

BEACH CITIES HEALTH DISTRICT

FINANCIAL STATEMENTS

June 30, 2008

BEACH CITIES HEALTH DISTRICT
FINANCIAL STATEMENTS
June 30, 2008

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Independent Auditor's Report

Board of Directors
Beach Cities Health District
Redondo Beach, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Beach Cities Health District, California (District) as of and for the fiscal year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Beach Cities Health District, California, as of June 30, 2008, and the respective changes in financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 of the notes to basic financial statements, the District adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* and GASB Statement No. 50, *Pension Disclosures – An Amendment of GASB Statements No. 25 and No. 27*, effective July 1, 2007.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 13, 2009, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

The accompanying Required Supplementary Information such as the Management's Discussion and Analysis on pages 3 through 7 and the General Fund and the Special Revenue Fund budgetary comparison schedules are not required parts of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The statistical section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
January 13, 2009

Management of the Beach Cities Health District (BCHD, the District) provides this Management Discussion and Analysis (MD&A) for readers of the District's financial statements. This narrative overview and analysis of the financial activities of the District is for the fiscal year ended June 30, 2008. Readers are encouraged to read this information alongside the District's financial statements, which follow.

Financial Highlights

- The assets of the District, \$84.5 million, exceeded its liabilities, \$8.8 million, at the close of the most recent fiscal year by \$75.7 million (net assets). Of this amount, \$46.1 million (unrestricted net assets) may be used to meet the District's on-going obligations to residents and creditors.
- The cost of all governmental activities this year was \$12.9 million, compared to \$12.2 million the previous year, an increase of 6%.
- 79% of the District's services were financed with funding sources other than taxes. The amount financed by taxpayers through property taxes was \$2.3 million, 21% of total revenues, compared to \$2.1 million and 19% in prior year.
- As of the close of the current fiscal year, the unreserved fund balance for the general fund was \$30.0 million, or 248% of general fund expenditures.
- BCHD's total debt consists of a capital lease payable of \$6.6 million offset by a note receivable of \$10.1 million. These are payable and receivable, respectively, over the same time frame through Dec. 31, 2024.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Beach Cities Health District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to private-sector businesses. These can be found on pages 8-9 of this report.

The statement of net assets presents information on all of the District's assets and liabilities, using the accrual basis of accounting, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or declining.

The statement of activities presents information showing how the district's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as an event occurs, regardless of the timing of related cash collections or disbursements. Revenues and expenses are therefore reported in this statement for some items that will result in cash flows in future fiscal periods (i.e. property tax receivables and expenses incurred for which invoices were not received at fiscal year-end).

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, like other state and local government entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. These can be found on pages 10-13 of this report.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year.

The focus of governmental funds is narrower than that of the government-wide financial statements, therefore it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements.

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-33.

Government-wide Financial Analysis

As noted previously, net assets may serve over time as an indicator of financial position. Assets exceeded liabilities by \$75.7 million at the close of the fiscal year ended June 30, 2008.

Statement of Net Assets
(\$ Millions)

	Governmental Activities		Increase (Decrease)
	2008	2007	
Assets			
Current and other assets	\$ 48.2	\$ 49.7	\$ (1.5)
Capital assets	36.3	37.1	(0.8)
Total assets	<u>84.5</u>	<u>86.8</u>	<u>(2.3)</u>
Liabilities			
Long-term debt outstanding	6.6	6.8	(0.2)
Other liabilities	2.2	2.2	
Total liabilities	<u>8.8</u>	<u>9.0</u>	<u>(0.2)</u>
Net assets			
Invested in capital assets net of debt	29.6	30.3	(0.7)
Unrestricted	46.1	47.5	(1.4)
Total net assets	<u>\$ 75.7</u>	<u>\$ 77.8</u>	<u>\$ (2.1)</u>

A significant portion of the District's net assets, \$29.6 million (39 percent of assets), reflects its investment in capital assets (land, buildings, land improvements, furniture, fixtures, computer equipment, fitness equipment, etc.), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to residents; consequently these assets are not available for future spending. Although the

District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

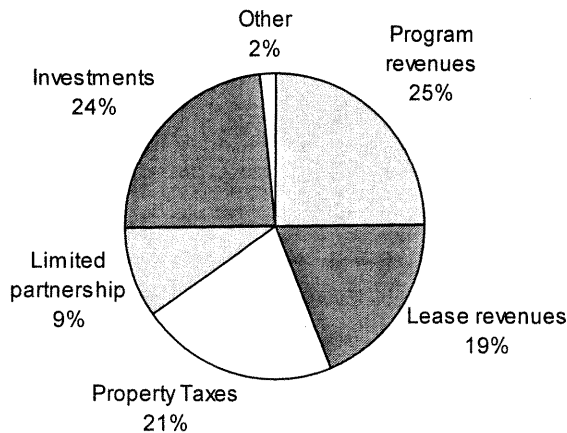
Beyond the net assets invested in capital assets, no portion of the District's net assets represent resources that are subject to external restrictions. Therefore the remaining balance of unrestricted net assets, \$46.1 million, may be used to meet the District's ongoing obligations to citizens and creditors.

There was a decrease of \$1.4 million in unrestricted net assets during the current fiscal year. Approximately \$0.8 million of the decrease is attributable to change in capital assets, net of depreciation, and \$0.6 million due to change in investment in Sunrise Assisted Living.

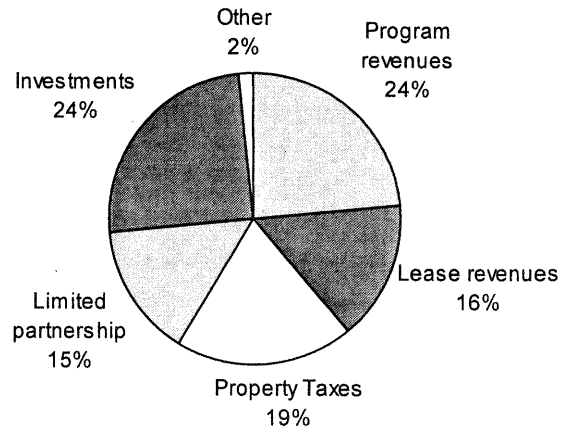
The cost of all governmental activities this year was \$12.9 million, compared to \$12.2 million the previous year. As shown in the Statement of Activities on page 9, the amount financed by taxpayers through property taxes was \$2.3 million, up from \$2.1 million in prior year. This represents 21% of total revenues; 79% of the District's services are financed with other funding sources.

As shown in the following chart, a significant share of the cost of services was paid by user fees, those directly benefiting from programs (Program Income \$2,658,807), and by revenue generated from District resources (property lease revenues, interest from investments and limited partnership income).

