
LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
(A California Political Subdivision)

REPORT ON AUDIT OF FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2012

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of Los Medanos Community Healthcare District as of and for the year ended June 30, 2012, 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 whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Los Medanos Community Healthcare District as of June 30, 2012, and the respective changes in financial position and cash flows, 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 November 26, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 26 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.

Oakland, California
November 26, 2012

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2012**

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, 2012. 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)
JUNE 30, 2012**

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 Funds is used to account for the District's basic services and the Proprietary Fund is used to account for the District's leasing activity.

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

The District's financial statements include:

Balance Sheet

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

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED)
JUNE 30, 2012**

The Governmental Fund Balance Sheet provides detail of assets and liabilities and describes the components of the \$1.2 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 summarized 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 June 30, 2012 fiscal year the District approved and adopted a budget.

FINANCIAL ANALYSIS

Financial Highlights

- Total assets of the District exceeded total liabilities at June 30, 2012 by \$3,185,049.
- Total net assets of the District increased by \$126,742 for the year ended June 30, 2012.
- Property tax revenue for the year ended June 30, 2012, increase by \$1,801 from the previous year.

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED)
JUNE 30, 2012**

- Interest income for the year ended June 30, 2012 decreased by \$2,434.
- 7.6% of the total government expenditures were paid out to various organizations in the form of direct Health Partnership Grants. A total of \$61,491 was given out in the year ended June 30, 2012.

Financial Position

During the year, the District's net assets increased by \$126,742 (4.14%) over the prior year.

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

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Increase (Decrease)</u>	<u>%</u>
Current Assets	\$ 1,245,319	\$ 1,366,831	\$ (121,512)	(8.89%)
Capital assets, net	3,046,583	3,204,988	(158,405)	(4.94%)
Total assets	4,291,902	4,571,819	(279,917)	(6.12%)
Current liabilities	135,215	507,280	(372,065)	(73.34%)
Long-term debt	971,638	1,006,232	(34,594)	(3.44%)
Total liabilities	1,106,853	1,513,512	406,659	(26.87%)
Net Assets:				
Invested in capital assets, net of related debt	1,974,946	2,098,756	(123,810)	(5.90%)
Temporarily Restricted		362,401	(362,401)	(100%)
Unrestricted	1,210,103	597,150	612,953	102.65%
Total net assets	\$ 3,185,049	\$ 3,058,307	\$ 126,742	4.14%

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 62% of the District's fund equity at June 30, 2012. 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 increase of \$126,742 for the year ended June 30, 2012.

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED)
JUNE 30, 2012**

Table 2 – Comparative Statement of Activities

	<u>Year Ended June 30, 2012</u>	<u>Year Ended June 30, 2011</u>	<u>Increase (Decrease)</u>	<u>%</u>
Revenues & Support				
Tax Revenues	\$ 728,933	727,132	\$ 1,801	.25%
Lease Income	100,000	100,000	-0-	-0-
Program Income	973	1,213	(240)	(19.79%)
Investment Income	3906	6,340	(2,434)	(38.39%)
Returned Grant Funds	100,660	-0-	100,660	-0-
Total Revenues	<u>934,472</u>	<u>834,685</u>	<u>99,787</u>	<u>11.96%</u>
Expenses				
Grant & Grant Admin	163,687	920,849	(757,162)	(82.22%)
Property	237,845	257,482	(19,637)	(7.63%)
General administration	406,198	396,553	10,242	2.75%
Total Expenses	<u>807,730</u>	<u>1,574,884</u>	<u>(767,154)</u>	<u>(48.71%)</u>
Net income/loss	<u>\$ 126,742</u>	<u>\$ (740,199)</u>	<u>\$ 866,941</u>	<u>117.12%</u>

Decrease in grant and grant administration expenses of \$757,162 is due to the two year grant process in place, where the majority of the grants were incurred and paid in fiscal year 2010-2011.

CAPITAL ASSETS

There were no additions of capital assets in the fiscal year ended June 30, 2012.

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 – 7/31/2026: all rental income, if any

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS UNAUDITED)
JUNE 30, 2012**

For the year ended June 30, 2012, 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 Notes 4 and 5 to the accompanying financial statements.

ECONOMIC FACTORS AND FUTURE PLANS

The District finalized and adopted a six-year strategic plan for 2012-2016 in October 2010. The 2012-2016 plan includes 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.

