

BEACH CITIES HEALTH DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the fiscal year ended June 30, 2012

BEACH CITIES HEALTH DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
June 30, 2012

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December 18, 2012

Board of Directors, Beach Cities Health District,
Citizens of Hermosa Beach, Manhattan Beach and Redondo Beach, California:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the Beach Cities Health District (BCHD or "the District") for the fiscal year ended June 30, 2012. The District is committed to implementing sound fiscal policy, responsible management and excellence in financial reporting.

Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures rests with the District. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

The reader is referred to the Management Discussion & Analysis (MD&A) section beginning on page 3 for an overview of the District's financial position. This transmittal letter is designed to complement the MD&A and therefore should be read with it. The District's MD&A is required supplementary information and provides information and analysis that users need to interpret the basic financial statements.

The CAFR is presented in four sections as is standard practice: introductory, financial, statistical and compliance & controls. The introductory section, unaudited, includes this transmittal letter and the District's organizational chart for the fiscal year 2011-2012. The financial section includes the independent auditor's report, management's discussion & analysis, basic financial statements and related footnotes, and other schedules that provide detailed information relative to the basic financial statements. The statistical section, which is also unaudited, includes selected financial and demographic information, generally presented on a multi-year basis.

Service Efforts and Accomplishments. In FY2012, the District delivered services to its residents and citizens, adhering to its financial policies and adopted financial plan as evidenced by the budget-to-actual reports presented later in this package.

Reporting Entity. This CAFR presents the financial status of the District and its component unit, Prospect One Corporation (POC), which is included in the District's reporting entity because of its operationally and financially integral relationship with the District. The component unit, POC is reported on a blended basis as part of the primary government because its board is comprised of all District board members.

Profile of the Government. The Beach Cities Health District was formed in 1955 under California State's Local Health Care District law, a public health government agency serving the residents of Manhattan Beach, Hermosa Beach and Redondo Beach, providing health and wellness programs that promote healthy lifestyles, physical fitness and emotional health.

District Services. The Beach Cities Health District service delivery is organized around functional areas: Life Span Services, Fitness Centers, Finance & Property Funding and Administration.

The **Life Span Services Department** consists of the Older Adult Services, the Blue Zones project, and School Health Services.

The Blue Zones project is a multi-discipline joint effort with Healthways, Inc., the cities of Hermosa Beach, Manhattan Beach, Redondo Beach, the three school districts and many employers in these cities. Subject matter experts in worksites, public policy, restaurants, grocery stores, schools and citizen engagement engage in activity most likely to produce evidence-based outcomes to raise the health of the community. Gallup Polls have added data to help demonstrate effectiveness of District services.

Case Management services improve the quality of life and maintain independence for older and disabled residents in the three Beach Cities: confidential in-home assessment, care planning, advocacy, referrals to health and community services, and volunteer services, and access to District's Senior and Disabled Health Fund (for qualified residents). The Center for Health Connection seeks to improve health to the underserved population of the beach cities. This populations segment includes those unable to access healthcare due to inability to pay or to access the appropriate providers, providing medical, dental, and counseling services for uninsured or underinsure residents.

School Health Services provides a variety of physical, mental and social health programs for children within the beach cities school setting. These include: health education for elementary students; physical education for children kindergarten through sixth grade; life skills and substance abuse education for middle school students; and obesity prevention education at the elementary level. LiveWell Kids and LiveWell Tots are responsible for identifying and addressing relevant health needs and issues that affect youth; program development; leading community collaborations to create innovative partnerships that address community health needs and BCHD Priority Health Areas including Nutrition Education, Physical Education, Counseling, Substance Abuse, Emotional and Social Health Education.

The **Fitness Centers Department** encompasses services provided at the Center for Health & Fitness and AdventurePlex.

AdventurePlex is a health and fitness center created especially for youth. Geared to challenge children - physically, mentally and intellectually - with non-stop activities in a safe, structured environment, it provides a fun place to play, with an Adventure Play

Structure full of mazes, tunnels and slides; an outdoor rock climbing wall and ropes course; gymnasium; arts & crafts rooms; and fitness center. AdventurePlex also focuses on family fun with many special events throughout the year, an array of classes and day camp sessions.