**FY2008
Revenues by Source**



FY2007 Revenues by Source



Governmental Funds Financial Analysis

The Beach Cities Health District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds.

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$39,455,282. Most of this amount, \$31,028,427 constitutes unreserved fund balance, which is available for spending at the District's discretion. The remainder of the fund balance is reserved to indicate that it is not available for spending, primarily a) the District's investment in limited partnerships (\$2,708,447) and b) net notes receivable (\$5,577,900).

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$29,957,744, of a total fund balance of \$38,384,599. As a measure of the district's liquidity, unreserved fund balance represents 248% of total general fund expenditures.

The fund balance of Beach Cities Health District's general fund decreased by \$1,316,815 during the current fiscal year. This was primarily attributable to an operating surplus of \$479,492 and capital expenditures of (\$1,796,307).

Special Revenue Fund. Beach Cities Health District's special revenue fund segregates activity related to Prospect One Corporation, established to construct and operate medical office building space on the main campus of the District. Activity in the current fiscal year was comprised solely of interest income.

Unrestricted net assets of the special revenue fund at the end of the year amounted to \$1,070,683, an increase of \$38,124 over prior year.

General Fund Budgetary Highlights

In May, 2007, the Board of Directors approved a budget for the Fiscal Year 2007-2008 that forecast a surplus of (\$432,001) before capital expenditures and principal retirement, maintaining commitments to existing service levels during a transitional tenant vacancy phase in the District's main building.

Expenditures for Capital Outlay, District's long-term investment in capital assets, \$291,149 were included in this budget, which excluded carryover of prior year for energy efficiency measures for the main District building. Actual expenditures varied from budget due largely to delayed timing of the energy efficiency project spending from prior year.

There were no amendments to the original budget.

As shown in the following table total revenues and expenditures increased over prior year.

REVENUES, EXPENDITURES & CHANGES IN FUND BALANCE

	Actual (\$ Millions)		Increase (Decrease)
	2008	2007	
Revenues			
Program income	\$ 2.7	\$ 2.6	\$ 0.1
Financing & rental income	2.1	1.7	0.4
Property taxes	2.3	2.1	0.2
Investment earnings	2.5	2.7	(0.2)
Limited partnership	1.0	1.6	(0.6)
Other	0.2	0.2	0.0
Total Revenues	10.8	10.9	(0.1)
Expenditures			
Current			
Salaries & related	4.9	4.6	0.3
Grants & Projects	1.8	1.9	(0.1)
Professional fees	1.0	0.9	0.1
Facilities management	0.5	0.8	(0.3)
Community relations	0.5	0.4	0.1
General & Administrative	0.4	0.3	0.1
Cost of goods sold	0.3	0.3	0.0
Human resources	0.1	0.2	(0.1)
Information systems	0.1	0.1	0.0
Other	0.0	0.0	0.0
Capital outlay	1.8	1.0	0.8
Debt service:			
Interest and other fiscal	0.5	0.2	0.3
Principal retirement	0.2	0.5	(0.3)
Total expenditures	12.1	11.2	0.9
Excess of revenues over (under) expenditures	(1.3)	(0.3)	(1.0)
Beginning fund balances	39.7	40.0	(0.3)
Ending fund balance	\$ 38.4	\$ 39.7	\$ (1.3)

Financing and Rental Income increased due to the addition of a new lease to Silverado Senior Living. Limited Partnership revenue decreased due to decreased revenue from the Sunrise Assisted Living partnership.

Outlay for capital expenditures increased as the remainder of spending approved in FY06-07 was incurred on energy efficiency measures to upgrade obsolete technology of the 514 Building's heating, air conditioning and ventilation. Facilities management expenditures decreased as savings were realized from capital measures.

Requests for Information

This financial report is designed to provide a general overview of the Beach Cities Health District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Director of Finance, Beach Cities Health District, 514 N. Prospect Avenue, 3rd Floor, Redondo Beach, CA 90277

BEACH CITIES HEALTH DISTRICT
STATEMENT OF NET ASSETS
June 30, 2008

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 31,993,324
Accounts receivable - net	79,068
Interest receivable	266,383
Lease receivable	352,793
Note receivable	12,581,947
Taxes receivable	118,434
Grants receivable	22,009
Prepaid items	119,020
Inventory	18,213
Investment in limited partnerships	2,708,447
Capital assets not being depreciated	6,526,626
Capital assets - net of accumulated depreciation	<u>29,726,605</u>
 Total assets	 <u>84,512,869</u>
 LIABILITIES	
Current liabilities:	
Accounts payable	1,094,034
Accrued payroll	242,132
Deposits	205,235
Unearned revenue	393,098
Compensated absences	258,908
Capital lease payable - due within one year	<u>202,350</u>
 Total current liabilities	 <u>2,395,757</u>
 Non-current liabilities:	
Capital lease payable - noncurrent	<u>6,408,599</u>
 Total noncurrent liabilities	 <u>6,408,599</u>
 Total liabilities	 <u>8,804,356</u>
 NET ASSETS	
Invested in capital assets, net of related debt	29,642,282
Unrestricted	<u>46,066,231</u>
 Total net assets	 <u><u>\$ 75,708,513</u></u>

See notes to the basic financial statements

**BEACH CITIES HEALTH DISTRICT
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2008**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u> Charges for Services	<u>Net (Expense) Revenue and Change in Net Assets</u>
Primary Government:			
Health care services	\$ 12,355,300	\$ 2,658,807	\$ (9,696,493)
Interest on long-term debt	533,052		(533,052)
Total Governmental Activities	\$ 12,888,352	\$ 2,658,807	(10,229,545)

General Revenues:

Taxes:

Property taxes	2,310,323
Earnings on investments	4,619,771
Income from limited partnerships	1,023,918
Other income	171,004

Total general revenues 8,125,016

Change in net assets (2,104,529)

