, with no fixed principal or interest rates attached to the assignment. The Office calculates its value based on the present discounted value of the stream of income discounted by one percent which is slightly more than the current rate of return on the Pooled Money Investment Account maintained by the State Treasurer. The present discounted value of this stream of income as of June 30, 2009 was at least \$1,774,981.

NOTE 6 - COMMUNITY GRANTS AND HEALTH PROGRAM PARTNERSHIPS

A community's health care needs are served by a broad array of health-related programs and initiatives that promote physical, emotional and psychological well being. LMCHD uses the District's grant making and initiative process to leverage District assets to make significant contribution to the health of the community focusing on the uninsured and underserved populations in the community.

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

The District funded the following programs during the fiscal year ended June 30, 2009:

Nutrition, Exercise & Wellness Programs,	\$	115,617
Support for John Muir Medical Center Public Outreach		86,003
Direct Health and Urgent Care Grants		57,710
Annual Fitness Festivals		54,792
Community Garden		50,712
Partnership with the hospital community to support the nursing program at Los Medanos College		25,000
Senior Services		25,000
Food Programs		22,500
Adult Education		20,000
Program expenses		35,000
Miscellaneous Other Grants		<u>12,000</u>
 Total Health Partnership Expenses	 \$	 <u>504,334</u>

NOTE 7- FUND EQUITY / NET ASSETS

Fund balances consist of restricted and unrestricted amounts. Restricted balances represent those portions of which are not available for appropriation or are legally or third-party restricted for specific future purposes. As of June 30, 2009, there was a temporarily restricted fund balance of \$257 which is restricted for the “Get Fit” outreach program.

NOTE 8 – CONTINGENCIES

The District is involved in legal actions arising in the ordinary course of business. In the opinion of the District’s management, the District has adequate legal defense or insurance coverage with respect to each of these actions and does not believe that they will materially affect the District’s results of operations or financial position.

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 9 – LEASING OF FACILITY

The District provides CCHS with full use of a medical facility with 130,900 square feet and 14 acres of land which is currently used by the County Vehicle Pool at no charge. This facility is used to provide direct medical services to individuals within the District's geographic area. The income from leasing of facility amounts to \$100,000. Management is of the opinion that the facility can generate a higher leasing income.

NOTE 10- EVALUATION OF SUBSEQUENT EVENT

The management of the District reviewed the results of operations for the period of time from its year end June 30, 2009 through September 26, 2011, the date the financial statements were available to be issued and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure except as mentioned below.

The District is currently in the process of reviewing the terms of the bankruptcy provision and lease agreement with the State Office of Health Planning and Development (OSHPD). A settlement will require that the District obtain a bank loan.

REQUIRED SUPPLEMENTARY INFORMATION

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2009**

	Budgetary Amounts		
	Original and Final	Actual	Variance
REVENUES			
Property tax receipts	\$ 700,000	\$ 832,719	\$ 132,719
AB 1290 Pass-through/other		48,715	48,715
Interest income		20,186	20,186
Kaiser grant revenue		20,000	20,000
Total revenues	<u>700,000</u>	<u>921,620</u>	<u>221,620</u>
COMMUNITY AND HEALTH PROGRAM EXPENSES			
Health program grants	349,000	504,334	155,334
Community expenses		3,028	3,028
Payroll taxes and insurance	2,794	1,940	(854)
Wages	35,280	24,494	(10,786)
Website	6,000	6,549	549
Total community and health program expenses	<u>393,074</u>	<u>540,345</u>	<u>147,271</u>
OPERATING EXPENSES			
EXPENDITURES			
Accounting / bookkeeping	16,000	19,534	3,534
Advertising and promotion	3,000	5,835	2,835
Auditing services	30,000	18,695	(11,305)
Board election charge	42,000	39,768	(2,232)
Board stipend fees	15,000	15,750	750
Medical records storage	1,065	1,056	(9)
Continuing education/seminars	4,100	11,829	7,729
County admin fees	7,600	8,856	1,256
District dues and fees	10,000	11,756	1,756
Equipment rental	476	1,016	540
Insurance - D&O	10,660	10,907	247
Insurance - general liability	8,509	8,075	(434)
Legal services	35,000	50,973	15,973
Miscellaneous	792	1,251	459
Office supplies	3,397	8,414	5,017
Payroll taxes and insurance	3,694	3,035	(659)
Phone/fax/internet	2,284	2,545	261
Postage & delivery	745	785	40
Professional fees	300	1,754	1,454
Travel		1,022	1,022
Wages	34,380	24,494	(9,886)
Total operating expenses	<u>229,002</u>	<u>247,350</u>	<u>18,348</u>
TOTAL EXPENDITURES	<u>622,076</u>	<u>787,695</u>	<u>165,619</u>
EXCESS OF REVENUE OVER EXPENDITURES	77,924	133,925	56,001
OTHER FINANCING SOURCES (USES)			
Transfers out		** (5,944)	(5,944)
Net change in fund balance	77,924	127,981	50,057
Fund balance - beginning of year	<u>1,173,163</u>	<u>1,173,163</u>	
Fund balance - end of year	<u>\$ 1,251,087</u>	<u>\$ 1,301,144</u>	<u>\$ 50,057</u>