The Center for Health & Fitness is a medically-based, health and fitness facility that targets the following segments of the population, discussed separately in the following section.

The **Finance & Property Funding Department** provides administrative support and delivers funding through treasury, property tax administration and leasing activities. The District has 255,000 of sq. ft. under management. The investment portfolio ranges seasonally from \$20 to \$25 million.

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.

Economic Condition and Outlook. The District serves the residents of the Cities of Hermosa Beach, Manhattan Beach and Redondo Beach, Los Angeles's South Bay. The California State Department of Finance reports the combined population of these cities increased from 115,679 to 121,389 or 4.9% between 2000 and 2010.

Globally, the District experiences economic pressures felt by many organizations – declining-market-impacted property tax values and declining interest rates coupled with increased costs of insurance, employee salaries and benefits.

Sheltered geographically somewhat as compared to inland areas, property value growth during the last year was significantly less than in prior years resulting in property tax revenue to the District equal to prior year. The District's investment income was less volatile than the national market due to the benefit of laddering long-term investments and due to less reliance on State budget issues than other government agencies.

Financial Information. District management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgment by management.

We believe that the District's internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

As a recipient of property tax funding, the District is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws

and regulations related to those programs. This internal control structure is subject to periodic evaluation by District management.

In addition to internal controls, the District maintains budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual budget approved by the District's governing body. Activities of the general and special revenue fund are included in the annual budget. The level of budgetary control, the level that expenditures cannot legally exceed, is established by fund. As demonstrated by the statements and schedules in the financial section of this report, the District continues to meet its responsibility for sound financial management.

Cash Management. The District's Investment Policy instructs staff to invest funds in a manner that will provide for the highest degree of safety, liquidity and yield while conforming to all statutes governing the investing of public funds.

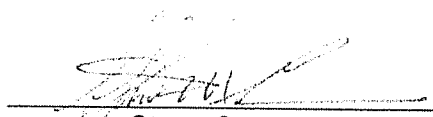
Independent Audit. The accounting firm of Moss, Levy & Hartzheim, Certified Public Accounts, was selected by the BCHD Board to perform the fiscal year 2008-09 audit and subsequent five years. The auditor's report on the basic financial statements is included in the financial section of this report (pages 1-2).

Report Evaluation. This report seeks to meet established criteria for excellence in financial reporting, providing a published easily-readable and efficiently-organized CAFR whose contents conform to existing standards.

Acknowledgements. Timely preparation of this report could not be accomplished without the efforts of District staff and the staff of our independent auditors, Moss, Levy & Hartzheim, Certified Public Accountants. We would like to express our appreciation to all members of the departments who assisted and contributed to its preparation.

Without the continuing interest and support of the District Board of Directors in planning and conducting the financial operations of the Beach Cities Health District, preparation of this report would not have been possible.

Respectfully,



Steve Groom
Chief Financial Officer

Beach Cities Health District
Comprehensive Annual Financial Report
June 30, 2012

Board of Directors

President	Robert Grossman, M.D.
President Pro-Tem	Joanne Edgerton
Secretary-Treasurer	Noel Chun, M.D.
Board Member	Marie Liu Corr
Board Member	Vanessa Poster

Staff

Chief Executive Officer	Susan Burden
Chief Financial Officer	Steve Groom
Chief Medical Officer	Lisa Santora, M.D.
Chief Resources Officer	Jackie Berling