Net assets at beginning of fiscal year 77,813,042

Net assets at end of fiscal year \$ 75,708,513

See notes to the basic financial statements

**BEACH CITIES HEALTH DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008**

	General Fund	Special Revenue Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and investments	\$ 30,953,179	\$ 1,040,145	\$ 31,993,324
Accounts receivable - net	79,068		79,068
Due from other funds	377,602	408,140	785,742
Interest receivable	266,383		266,383
Lease receivable	352,793		352,793
Note receivable	12,581,947		12,581,947
Taxes receivable	118,434		118,434
Grants receivable	22,009		22,009
Prepaid items	119,020		119,020
Inventory	18,213		18,213
Investment in limited partnerships	2,708,447		2,708,447
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 47,597,095</u>	<u>\$ 1,448,285</u>	<u>\$ 49,045,380</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,094,034	\$ -	\$ 1,094,034
Accrued payroll	242,132		242,132
Due to other funds	408,140	377,602	785,742
Deposits	205,235		205,235
Deferred revenue	7,004,047		7,004,047
Compensated absences	258,908		258,908
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>9,212,496</u>	<u>377,602</u>	<u>9,590,098</u>
Fund balances			
Reserved:			
Petty cash	3,275		3,275
Investment in Limited Partnerships	2,708,447		2,708,447
Inventory	18,213		18,213
Prepaid items	119,020		119,020
Notes receivable	5,577,900		5,577,900
Unreserved - undesignated	29,957,744	1,070,683	31,028,427
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>38,384,599</u>	<u>1,070,683</u>	<u>39,455,282</u>
Total liabilities and fund balances	<u>\$ 47,597,095</u>	<u>\$ 1,448,285</u>	<u>\$ 49,045,380</u>

See notes to the basic financial statements

**BEACH CITIES HEALTH DISTRICT
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2008**

Fund balances of governmental funds	\$ 39,455,282
Amounts reported for governmental activities in the statement of net assets are different because:	
Deferred revenues are recorded in the balance sheet of the governmental funds because the revenues are not available. These amounts are revenues in the government-wide statements.	6,610,949
Capital lease payable is a long term debt and as such is not accrued in the governmental fund statements. The payable however is a liability in the statement of net assets.	(6,610,949)
Capital assets net of accumulated depreciation have not been included as financial resources in governmental funds.	<u>36,253,231</u>
Net assets of governmental activities	<u><u>\$ 75,708,513</u></u>

See notes to the basic financial statements

BEACH CITIES HEALTH DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2008

	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES			
Financing and rental income related to lease	\$ 2,075,747	\$ -	\$ 2,075,747
Investment earnings	2,505,900	38,124	2,544,024
Property taxes	2,310,323		2,310,323
Program income	2,658,807		2,658,807
Income from limited partnership	1,023,918		1,023,918
Other revenue	171,004		171,004
Total revenues	10,745,699	38,124	10,783,823
EXPENDITURES			
Current:			
Grant and projects	1,771,475		1,771,475
Salaries and related expenses	4,879,115		4,879,115
General and administrative	368,307		368,307
Human resources	154,983		154,983
Information services	81,438		81,438
Community relations	493,778		493,778
Facilities management	503,298		503,298
Professional fees	950,711		950,711
Cost of goods sold	306,452		306,452
Other	36,650		36,650
Capital outlay	1,796,307		1,796,307
Debt service:			
Principal retirement	186,948		186,948
Interest and other fiscal charges	533,052		533,052
Total expenditures	12,062,514		12,062,514
Net changes in fund balances	(1,316,815)	38,124	(1,278,691)
Fund balances - July 1, 2007	39,701,414	1,032,559	40,733,973
Fund balances - June 30, 2008	<u>\$ 38,384,599</u>	<u>\$ 1,070,683</u>	<u>\$ 39,455,282</u>

See notes to the basic financial statements

**BEACH CITIES HEALTH DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2008**

Net change in fund balances - total governmental funds	\$ (1,278,691)
Amounts reported for governmental activities in the statement of activities differ because:	
Principal retirement is an expenditure item in the governmental funds, however, it reduces long term liabilities in the statement of net assets.	186,948
Receipt of principal on notes receivable is recorded as a revenue in the governmental funds but just reduces the receivable in the statement of net assets	(186,948)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those capital assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the current period.	<u>(825,838)</u>
Change in net assets of governmental activities	<u><u>\$ (2,104,529)</u></u>

See notes to the basic financial statements

NOTES TO BASIC FINANCIAL STATEMENTS

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Beach Cities Health District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America (USGAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements include the Beach Cities Health District and Prospect One Corporation. Beach Cities Health District (District) is a government agency whose purpose is promoting health care in the Cities of Redondo Beach, Manhattan Beach, and Hermosa Beach, California. On January 7, 1993, the District changed its name from the South Bay Hospital District to the Beach Cities Health District. Prior to June 1984, the District operated an acute care hospital. The governing body is an elected board of five trustees. Prospect One Corporation (Corporation) was established to construct and operate a medical office building for the benefit of the District. The criteria used in determining the scope of the reporting entity is based on the provisions of Governmental Accounting Standards Board Statement No. 14 as amended by Governmental Accounting Standard Board Statement No. 39. The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority of the component unit's board or because the component unit will provide a financial benefit or impose a financial burden on the District. The District has accounted for the Corporation as a blended component unit. Despite being legally separate, this entity is intertwined with the District and in substance, part of the District's operations.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds are reported as separate columns in the fund financial statements.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Certain taxes, interest, subventions, and grants associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

General Fund

The General Fund is used to account for all financial resources traditionally associated with government activities which are not required legally to be accounted for in another fund.

Special Revenue Fund

The Special Revenue Fund is used to account for the activities of the Prospect One Corporation.

D. Assets, Liabilities, Net Assets, or Fund Balance

Cash and Investments

Beach Cities Health District (District) operates its temporary pooled idle cash and investments under the prudent man rule (Probate Code Section 16040). This affords the District a broad spectrum of investment opportunities as long as the investment is deemed prudent and is allowable under current legislation of the State of California (Government Code Section 53600 et seq.).

The District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Pools", which require governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the fiscal year in which the change occurred.

**BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, Net Assets, or Fund Balance (Continued)

Cash and Investments (Continued)

The District's investments are carried at fair value. The fair value of equity and debt securities is determined based on sales prices or bid-and-asked quotations from SEC-registered securities exchanges or NASDAQ dealers. LAIF determines the fair value of its portfolio quarterly and reports a factor to the District; the District applies that factor to convert its share of LAIF from amortized cost to fair value. Changes in fair value are allocated to each participating fund.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as interfund receivables/interfund payables (i.e., the current portion of interfund loans) or advances to/from other funds (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as interfund receivables or interfund payables.

Advances between funds, as reported in the fund financial statements, are offset by a fund reserve account in applicable governmental funds to indicate that are not available for appropriation and are not expendable available financial resources.

All trade and tax receivables are shown net of an allowance for uncollectible accounts if applicable, and estimated refunds due.

Property taxes in the State of California are administered for all local agencies at the County level, and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

Property Valuations - are established by the Assessor of Los Angeles County for the secured and unsecured property tax rolls; the utility property tax rolls are valued by the State Board of Equalization. Under the provisions of Article XIII A of the State Constitution (Proposition 13 adopted by the voters on June 6, 1978) properties are assessed at 100% of full value. From this base of assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

Tax Levies - are limited to 1% of full value which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

Tax Levy Dates - are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, Net Assets, or Fund Balance (Continued)

Receivables and Payables (Continued)

Tax Collections - are the responsibility of the county tax collector. Taxes and assessments on secured and utility rolls which constitute a lien against the property, may be paid in two installments: the first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the County for late payments.

