

NOTES TO HISTORICAL VALUE OF INVESTABLE NET ASSETS BY FISCAL YEAR

1998-1999

- The Pajaro Valley Community Health Trust (Trust) was established with assets totaling \$14.2 million from the sale of the Watsonville Community Hospital (WCH) in September 1998.
- As a condition of receipt of the WCH assets, the Trust was required to assume financial responsibility and settlement of the WCH's liabilities including cost report settlements, worker's compensation activity, FEMA activity, and other financial obligations.

1999-2000

- In the first year of operation, two significant events resulted in a reduction in the Trust net asset value by approximately \$5.0 million to a net asset value of \$9.7 million as of the close of the fiscal year.
- First, the Watsonville Community Hospital Foundation dissolved its corporation and transferred its assets of \$1.3 million to the Trust increasing the net asset value.
- Second, as a result of the first year of audited financials, auditors wrote off roughly \$6.3 million in net asset value. The decrease in net asset value was a result of losses from discontinued hospital business inherited from Watsonville Community Hospital. The reduction in net asset value was primarily from aged patient receivables determined to be no longer collectable, Medicare/Medi-Cal cost report liabilities, workers compensation claims and settlements, legal expenses, and FEMA interest payable.

2000-2001

- In December 2000, the Trust received notification of a bequest of \$169K from the estate of Zoe Ann and Frank Orr. The Community Foundation of Santa Cruz County held the funds on behalf of the Trust.
- The Trust also received a two-year capacity building grant of \$235K from the California Endowment to support the building of our foundation infrastructure and strategic plan.
- The Trust began to experience unrealized investment losses due to a market downtrend.
- Continuing operations virtually broke even (\$30K net surplus), while Discontinued Business showed net gain of 400K resulting primarily from Medicare/Medi-Cal cost report settlements.
- Overall, the Trust's net asset value increased by \$414K during this period.

2001-2002

- The Trust experienced significant unrealized losses in investments due to the continued market down trend. Losses of \$360K contributed to the Operating Deficit of \$975K.
- The Trust experienced \$748K net gain in Discontinued Business (primarily from prior year Medicare/Medi-Cal cost report settlements).
- In October 2002, the Trust was notified by the Federal Office of the Inspector General (OIG) that they would be commencing a government audit of the \$50 million FEMA grant used by the former nonprofit hospital to build its new facility at 75 Nielson Street in Watsonville.
- The Trust engaged the services of a Federal Disaster Grant consultant to assist with providing documentation of the grant expenses and responding to inquiries from the government auditors.

2002-2003

- The Trust engaged investment advisors from United Bank of Switzerland (UBS) to assist with investment and management of Trust assets.
- The Trust received a bequest of real property (mobile home) and sold the property for \$184K.

NOTES TO HISTORICAL VALUE OF INVESTABLE NET ASSETS

2002-2003 cont'd

- The stock market showed an upward trend by year end.
- Net asset value increased by \$157K for the year.
- In January 2003, field work by OIG staff began on the FEMA Audit. Field auditors were in place for approximately five months to review documents and engage Trust staff in audit related questions.

2003-2004

- The Trust received a bequest from the state of Mr. A.L. Resetar for \$100K in the form of stock.
- The Trust received its first three-year grant for the Diabetes Health Center from the California Wellness Foundation in the amount of \$150K.
- The Trust applied for and was awarded a federal grant from the Agency on Health Care Research & Quality in the amount of \$1.3 million to be disbursed from January 2004 through September 2007 to establish a diabetes registry. The project became known as the Community Chronic Care Network (CCCN) of Santa Cruz County.
- Trust staff is successful in reducing the number of open worker's compensation claims resulting in reducing workers compensation expenses and lowering the required workers compensation reserve by \$480K. Staff continues to work with consultants on prior year Medicare/Medi-Cal cost reports resulting in settlements favorable to the Trust. These factors combined to increase Discontinued Business revenues by \$804K during this reporting period.
- Investment performance was excellent. Net asset value increased by \$1.9 million.
- On May 13, 2004, the Trust repaid federal grant funds (resulting from the FEMA audit) in the amount of \$13,499 to the Treasury Dept. of the State of California.