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, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 1,234,587	\$	\$ 1,234,587
Accounts receivable	8,727		8,727
Prepaid expenses	2,005		2,005
Capital assets, net of depreciation		<u>3,046,583</u>	<u>3,046,583</u>
TOTAL ASSETS	<u>\$ 1,245,319</u>	<u>\$ 3,046,583</u>	<u>\$ 4,291,902</u>
LIABILITIES			
Accounts payable	\$ 23,988	\$	\$ 23,988
Payroll liabilities	9,800		9,800
Grants payable	1,428		1,428
Accrued interest		65,405	65,405
Non-current liabilities:			
Due within one year		34,594	34,594
Due in more than one year		<u>971,638</u>	<u>971,638</u>
TOTAL LIABILITIES	<u>35,216</u>	<u>1,071,637</u>	<u>1,106,853</u>
NET ASSETS			
Invested in capital assets, net of related debt		1,974,946	1,974,946
Unrestricted	<u>1,210,103</u>		<u>1,210,103</u>
TOTAL NET ASSETS	<u>\$ 1,210,103</u>	<u>\$ 1,974,946</u>	<u>\$ 3,185,049</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, 2012**

<u>Functions/ Programs</u>	<u>Expenses</u>	<u>Program</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>		<u>Total</u>
		<u>Charges for Services</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Governmental Activities:					
Grant Expenses					
Community grants	\$ 61,491	\$	\$ (61,491)	\$	\$ (61,491)
Programs/Outreach Expenses	10,117		(10,117)		(10,117)
Grant administration	92,079		(92,079)		(92,079)
General Administration					
Administrative services	114,512		(114,512)		(114,512)
Professional services	165,251		(165,251)		(165,251)
Legal services	36,885		(36,885)		(36,885)
Office supplies and maintenance	27,563		(27,563)		(27,563)
Communication	4,051		(4,051)		(4,051)
Insurance	18,694		(18,694)		(18,694)
Other	39,242		(39,242)		(39,242)
Total governmental activities	569,885		(569,885)		(569,885)
Business -type Activities:					
Leasing	237,845	100,000		(137,845)	(137,845)
Total Business-type activities	237,845	100,000		(137,845)	(137,845)
Total	<u>\$ 807,730</u>	<u>\$ 100,000</u>	<u>(569,885)</u>	<u>(137,845)</u>	<u>(707,730)</u>
General revenues:					
Property taxes			690,140		690,140
AB1290 Pass-through			38,793		38,793
Investment earnings and interest			3,906		3,906
Other income			101,633		101,633
Transfers			(14,035)	14,035	
Total general revenues and transfers			820,437	14,035	834,472
Changes in net assets			250,552	(123,810)	126,742
Beginning net assets			959,551	2,098,756	3,058,307
Ending net assets			<u>\$ 1,210,103</u>	<u>\$ 1,974,946</u>	<u>\$ 3,185,049</u>

The accompanying notes are an integral part of these financial statements

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
GOVERNMENTAL FUND
BALANCE SHEET
JUNE 30, 2012**

		<u>General Fund</u>
ASSETS		
Cash and investments	\$	1,234,587
Accounts receivable		8,727
Prepaid expenses		<u>2,005</u>
TOTAL ASSETS	\$	<u><u>1,245,319</u></u>
 LIABILITIES AND FUND BALANCE		
Accounts payable	\$	23,988
Payroll liabilities		9,800
Grants payable		<u>1,428</u>
Total liabilities		<u>35,216</u>
 FUND BALANCE		
Unassigned		<u>1,210,103</u>
Total Fund Balance		<u>1,210,103</u>
TOTAL LIABILITIES AND FUND BALANCE	\$	<u><u>1,245,319</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, 2012

	<u>General Fund</u>
REVENUES	
Property tax receipts	\$ 690,140
AB 1290 Pass-through	38,793
Other income	101,633
Interest income	3,906
	<u>834,472</u>
COMMUNITY AND HEALTH PROGRAM EXPENDITURES	
Community grants	61,491
Program/Outreach Expenses	10,117
Grant administration	92,079
	<u>163,687</u>
GENERAL ADMINISTRATION	
Administrative services	114,512
Professional services	165,251
Legal services	36,885
Office supplies and maintenance	27,563
Communication	4,051
Insurance	18,694
Other	39,242
	<u>406,198</u>
Total general administration expenditures	<u>406,198</u>
Total expenditures	<u>569,885</u>
EXCESS OF REVENUE OVER EXPENDITURES	264,587
OTHER FINANCING SOURCES (USES)	
Transfers out	(14,035)
	<u>(14,035)</u>
Net change in fund balance	250,552
Fund balance - beginning of year	<u>959,551</u>
Fund balance - end of year	<u>\$ 1,210,103</u>