Tax Levy Apportionments - Due to the nature of the District wide maximum levy, it is not possible to identify general purpose tax rates for specific entities. Under state legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by the County auditor-controller based primarily on the ratio that each agency represented of the total District-wide levy for the three years prior to fiscal year 1979.

Property Tax Administration Fees - The State of California FY 1990-91 Budget Act authorized counties to collect an administrative fee for collection and distribution of property taxes. Property taxes are recorded as net of administrative fees withheld during the fiscal year.

Prepaid Items

Payments to vendors that reflect costs applicable to future accounting periods are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

Inventories are carried at cost on an average cost basis. The District uses the consumption method of accounting for inventories.

Capital Assets

Capital assets which include land, buildings and improvements, furniture and fixtures, and machinery and equipment are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an estimated useful life in excess of one year. The capitalization policy of the District is to capitalize all capital assets with a cost of \$5,000 or more. Such capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the capital asset or materially extend capital asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest was capitalized during the fiscal year ended June 30, 2008.

**BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, Net Assets, or Fund Balance (Continued)

Capital Assets (Continued)

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	10-32
Machinery and equipment	2-9
Furniture and fixtures	2-9

Periodic restoration and maintenance costs on particular items are charged to expense as incurred.

Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation leave (compensated absences). At June 30, 2008, vacation leave of \$258,908 is included as a current liability as per the District's policy.

Long-Term Obligations

In the government-wide financial statements, long-term debt, and other long-term obligations are reported as liabilities.

Net Assets and Fund Balances

In the government-wide financial statements, net assets are reported in three categories: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets. Restricted net assets represent net assets restricted by parties outside of the District (such as creditors, grantors, contributors, and laws and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. The District's other restricted net assets are temporarily restricted (ultimately expendable assets). All other net assets are considered unrestricted.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Undesignated fund balance represents that portion of fund balance which is available for budgeting in future periods.

E. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

**BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. New Accounting Pronouncements

The District implemented the requirements of GASB Statements No. 48 and No. 50 during the fiscal year ended June 30, 2008.

GASB Statement No. 48

This statement is effective for periods beginning after December 15, 2006 and establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also contains provisions that apply to certain situations in which a government does not receive resources but, nevertheless, pledges or commits future cash flows generated by collecting specific future revenues. In addition, this statement establishes accounting and financial reporting standards that apply to all intra-entity transfers of assets and future revenues. Implementation of GASB Statement No. 48 did not have an impact on the District's basic financial statements for the fiscal year ended June 30, 2008.

GASB Statement No. 50

For the fiscal year ended June 30, 2008, the District implemented GASB Statement No. 50, "Pension Disclosures – an Amendment of GASB Statements No. 25 and No. 27". The statement is effective for periods beginning after June 15, 2007. This statement establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pension plans.

G. Reconciliation of Government-wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:

The governmental fund balance sheet includes a reconciliation between fund balances – governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term debt has not been included in the governmental fund activity". The detail of the \$6,610,949 long-term debt difference is as follows:

Long-term debt	
Capital lease payable	\$ 6,610,949
Net adjustment to reduce fund balance of total governmental funds to arrive at net assets of governmental activities	\$ 6,610,949

Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

The governmental funds statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – of total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense."

**BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Reconciliation of Government-wide and Fund Financial Statements (Continued)

The details of this difference are as follows:

Capital outlay			
Capital outlay	\$	1,796,307	
Depreciation		<u>(2,622,145)</u>	
Net adjustment to increase net changes in fund balances of total governmental funds to arrive at changes in net assets of governmental activities	\$	<u>(825,838)</u>	

Another element of that reconciliation states that the note receivable is not available to pay for current period expenditures and, therefore is offset by deferred revenue in the government fund. The details of this \$186,948 difference are as follows:

Note receivable:			
Prospect South Bay note receivable - deferred revenue	\$	<u>186,948</u>	
Net adjustment to decrease net changes in fund balances of total governmental funds to arrive at changes in net assets of governmental activities	\$	<u>186,948</u>	

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

General Budget Policies

The Board of Directors of the Beach Cities Health District adopts an annual budget for the General Fund, which provides for the operation of the District. It includes proposed annual expenditures and estimated annual revenues. The District does not adopt an annual budget for its Special Revenue Fund.

The budget for the General Fund is adopted on a basis substantially consistent with accounting principles generally accepted in the United States of America.

The general fund's expenditures exceeded appropriations during the fiscal year as follows:

	<u>Expenditures</u>	<u>Appropriations</u>	<u>Excess</u>
General Fund	\$12,062,514	\$10,155,915	\$1,906,599

**BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008**

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 31,993,324
Total cash and investments	<u>\$ 31,993,324</u>

Cash and investments as of June 30, 2008 consist of the following:

Petty cash	\$ 3,275
Deposits with financial institutions	(238,165)
Investments	<u>32,228,214</u>
Total cash and investments	<u>\$ 31,993,324</u>

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

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Investment Fund (State Pool)	N/A	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Government Agency Issues	5 years	None	None
Insured Passbook on Demand Deposits with Banks and Savings and Loans	N/A	20%	\$100,000
Negotiable Certificates of Deposit	1 year	30%	\$100,000
Time Certificates of Deposit	2 years	50%	\$100,000
Bankers Acceptances	270 Days	20%	None
Commercial Paper	180 Days	25%	None
Mutual Funds (must be comprised of eligible securities permitted under this policy)	N/A	None	None
Money Market Funds (must be comprised of eligible securities permitted under this policy)	N/A	20%	None
Registered State Warrants or Treasury Notes or of the State of California	5 years	25%	None
Bonds, Notes, Warrants, or Other Evidences of Indebtedness of Any Local Agency with the State of California	5 years	25%	None
Repurchase Agreements	90 Days	20%	None
Medium Term Notes	5 years	30%	None

The investment policy allows for the above investments which have equal safety and liquidity as all other allowed investments. Maturity depends on the cash needs of the District.

**BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008**

NOTE 3 - CASH AND INVESTMENTS (Continued)

B. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Investment Type	Totals	Remaining maturity (in Months)			
		12 Months or Less	13 to 24 Months	25-60 Months	More Than 60 Months
State Investment Pool	\$ 7,894,599	\$ 7,894,599	\$ -	\$ -	\$ -
Corporate medium term notes	8,419,585	1,494,990	1,003,305	5,921,290	
Federal agency securities	15,110,500	2,016,305	510,250	12,582,870	1,075
Money market funds	803,530	803,530			
	<u>\$ 32,228,214</u>	<u>\$ 12,209,424</u>	<u>\$ 1,513,555</u>	<u>\$ 18,504,160</u>	<u>\$ 1,075</u>

C. Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The District has no investments (including investments held by trustees) that are highly sensitive to interest rate fluctuations.

D. Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
State investment pool	\$ 7,894,599	N/A	\$ -	\$ -	\$ -	\$ -	\$ 7,894,599
Corporate medium term notes	8,419,585	A		2,486,185	3,450,045	2,483,355	
Federal agency securities	15,110,500	N/A		14,590,440	520,060		
Money market funds	803,530	N/A					803,530
Totals	<u>\$ 32,228,214</u>		<u>\$ -</u>	<u>\$ 17,076,625</u>	<u>\$ 3,970,105</u>	<u>\$ 2,483,355</u>	<u>\$ 8,698,129</u>

**BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008**

NOTE 3 - CASH AND INVESTMENTS (Continued)

E. Concentration of Credit Risk

The investment policy of the District contains limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Home Loan Banks	Federal Agency Securities	\$ 5,517,035
FNMA	Federal Agency Securities	4,527,795
FHLMC	Federal Agency Securities	4,031,235

F. Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits; 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 government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2008, \$683,385 of the District's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts. As of June 30, 2008, the District investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the District to buy the securities:

<u>Investment Type</u>	<u>Reported Amount</u>
Money market funds	\$ 803,530
Corporate medium term notes	8,419,585
Federal agency securities	15,110,500

G. Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 4 – OPERATING LEASES AS LESSOR

Little Company of Mary Hospital

The District has entered into a lease agreement dated February 24, 2004, with Little Company of Mary Hospital to lease 17,948 square feet located on the lower level and the first floor at 514 Prospect Avenue, Redondo Beach. The lease is for a term of 5 years commencing March 1, 2006, and the monthly lease payment is \$40,383. The base rental payments will be adjusted by the change in consumer price index on the first day of the 12th month following the commencement of the lease and as of each 12th month thereafter during the term of the lease.

South Bay Family Health Care Center

The District has entered into a lease agreement with South Bay Free Clinic to lease a medical and office building at 2114 Artesia Boulevard, Redondo Beach. The monthly rent amount will be based on amortization of the cost of lease improvements made to the property at a rate of 7%. The base rent of \$9,816 will be adjusted by the cost of living adjustment on November 1, 2001, May 1, 2004, and November 1, 2006. The cost of living adjustment on May 1, 2004 changed the monthly base rent to \$11,239. The lease term ends April 30, 2009.

Cancer Care Associates Medical Group

The District has entered into a lease agreement dated December 8, 1999, with Cancer Care Associates Medical Group to lease 10,730 square feet located on the fourth floor at 514 Prospect Avenue, Redondo Beach. The lease is for a term of 10 years and 8 months commencing August 1, 2000. Another lease was entered into on August 30, 2001, for additional space on the lower level of the building. The lease term is the same as the original lease. At the start of the lease agreement, the base rent for both leases and a reimbursement to the District for common area operating expenses was a total of \$18,088 per month. The base rental payments are adjusted by the change in consumer price index on the first day of the 36th month following the commencement of the lease and as of each 36th month thereafter during the term of the lease. As of June 30, 2008, monthly lease payments with cost of living adjustment are \$20,319.

Sunrise Beach Cities Assisted Living, LP

The District has entered into a lease agreement dated December 11, 1997, with Sunrise Assisted Living to lease the real property located at the 1800 Block, Pacific Coast Highway, Hermosa Beach. The entity, which leases this property, is 80% owned by the Beach Cities Health District.

The lease is for an initial term of 50 years and has two 11 year options. The lease commenced in January 1999, and the monthly lease payment at the start of the lease was \$16,667. The monthly payment is adjusted by the consumer price index every 5-10 years as detailed in the lease agreement. As of June 30, 2008, the monthly lease payment with cost of living adjustment is \$18,334.

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 4 – OPERATING LEASES AS LESSOR (Continued)

Pacific South Bay Dialysis Center, LLC

The District and Pacific South Bay Dialysis Center, LLC has entered into a lease agreement dated May 31, 1998, to lease approximately 2,000 usable square feet located on the lower level at 514 North Prospect Avenue, Redondo Beach, California. An option was executed, effective January 1, 2006, which extended the lease period for another five years to January 1, 2011 and increase the monthly lease payments due under this lease to \$6,600.

Trinity Care Hospice

The District has entered into a lease agreement with Trinity Care Hospice on March 3, 2000, to lease Room 115 of the building located at 514 N. Prospect Avenue, Redondo Beach, California. The initial lease term was through June 30, 2002, with a one year option. An option was not executed and the lease is now on a month to month basis. Lease payments of \$547 are due monthly plus reimbursement of Common Area Maintenance Expenses.

1736 Family Crisis Center

The District has entered into a month-to-month lease agreement with 1736 Family Crisis Center to lease three small offices located at 514 N. Prospect Avenue, Redondo Beach. The current monthly lease payment is \$607.

Beach District Surgery Center, LP

The District has entered into a lease agreement dated January 25, 2005, with Beach District Surgery Center, LP to lease 13,104 square feet located on the first floor at 514 N. Prospect Avenue, Redondo Beach. The lease is for a term of five years commencing March 1, 2005, and the monthly lease payment is \$36,036. The base rental payments will be adjusted by a factor of three percent (3%) of the base rent paid in the immediately preceding twelve (12) month period on the first day of the 24th month following the commencement of the lease.

NOTE 5 - NOTES RECEIVABLE

On September 11, 2002, as a result of the settlement agreement between the District and Prospect South Bay, a California Limited Partnership (Partnership), the District purchased a note in the amount of \$12,073,740 related to the purchase of parking facilities. The note was purchased for \$ 3,915,396, at a discount of \$640,612 from the net present value. The difference between the \$ 12,073,740 note receivable and the amount paid for the note is reported as deferred revenue as these amounts are to be received in an amount equal to the debt payments to be made by the District on the purchase of the parking facilities. This deferred revenue is reduced monthly as payments are made. Monthly payments of \$ 96,472 through December 2024 are due on the note receivable of \$ 12,073,740. The note is secured by a deed of trust on the land owned by the Partnership on which the parking facilities are constructed.

In the event that the Partnership defaults on making the monthly payments due under the note receivable, the District is not obligated to make its payments for its purchase of parking facilities.