2004-2005

- The Trust received Discontinued Business refunds from Medicare/Medi-Cal claim settlements totaling \$1.6 million.
- The Trust paid \$169K for Discontinued Business expenses resulting from the insolvency of one of the workers compensation excess insurance carriers related to the former nonprofit hospital.
- The Trust paid an additional \$233K for a final OSHPD inspection bill related to the construction of WCH.
- On August 16, 2004, the Trust paid \$226,387 to the US Treasury for Region IX's (FEMA's San Francisco Offices) calculated determination of interest proceeds based on their analysis of the findings from the FEMA audit.
- Investment performance continued to be strong and net asset value increased by \$679K.

2005-2006

- In October 2005, the Trust submitted a formal letter and documentation to the Community Foundation of Santa Cruz County to request they release the Orr Endowment Funds (bequeathed to the Trust in December 2000) to our control.
- In May 2006, the Trust Board adopted the Amended Investment Policy, Guidelines, and Objectives submitted by the Finance Committee.
- The Trust's auditors adjusted workers compensation claims liability to actual liability per CA Department of Industrial Relations, resulting in \$365K decrease in Discontinued Business workers compensation claims liability and a corresponding increase in net asset value.
- Investment performance continued to be strong and the net asset value increased by 620K.

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2006-2007

- In June 2007, the Community Foundation of Santa Cruz County approved the distribution of the Orr Estate bequest funds to the Trust's control in the amount of \$248K.
- The Board of Directors approved new "Budget Guidelines" developed by the Finance Committee. These guidelines provided the basis for preparation of the 07-08 Budget. As a part of the guidelines, separate budgets and financial reports will now be prepared for the endowed and non-endowed funds.
- The Trust Accounting Manager updated revenue and cost account codes and developed new budget templates to further streamline the budget process for staff.
- The DHC received its second three-year grant from California Wellness foundation, this time with a larger grant award of \$255K.
- Investment unrealized gains increased to \$963K for the fiscal year. Realized investment gains increased to \$898K.
- Discontinued Business refunds relating primarily to workers comp refunds (from the excess carrier) totaled \$97K.
- FY 2006-07 audit results in reduction of \$339K in workers compensation claims liability as agreed to by the CA Department of Industrial Relations. The reduction of the claims liability was due to the closing of a few more prior workers comp claims. The reduction resulted in an increase in net asset value of \$339K and a corresponding decrease in Discontinued Business for workers comp claims liability.
- Stock market conditions were extremely favorable in 2006-2007, resulting in an increase in the Trust's net asset value of \$1.7 million.

2007-2008 (Through March 2008)

- In December 2007, Congressman Sam Farr successfully passed legislation stating that the Federal government cannot collect any additional funds from the Trust related to the FEMA audit which started in October 2002.
- January 2008, the Board of Directors approved a new *Grant Making Budget Policy and Calculation Formula*. This methodology will be used to determine the budget for grant fund making available each year. The new formula will be applied for the first time in the 2008-09 budget process.
- During the first nine months of the fiscal year the Trust's net investment value experienced a net Unrealized Loss of approximately \$1.3 million and a Realized Gain of approximately \$488K.
- Since the end of March, market conditions have improved and the investment value has regained some of the loss, as of April 28, 2008, the value is \$14.2 million.
- The CCCN grant ended in September 2007. The Trust under spent the grant by approximately \$200,000. The research grant/project to establish a diabetes registry is considered a success even though the registry was not established. The project provided great opportunity for learning and collaboration within the health community.
- Through March 2008, the investment portfolio has experienced Discontinued Business refunds total \$25K YTD, while Discontinued Business workers compensation expenses total \$98K.
- On advice of the Trust's UBS advisor, Trust staff transferred \$350K from Non-Endowment assets to the UBS Money Market account to provide operating expense reserves through 6/30/08. This action was in consideration of further deterioration in the stock market.