The accompanying notes are an integral part of these financial statements

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
 PROPRIETARY FUND
 STATEMENT OF NET ASSETS
JUNE 30, 2012**

	Business-Type Activities Enterprise Fund <u>Leasing</u>
ASSETS	
Noncurrent capital assets:	
Depreciable -	
Building	\$ 4,717,446
Equipment	12,592
Less: Accumulated depreciation	<u>(2,177,822)</u>
Depreciable, net	<u>2,552,216</u>
Nondepreciable -	
Land	<u>494,367</u>
Nondepreciable, net	<u>494,367</u>
Net capital assets	<u>3,046,583</u>
Total Assets	<u><u>\$ 3,046,583</u></u>
LIABILITIES AND NET ASSETS	
Liabilities	
Accrued interest	65,405
Current portion of contractual obligation	34,594
Long term portion of contractual obligation	<u>971,638</u>
Total liabilities	<u>1,071,637</u>
Net Assets	
Invested in capital assets	<u>1,974,946</u>
Total liabilities and net assets	<u><u>\$ 3,046,583</u></u>

The accompanying notes are an integral part of these financial statements

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
 PROPRIETARY FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2012**

	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	158,405
Taxes and expenses	14,035
Interest	<u>65,405</u>
Total operating expenses	<u>237,845</u>
Operating (loss)	(137,845)
Transfers In	<u>14,035</u>
Change in net assets	(123,810)
Net assets - beginning of year	<u>2,098,756</u>
Net assets - end of year	\$ <u><u>1,974,946</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, 2012**

	Business Proprietary Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from tenants	\$ 100,000
Payment for taxes and expenses	(14,035)
Payment for interest	<u>(69,499)</u>
Cash provided by operating activities	<u>16,466</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from the General Fund	<u>14,035</u>
Cash provided by noncapital financing activities	<u>14,035</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal paid on long term obligation	<u>(30,501)</u>
Cash used by financing activities	<u>(30,501)</u>
Net increase in cash and cash equivalents	-0-
Cash and cash equivalents - beginning of year	<u>-0-</u>
Cash and cash equivalents - end of year	<u><u>\$ -0-</u></u>
Reconciliation of Operating loss to net cash provided by operating activities:	
Loss from operations	\$ (137,845)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	158,405
Decrease in accrued interest	<u>(4,094)</u>
Cash flows from operating activities	<u><u>\$ 16,466</u></u>

The accompanying notes are an integral part of these financial statements

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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 raise 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.

As further described in Note 4, LMCHD partners with Contra Costa County Health Services (CCHS) by leasing the District’s hospital for purposes of 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 non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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. *Non-operating* revenues, such as subsidies and investment earnings, result from non-exchange 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 THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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 revenues susceptible to accrual are investment earnings.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. 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 83% of its financial support from property taxes for fiscal year ending June 30, 2012. 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 THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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 \$158,405 for the year ended June 30, 2012.

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.

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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.

J. Fund Balance

As prescribed by GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, governmental funds report fund balance in classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Following is a description of the District's fund balance classifications:

- **Nonspendable** – Includes amounts that cannot be spent because they are either (a) not in spendable form (inventories, prepaid amounts, etc.) or (b) legally or contractually required to be maintained intact.
- **Restricted** – Includes amounts with constraints that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed** – Includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's Board. Those committed amounts cannot be used for any other purpose unless the District Board removes or changes the specified use by taking the same type of action (legislation, resolution, ordinance) it employed to previously commit those amounts.
- **Assigned** – Includes amounts the District intends to be used for specific purposes that are neither restricted nor committed.
- **Unassigned** – Includes the residual balance that has not been assigned to other funds and is not restricted, committed or assigned for specific purposes.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and other funds are available, then it applies amounts to the committed fund balance followed by assigned and then unassigned amounts.

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 2 – CASH AND INVESTMENTS

The District’s cash and investments consist of the following at June 30, 2012:

Governmental Activities	\$ <u>1,234,587</u>
-------------------------	---------------------

Cash and Investments as of June 30, 2012, consist of the following:

Cash on hand and in banks	285,618
Investment in Local Agency Investment Fund, California	<u>948,969</u>
	\$ <u><u>1,234,587</u></u>

Policies

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. All investments were in the State investment pools.

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 16429.3 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.

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.

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investments in the State investment pools are not required to be rated.

Custodial Credit Risk

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. As of June 30, 2012, the District's bank balance of \$299,581, before reconciling items, was either FDIC insured or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 3 – CAPITAL ASSETS

Activity in capital assets for the year ended June 30, 2012 was as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Land	\$ 494,367	\$	\$	\$ 494,367
Building	4,717,446			4,717,446
Equipment	12,592			12,592
Total cost	5,224,405			5,224,405
Less: Accumulated Depreciation				
Building	(2,010,113)	(157,248)		(2,167,361)
Equipment	(9,304)	(1,157)		(10,461)
	(2,019,417)	(158,405)		(2,177,822)
Property, plant and equipment (net)	\$ 3,204,988	\$ (158,405)	\$	\$ 3,046,583

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 4 – LEASE AGREEMENT WITH CONTRA COSTA COUNTY