The discount on the note is being amortized over the 267 months. At June 30, 2008, the note has a balance of \$10,629,468, and a remaining unamortized discount of \$480,986 for a net receivable of \$10,148,483.

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 5 - NOTES RECEIVABLE (Continued)

Principal and interest to be received on the note are as follows:

Fiscal Year	Principal	Interest	Total
2009	\$ 325,350	\$ 832,309	\$ 1,157,659
2010	352,144	805,515	1,157,659
2011	381,144	776,514	1,157,658
2012	412,533	745,126	1,157,659
2013	446,507	711,152	1,157,659
2014-2018	2,848,542	2,939,751	5,788,293
2019-2023	4,231,260	1,557,034	5,788,294
2024-2025	1,631,988	104,500	1,736,488
Less: Discount	(480,985)		(480,985)
	<u>\$ 10,148,483</u>	<u>\$ 8,471,901</u>	<u>\$ 18,620,384</u>

On May 18, 2006, the District executed a standard industrial/commercial single tenant lease agreement with Leap and Bound Child Development Center, LLC for the premises located at 601 South Pacific Coast Highway and a revolving promissory note. Pursuant to the agreements, the lessee agreed to lease the premises for a period of approximately 10 years, and to undertake certain alterations, additions or improvements to the premises related to lessee's operation of the premises. The District originally agreed to lend the lessee \$150,000 to be used by the lessee to make all improvements to the premises. The District has advanced the entire amount of the improvement loan to the lessee pursuant to the revolving credit agreement, which indebtedness was originally evidenced by the revolving promissory note. Lessee then discharged its obligations under the revolving promissory note (which has been cancelled) by executing a term promissory note with an initial principal balance of 150,000. This amount was later increased to \$250,000. Monthly payments are due through October 2016. The note is secured by the security interest granted in the security agreement. As of June 30, 2008, the note has a balance of \$228,181.

Principal and interest to be received on the note are as follows:

Fiscal Year	Principal	Interest	Total
2009	\$ 22,765	\$ 11,970	\$ 34,735
2010	23,388	20,109	43,497
2011	24,707	8,001	32,708
2012	26,101	6,529	32,630
2013	27,573	4,974	32,547
2014-2017	103,647	5,054	108,701
	<u>\$ 228,181</u>	<u>\$ 56,637</u>	<u>\$ 284,818</u>

On May 18, 2006, the District entered into an agreement with Silverado Senior Living Redondo Beach, Inc. to lease a portion of the real property located within 514 North Prospect Avenue to operate a duly licensed residential care facility for the elderly. The lessee also entered into a leasehold improvement agreement pursuant to which the lessee shall make certain improvements and alterations to the premises in preparation for operating the facility. Pursuant to the lease and the improvement agreement, the District agreed to provide the lessee a revolving line of credit to provide the lessee with capital exclusively for the purposes stated in the prior sentence. The total line of credit is for \$3,500,000. Interest shall accrue on the first \$1,000,000 at a fixed rate of 8% per year. Interest shall accrue on any portion of the remaining \$2,500,000 based on the fluctuating 1 year constant maturity index (CMT) fluctuating on an annual basis. All accrued but unpaid interest under the note from the entitlement date through but not including the first payment date shall be converted to principal under the note and accrue interest at either a fixed or variable rate as appropriate. The note is secured by the guaranty of Silverado Living, Inc. and a security agreement. Monthly payments are due through June 2020. As of June 30, 2008, the District has loaned \$2,189,932 to the lessee. As of June 30, 2008, the balance of the note was \$2,204,445.

**BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008**

NOTE 5 - NOTES RECEIVABLE (Continued)

Principal and interest to be received on the note are as follows:

Fiscal Year	Principal	Interest	Total
2009	\$ 6,942	\$ 107,687	\$ 114,629
2010		107,687	107,687
2011	175,757	104,095	279,852
2012	183,915	95,938	279,853
2013	192,601	87,252	279,853
2014-2018	1,114,831	284,430	1,399,261
2019-2020	530,399	29,306	559,705
	<u>\$ 2,204,445</u>	<u>\$ 816,395</u>	<u>\$ 3,020,840</u>

The District provided employee advancement loans to two of its employees. To pay back the loans, a payroll deduction is made to the employee's paychecks. As of June 30, 2008, the balance was \$838.

NOTE 6 – ACCOUNTS RECEIVABLE

The following is a list of accounts receivable at June 30, 2008:

	Receivable	Allowance	Net
Accounts	\$ 79,068	\$ -	\$ 79,068
Due from other governments	118,434		118,434
Total Governmental Activities	<u>\$ 197,502</u>	<u>\$ -</u>	<u>\$ 197,502</u>

The District believes that all of its receivables are currently collectible and therefore has not established an allowance for doubtful accounts.

NOTE 7 – INTERFUND ACTIVITY

The following represents the interfund activity of the District for the fiscal year ended June 30, 2008.

Due to/from other funds

Current interfund balances arise in the normal course of business. They are expected to be repaid shortly after the end of the fiscal year.

Due to/Due from	Interfund Receivable	Interfund Payable
General Fund	\$ 377,602	\$ 408,140
Special Revenue Fund	408,140	377,602
	<u>\$ 785,742</u>	<u>\$ 785,742</u>

**BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008**

NOTE 8 – CAPITAL ASSETS

Governmental Activities

Changes in capital assets for governmental activities for the fiscal year ended June 30, 2008 were as follows:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
Capital Assets, not being depreciated:				
Land	\$ 4,401,926	\$ -	\$ -	\$ 4,401,926
Construction in progress	643,375	1,481,325		2,124,700
Total	<u>5,045,301</u>	<u>1,481,325</u>		<u>6,526,626</u>
Capital Assets, being depreciated:				
Buildings and improvements	41,404,300	193,240	(726,714)	40,870,826
Equipment, furniture, and fixtures	1,469,947	121,742	(143,927)	1,447,762
Total	<u>42,874,247</u>	<u>314,982</u>	<u>(870,641)</u>	<u>42,318,588</u>
Less accumulated depreciation for:				
Buildings and improvements	(9,833,187)	(2,446,033)	726,714	(11,552,506)
Equipment, furniture, and fixtures	(1,007,292)	(176,112)	143,927	(1,039,477)
Total	<u>(10,840,479)</u>	<u>(2,622,145)</u>	<u>870,641</u>	<u>(12,591,983)</u>
Total, net of accumulated depreciation	<u>32,033,768</u>	<u>(2,307,163)</u>		<u>29,726,605</u>
Total Capital Assets, Net	<u>\$ 37,079,069</u>	<u>\$ (825,838)</u>	<u>\$ -</u>	<u>\$ 36,253,231</u>

Depreciation expense was charged to the function of the District's governmental activities as follows:

Health care services	<u>\$ 2,622,145</u>
	<u>\$ 2,622,145</u>

NOTE 9 – INVESTMENT IN LIMITED PARTNERSHIPS

Sunrise Beach Cities Assisted Living, L.P.