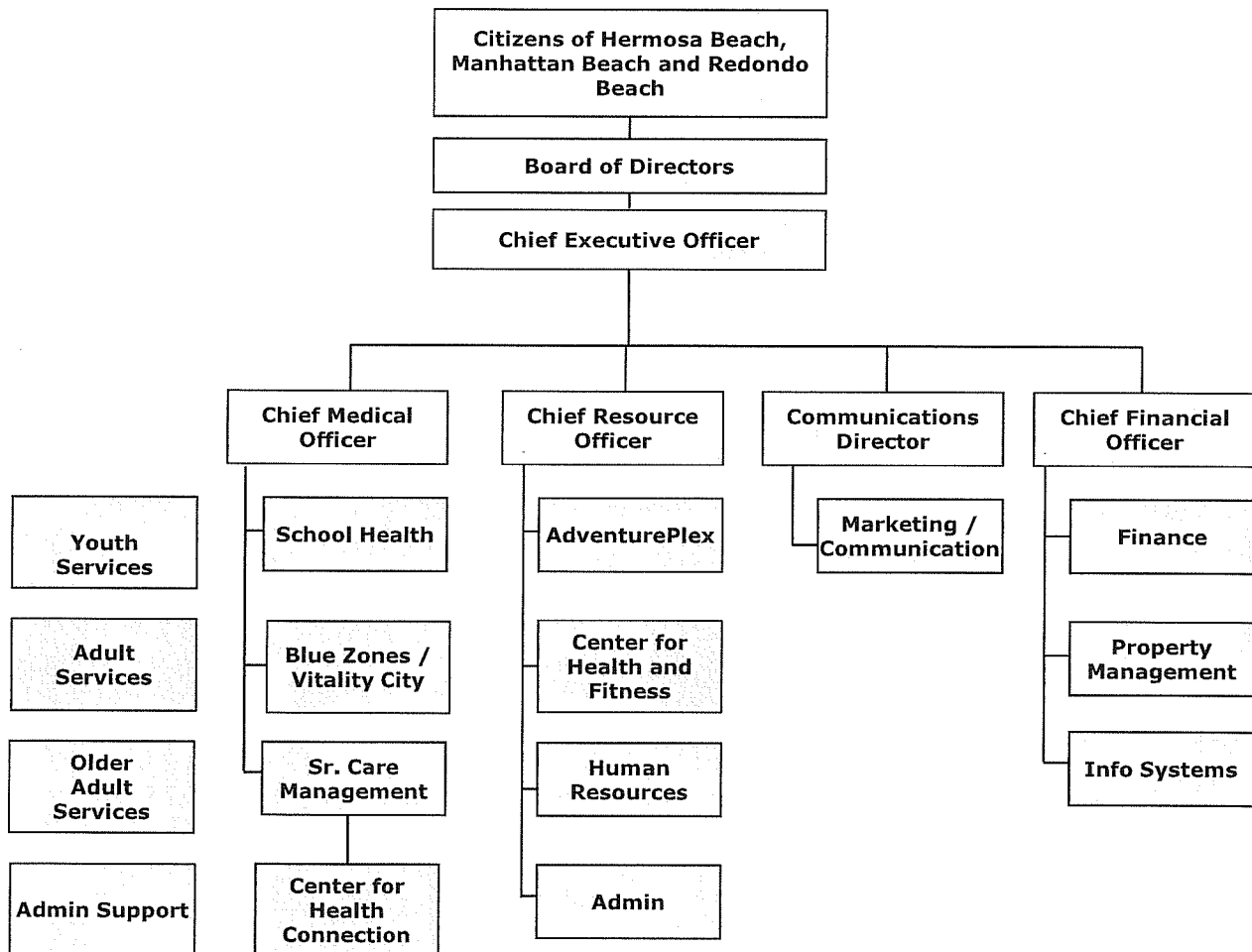
CAFR Report prepared by:

Finance Department
Beach Cities Health District
514 N. Prospect Ave., 3rd Floor
Redondo Beach, CA 90277

Accounting Staff

Judy Anderson	Chris Bobonski	Juliana Jenkins	Valerie Lee
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Organization Chart



California Society of Municipal Finance Officers

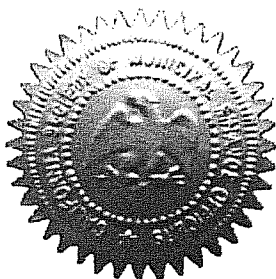
Certificate of Award

*Outstanding Financial Reporting
for the Fiscal Year Ending June 30, 2011*

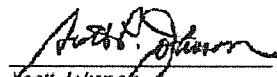
Presented to the

Beach Cities Health District

This certificate is issued in recognition of meeting professional standards and criteria in reporting which reflect a high level of quality in the annual financial statements and in the underlying accounting systems from which reports were prepared.