The District has a lease agreement with Contra Costa County for full use of its hospital 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 lease is for a twenty-year term from August 1, 1998 to July 31, 2018 with two five-year options. The income from this lease amounts to \$100,000 and 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 – SETTLEMENT AGREEMENT

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

In settlement of this claim, the District entered into three agreements with OSHPD, a Settlement Agreement dated September 10, 1998, an Absolute Assignment of Rents dated August 1, 1998, and an Agreement dated May 1, 2000 (collectively, the “OSHPD Agreements”). Pursuant to the OSHPD Agreements, 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, regardless of the amount of rent actually paid/collected
08/01/2020 – 01/31/2026	all rental income, if any

The District’s obligation is only to assign and pay over to OSHPD the rental income as specified above. The Agreement contains a provision that if the District defaults on the repayment provisions, the District owes OSHPD \$1,400,000, 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 of rents is evidenced by an Absolute Assignment of Rents recorded in Contra Costa County as document number 98-2026029-00 on August 27, 1998. The obligation is secured by two Deeds of Trust on the hospital parcel, both dated May 1, 2000. The assignment and the OSHPD Agreements were part of the District’s bankruptcy plan approved by the court.

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

The following is a schedule of the lease assignment payable and the related sublease income subsequent to June 30, 2012:

	<u>Assignment of Lease Obligations</u>	<u>Sublease Income-Contra Costa County</u>
Year ending June 30:		
2013	\$ 100,000	\$ 100,000
2014	\$ 100,000	\$ 100,000
2015	\$ 100,000	\$ 100,000
2016	\$ 100,000	\$ 100,000
2017	\$ 100,000	\$ 100,000
2018 - 2020	\$ 1,100,000	Unknown since lease with County expires July 31, 2018.

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

<u>Balance Jun 30, 2011</u>	<u>Repayments</u>	<u>Balance Jun 30, 2012</u>	<u>Current</u>	<u>Long Term</u>
\$1,036,733	(\$30,501)	\$1,006,232	\$34,594	\$971,638

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, 2012 was at least \$1,522,725.

NOTE 6 - GRANTS TO COMMUNITY ORGANIZATIONS

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 THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

The District funded the following programs during the fiscal year ended June 30, 2012:

Community Garden	\$	5,518
Board Discretionary Grant Programs		25,000
Annual Fit-Fest		(7,749)
Student Eyeglasses Program		15,297
JM Community Health-Dental Program		<u>23,425</u>
Total	\$	<u><u>61,491</u></u>

NOTE 7 - 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.

NOTE 8 - 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, 2012 through November 26, 2012, 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.

REQUIRED SUPPLEMENTARY INFORMATION

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2012**

	Budgetary Amounts		
	Original and Final	Actual	Variance
REVENUES			
Property tax receipts	\$ 672,000	\$ 690,140	\$ 18,140
AB 1290 pass-through/other income	40,000	38,793	(1,207)
Other income		101,633	101,633
Interest income	10,000	3,906	(6,094)
Total revenues	722,000	834,472	112,472
COMMUNITY AND HEALTH PROGRAM EXPENDITURES			
Community grants	63,987	61,491	(2,496)
Program/Outreach Expenses	9,558	10,117	559
Grant administration	89,520	92,079	2,559
Total community and health program expenditures	163,065	163,687	621
GENERAL ADMINISTRATION			
Administrative services	115,464	114,512	(952)
Professional services	143,609	165,251	21,642
Legal services	40,000	36,885	(3,115)
Office supplies and maintenance	23,403	27,563	4,160
Communication	4,051	4,051	
Insurance	17,750	18,694	944
Other	36,171	39,242	3,071
Total general administration expenditures	380,448	406,198	25,750
TOTAL EXPENDITURES	543,513	569,885	26,372
EXCESS OF EXPENDITURES OVER REVENUE	178,487	264,587	86,100
OTHER FINANCING SOURCES (USES)			
Transfers out		* (14,035)	(14,035)
Net change in fund balance	178,487	250,552	72,065
Fund balance - beginning of year	959,551	959,551	
Fund balance - end of year	\$ 1,138,038	\$ 1,210,103	\$ 72,065

* The District does not budget transfers.

**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 governmental activities, business-type activities and each major fund of Los Medanos Community Healthcare District, as of and for the year ended June 30, 2012, which collectively comprise Los Medanos Community Healthcare District's basic financial statements and have issued our report thereon dated November 26, 2012. 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

Management of Los Medanos Community Healthcare District is responsible for establishing and maintaining effective 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 opinion 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 previously.

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 November 26, 2012.

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

Oakland, California
November 26, 2012

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012**

There were no findings reported in the current year.

**LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2012**

FINDING

STATUS

2011-1:

The year-end adjustment journal entries were not made on a timely basis. Some year-end adjustments were incorrectly made.

Corrective action taken.