On August 20, 2002, the District acquired an 80% limited partnership interest in Sunrise Beach Cities Assisted Living, L.P. The entity owns and operates an 80-unit assisted living community in Hermosa Beach, California. The Limited Partnership has a calendar year end.

The limited partnership is managed by Sunrise Assisted Living Management, Inc., which is not related to the District.

**BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008**

NOTE 9 – INVESTMENT IN LIMITED PARTNERSHIPS (Continued)

The components of the District's investment in the Limited Partnership at June 30, 2008 are summarized as follows:

Investment in Partnership at July 1, 2007	\$ 3,310,421
Partnership Income (Loss) allocated through June 30, 2008	(609,630)
Distributions from Partnership through June 30, 2008	<u>(59,926)</u>
Investment in Partnership at June 30, 2008	<u><u>\$ 2,640,865</u></u>

Beach District Surgery Center, LLC.

In August, 2004, the District executed an agreement to enter into a partnership with Beach District Surgery Center, LLC and contributed \$52,500 to acquire a 5% limited partnership interest. The Beach District Surgery Center, LLC is currently leasing a surgical space in the District's building located at 514 N. Prospect Ave, Redondo Beach.

Investment in Partnership at July 1, 2007	\$ 65,737
Partnership Income allocated through June 30, 2008	<u>1,845</u>
Investment in Partnership at June 30, 2008	<u><u>\$ 67,582</u></u>

NOTE 10 – CAPITAL LEASE PAYABLE

The District acquired the parking facilities from Prospect South Bay, a California Limited Partnership, with an obligation to make monthly payments of \$60,000 through December 2024. The loan bears interest at 7.94% a year. The initial principal obligation under the lease amounted to \$7,509,201 which is recorded as a capital lease payable for the acquisition of the parking facilities.

The following is a summary of changes in the District's capital lease payable for the fiscal year ended June 30, 2008:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Due Within One Year
Governmental Activities:					
Capital lease payable	\$ 6,797,897	\$ -	\$ (186,948)	\$ 6,610,949	\$ 202,350
	<u>\$ 6,797,897</u>	<u>\$ -</u>	<u>\$ (186,948)</u>	<u>\$ 6,610,949</u>	<u>\$ 202,350</u>

**BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008**

NOTE 10 – CAPITAL LEASE PAYABLE (Continued)

The capital lease has an outstanding balance of \$6,610,949 at June 30, 2008.

Fiscal Year	Principal	Interest	Total
2009	\$ 202,350	\$ 517,650	\$ 720,000
2010	219,014	500,986	720,000
2011	237,051	482,949	720,000
2012	256,572	463,428	720,000
2013	277,703	442,297	720,000
2014-2018	1,771,636	1,828,364	3,600,000
2019-2023	2,631,610	968,390	3,600,000
2024-2025	1,015,013	64,988	1,080,001
	<u>\$ 6,610,949</u>	<u>\$ 5,269,052</u>	<u>\$ 11,880,001</u>

NOTE 11 – DISTRICT EMPLOYEES RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN)

Plan Description

The Beach Cities Health District contributes to the California Public Employees Retirement System (CalPERS), a cost sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office - 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members are required to contribute 7% of their annual covered salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalPERS Board of Administration. The required employer contribution rate for the fiscal year 2007-2008 was 8.598% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2008, 2007, and 2006, were \$266,432, \$250,479, and \$256,391, respectively, and equal 100% of the required contributions for each fiscal year.

NOTE 12 - DEFERRED COMPENSATION PLAN

Certain provisions of the Small Business Job Protection Act (the Act) affected Internal Revenue Code Section 457 plans by eliminating the requirement that Section 457 plan assets legally remain the assets of the sponsoring government. The Act requires that amounts deferred under a Section 457 plan to be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors.

The District has implemented GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans". The assets have been transferred into a trust, and are no longer subject to claims of the District's general creditors, and are no longer considered the assets of the District. The plan permits all District employees to defer a portion of their salary until future years. The amount deferred is not available to employees until termination, retirement, death or unforeseeable emergency.

**BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008**

NOTE 12 - DEFERRED COMPENSATION PLAN (CONTINUED)

The District contracts with private deferred compensation administration firms to act as an agent of the District to fulfill all the District's administrative responsibilities. The duties performed by this fiduciary on behalf of the District include assisting employees in the execution of investment transactions and providing summary and participant reporting of these investments.

Since the District has placed the assets into a trust and has little administrative involvement and does not perform the investing function for the plan, the assets of the various deferred compensation plans have been removed from the District's financial statements.

NOTE 13 – RISK MANAGEMENT

The District is exposed to various risks 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. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

NOTE 14-NET ASSETS – GOVERNMENTAL ACTIVITIES

The government-wide statement of net assets includes three equity categories entitled net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The invested in capital assets, net of related debt category presents the District's equity interest in capital assets less outstanding principal of related debt. The restricted net assets category is designed to reflect net assets that are subject to restrictions beyond the District's control (externally imposed or imposed by law). The unrestricted net assets category equals any remaining balance and can be subdivided into designated and undesignated portions. Designations reflect the District's self-imposed limitations on the use of otherwise available current financial resources. Detail of the three categories is as follows:

	Governmental Activities
Net Assets	
Invested in capital assets, net of related debt	\$ 29,642,282
Unrestricted	46,066,231
Total net assets	\$ 75,708,513

None of the restricted net assets is restricted by enabling legislation.

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 15 – RESERVES OF FUND BALANCES

Under the provisions of the Governmental Accounting Standards Board Code Sections 1800.121-123, a district may set up “reserves” of fund balances which may not be appropriated for future expenditures, or which is legally set aside for a specific use. Fund “designations” also may be established to indicate tentative plans for financial resource utilization in a future period. Each of the District’s reserves is described below:

	<u>General Fund</u>
Petty cash	\$ 3,275
Investment in Limited Partnerships	2,708,447
Inventory	18,213
Prepaid items	119,020
Notes receivable	5,577,900
	<u>\$ 8,426,855</u>

NOTE 16- CONTINGENCIES

According to the District’s attorneys, no contingent liabilities are outstanding and no lawsuits of any real financial consequence are pending.