February 29, 2012


Scott Johnson
CSMFO President


Chin Thai, Chair
Professional Standards and
Recognition Committee

Dedicated Excellence in Municipal Financial Reporting



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

RONALD A. LEVY, CPA
CRAIG A. HARTZHEIM, CPA
HADLEY Y. HUI, CPA

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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 (District) as of and for the fiscal year ended June 30, 2012, 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.

As discussed in Note 1 of the notes to the basic financial statements, effective July 1, 2011, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions*.

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, as of June 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 18, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8, the Schedule of Funding Progress for Retiree Health Plan on page 40, and the General Fund budgetary comparison schedule on page 41 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Beach Cities Health District's financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not required parts of the basic financial statements. The introductory section and statistical section are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information included in the introductory section and the statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
December 18, 2012

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, 2012. Readers are encouraged to read this information alongside the District's financial statements, which follow.

Financial Highlights

- The assets of the District, \$78.6 million, exceeded its liabilities, \$7.6 million, at the close of the most recent fiscal year by \$71.1 million (net assets). Of this amount, \$45.7 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 \$12.0 million, virtually the same as the previous year.
- 75% of the District's services were financed with funding sources other than taxes. The amount financed by taxpayers through property taxes was \$2.5 million, 25% of total revenues, compared to \$2.5 million and 24% in prior year.
- The fund balance of Beach Cities Health District's general fund decreased by \$0.2 million during the current fiscal year. This was primarily attributable to an operating surplus of \$0.4 million and capital expenditures and debt service of (\$1.1 million).
- As of the close of the current fiscal year, the unassigned fund balance for the general fund was \$23.6 million, or 225% of general fund expenditures.

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 9-10 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 11-14 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 15-39.

Government-wide Financial Analysis

As noted previously, net assets may serve over time as an indicator of financial position. Assets exceeded liabilities by \$71.1 million at the close of the fiscal year ended June 30, 2012.

Statement of Net Assets (\$ Millions)

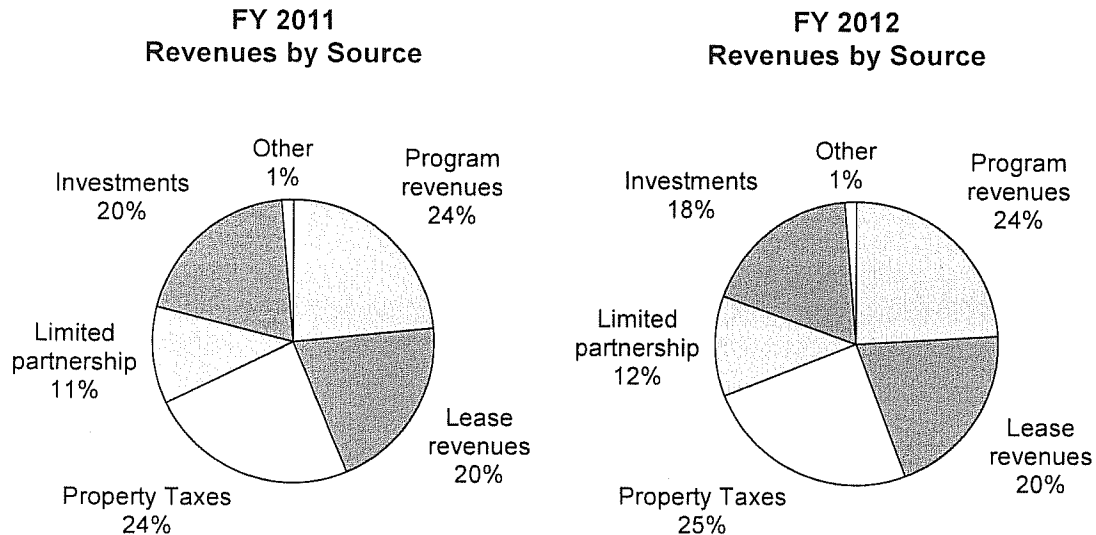
	Governmental Activities		Increase (Decrease)
	2012	2011	
Assets			
Current and other assets	\$ 47.6	\$ 47.8	\$ (0.2)
Capital assets	31.1	32.6	(1.5)
Total assets	78.7	80.4	(1.7)
Liabilities			
Long-term debt outstanding	5.9	6.0	(0.1)
Other liabilities	1.7	1.6	0.1
Total liabilities	7.6	7.6	-
Net Assets			
Invested in capital assets			
net of debt	25.4	26.7	(1.3)
Restricted	-	-	-
Unrestricted	45.7	46.1	(0.4)
Total Net Assets	\$ 71.1	\$ 72.8	\$ (1.7)