** LMCHD does not have policy of budgeting "Transfers out"

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Directors
Los Medanos Community Healthcare District
Pittsburg, California

We have audited the financial statements of the government activities, major fund and the aggregate remaining fund information of Los Medanos Community Healthcare District, as of and for the year ended June 30, 2009, which collectively comprise Los Medanos Community Healthcare District's financial statements and have issued our report thereon dated September 26, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Los Medanos Community Healthcare District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Los Medanos Community Healthcare District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Los Medanos Community Healthcare District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as 2009-1 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

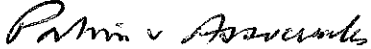
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Los Medanos Community Healthcare District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Los Medanos Community Healthcare District, in a separate letter dated September 26, 2011.

Los Medanos Community Healthcare District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Los Medanos Community Healthcare District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, board of trustees and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.


Oakland, California
September 26, 2011

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2009**

FINANCIAL STATEMENTS FINDING

CASH DISBURSEMENTS:

Finding 2009-1

Criteria:

Internal Control over Cash Disbursement process should be designed and implemented to ensure that payments are made only on the basis of original invoices which have been pre-approved and authorized for payment by the appropriate personnel. There ought to be a more stringent authorization process for payments above a certain monetary threshold which should be strictly adhered to.

Condition:

- a) During our Cash Disbursement testing, we came across several instances where the supporting invoice were not pre-approved or authorized for payment. No formal authorization and approval process could be evidenced through a paper trail of approvals of these expenses for payment.
- b) In two instances, documents other than the formal and original invoice from the vendor were used as support for the payment.
- c) We also came across a check for \$15,000 which was signed by only one authorized signor, whereas the policies of LMCHD require that any check above \$10,000 should be signed by two authorized signors.

Effect:

Due to the lack of approval and authorization controls over payments, unauthorized expenses or expenses that are not budgeted for could be incurred and paid for. There could arise a double payment of invoices since the payment is not necessarily made based on the original invoice.

Cause:

There is no formal procedure of approval and authorization in place which can serve as a monitoring control over the disbursement process. Reliance is placed on verbal or informal approval of expenses resulting in weak management oversight over payment of expenses.

Recommendation:

Management should establish and implement a formal process for approval of invoices and authorization of payments. More stringent controls and oversight should be exercised over expenses above an internally determined dollar threshold.

Views of responsible officials and planned corrective actions:

LMCHD does have a policy which establishes the protocol for review of invoices and authorization of payments. The Executive Director does review and approve all invoices through the use of cover sheet and batch process.

As a result of the audit, the District has been made aware of the fact that the batch process is not the most effective because it does not leave the best of audit trails.

In several instances the District did pay from a fax or a contract signed by both the District and the vendor. The District realizes that these do not qualify as an “official” invoices. The District will adopt a policy to pay on original invoices and not faxed copies. In cases of a signed contract, the District will ask the vendor to submit an “official” invoice based on the contract.

The District does have a policy which requires that all checks over the threshold require a second signature. The lack of second signature over a grant check was an isolated incident in which a Board Member provided a second signature and merely missed one. The District has already redesigned the checks so that there are two signature lines which should help to remedy such an oversight. Going forward, all invoice and contract payments will be reviewed for completeness prior to final disbursement or mailing.

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2009**

FINDING

STATUS

No Findings were reported in the audit report for the year ended June 30, 2008.

Not applicable