NOTE 17- SUBSEQUENT EVENTS

Subsequent to the fiscal year ended June 30, 2008, one of the investments that the District was holding (Lehman Brothers) dropped in value. The investment was trading at 10.57% of the original shares held of \$500,000 as of January 5, 2009. As of January 5, 2009, the market value dropped to \$52,850. As of June 30, 2008, the market value was \$482,095. The District (with about 24 other municipalities that share similar interests) is working with the State to obtain financial assistance from the Department of the Treasury in order to redeem the investment at full value.

**BEACH CITIES HEALTH DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	Budgeted Amount		Actual Amount	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Financing and rental income related to lease	\$ 2,065,767	\$ 2,065,767	\$ 2,075,747	\$ 9,980
Investment earnings	2,219,214	2,219,214	2,505,900	286,686
Property taxes	2,242,800	2,242,800	2,310,323	67,523
Program income	2,760,727	2,760,727	2,658,807	(101,920)
Income from limited partnership	1,179,426	1,179,426	1,023,918	(155,508)
Other revenue	119,982	119,982	171,004	51,022
Total revenues	10,587,916	10,587,916	10,745,699	157,783
EXPENDITURES				
Current:				
Grant and projects	1,765,521	1,765,521	1,771,475	(5,954)
Salaries and related expenses	5,073,958	5,073,958	4,879,115	194,843
General and administrative	375,387	375,387	368,307	7,080
Human resources	202,649	202,649	154,983	47,666
Information services	63,126	63,126	81,438	(18,312)
Community relations	504,393	504,393	493,778	10,615
Facilities management	279,215	279,215	503,298	(224,083)
Professional fees	723,611	723,611	950,711	(227,100)
Cost of goods sold	281,613	281,613	306,452	(24,839)
Other	62,241	62,241	36,650	25,591
Capital outlay	291,149	291,149	1,796,307	(1,505,158)
Debt service:				
Principal retirement			186,948	(186,948)
Interest and other fiscal charges	533,052	533,052	533,052	
Total expenditures	10,155,915	10,155,915	12,062,514	(1,906,599)
Net change in fund balance	432,001	432,001	(1,316,815)	(1,748,816)
Fund balance - July 1, 2007	39,701,414	39,701,414	39,701,414	
Fund balance - June 30, 2008	\$ 40,133,415	\$ 40,133,415	\$ 38,384,599	\$ (1,748,816)

**BEACH CITIES HEALTH DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	Budgeted Amount		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Investment earnings	\$ -	\$ -	\$ 38,124	\$ 38,124
Total revenues			38,124	38,124
Net change in fund balance			38,124	38,124
Fund balance - July 1, 2007	1,032,559	1,032,559	1,032,559	
Fund balance - June 30, 2008	<u>\$ 1,032,559</u>	<u>\$ 1,032,559</u>	<u>\$ 1,070,683</u>	<u>\$ 38,124</u>



MOSS, LEVY & HARTZHEIM LLP

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**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**

Board of Directors
Beach Cities Health District
Redondo Beach, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Beach Cities Health District as of and for the fiscal year ended June 30, 2008 which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 13, 2009. 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 the 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 the District's internal control over financial report. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of District's financial statements that is more than inconsequential will not be prevented or detected by District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

We noted certain other matters that we reported to management of the District in a separate letter dated January 13, 2009.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Beach Cities Health District 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*.

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

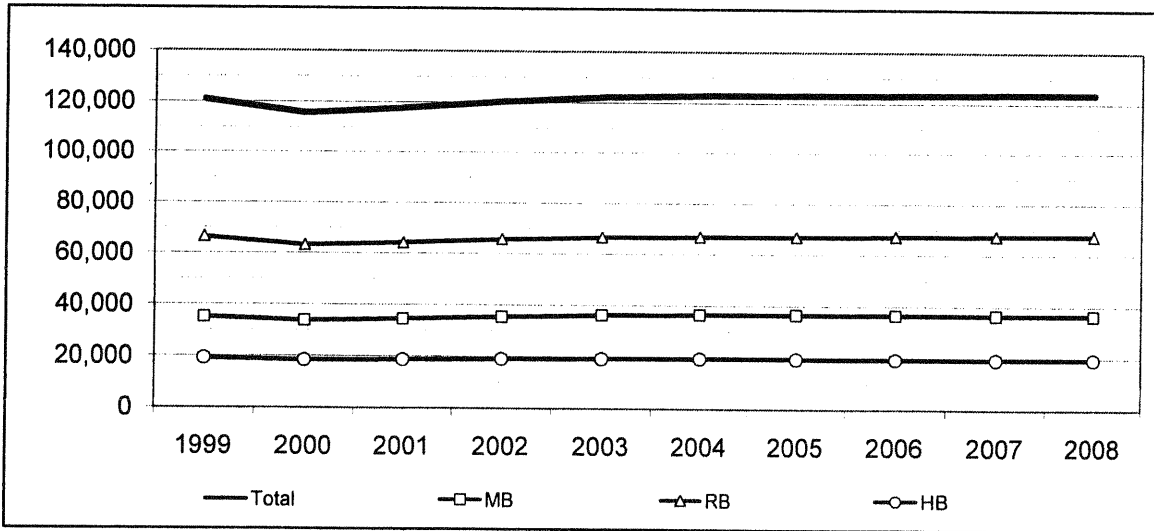
Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
January 13, 2009

**Beach Cities Health District
Demographic Statistics
Last Ten Years**

Population

Year	City of Redondo Beach	City of Hermosa Beach	City of Manhattan Beach	Beach Cities District Total	Population Percentage Change	Los Angeles County	Beach Cities Percentage Of County
2008	67,488	19,527	36,505	123,520	-0.0178%	10,363,850	1.19%
2007	67,495	19,474	36,573	123,542	0.2678%	10,331,939	1.20%
2006	67,201	19,460	36,551	123,212	0.1406%	10,257,994	1.20%
2005	66,925	19,491	36,623	123,039	0.1359%	10,166,417	1.21%
2004	66,829	19,519	36,524	122,872	0.5557%	10,088,934	1.22%
2003	66,552	19,366	36,275	122,193	1.5339%	9,979,472	1.22%
2002	65,687	19,183	35,477	120,347	2.3063%	9,829,115	1.22%
2001	64,232	18,824	34,578	117,634	1.6900%	9,663,243	1.22%
2000	63,261	18,566	33,852	115,679	-4.3754%	9,519,330	1.22%
1999	66,473	19,310	35,189	120,972	1.1996%	9,714,931	1.25%



Source California Department of Finance Demographics
 Site Reference -
 Year 2000 to 2008:
http://www.dof.ca.gov/research/demographic/reports/estimates/e-1_2006-07/
 Year 1999:
<http://www.dof.ca.gov/html/demograp/reportspapers/estimates/e5/e5-91-00/documents/e-5.xls>