A significant portion of the District's net assets, \$31.1 million (39.5 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, \$45.7 million, may be used to meet the District's ongoing obligations to citizens and creditors.

The cost of all governmental activities this year was \$12.0 million, virtually the same as the previous year. As shown in the Statement of Activities on page 10, the amount financed by taxpayers through property taxes was \$2.5 million, virtually level with the prior year. This represents 25% of total revenues; 75% 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 \$2.4 million), and by revenue generated from District resources (property lease revenues, interest from investments and limited partnership income).



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 \$40.1 million. Most of this amount, \$23.6 million, constitutes unassigned fund balance, which is available for spending at the District's discretion. The remainder of the fund balance is assigned or nonspendable, not available for discretionary spending, primarily a) the District's investment in limited partnerships (\$3.2 million) and b) net notes receivable (\$11.8 million).

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$23.6 million, of a total fund balance of \$38.9 million. As a measure of the district's liquidity, unassigned fund balance represents 225% of total general fund expenditures.

The fund balance of Beach Cities Health District's general fund decreased by \$0.2 million during the current fiscal year. This was primarily attributable to an operating surplus of \$0.4 million and capital expenditures and debt service of (\$1.1 million).

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 \$1.2 million, no change over prior year.

General Fund Budgetary Highlights

In May, 2011, the Board of Directors approved a budget for the Fiscal Year 2011-2012 that forecast a surplus of \$47,900, before capital expenditures, maintaining commitments to existing service levels and allowing for scheduled capital expenditures. Of particular budgetary significance, this was the second year of a continuing \$600,000 commitment to the Blue Zones project acting in concert with the three cities, school districts and local businesses to measurably improve the health of the community. Facing the economic hurdles of depressed interest rates, property values and a receding national economy, the District budgeted revenues \$213,000 more than prior year and expenditures \$763,000 more than prior year. User fees and partnership receipts were also expected to be recovering slightly from the nation-wide economic recession, increasing \$201,000 and 252,000 respectively. Lease revenue was expected to decrease by \$235,000 on the basis of existing long-term leases and known vacancies. During the year, the Board of Directors approved further budget appropriations of \$101,500 for additional operating expenditures.

Expenditures for Capital Outlay, District's long-term investment in capital assets, \$248,000 were included in this budget, excluding carryover of prior year approved capital project spending. Actual expenditures normally vary from budget due largely to delayed timing of project spending from prior year.

As noted on p. 41, actual revenues fell short of budgeted expectations by \$129,000 primarily from unfavorable actual limited partnership receipts (\$292,000) and program income (\$159,000) offset by favorable lease income of \$363,000. Actual expenditures were favorable to budget by \$57,000 primarily due to favorable grant (\$205,000) and salaries (\$204,000) expenditures offset by unfavorable professional fees (\$135,000) related to leasing activity.

Program income derives from District programs, managed monthly using actual-to-budget variance control at the program level in order to manage expenses proportionally as revenue fluctuates. Favorable operational expenditure variances are largely a function of having monitored revenue across all district departments.

As shown in the following table total revenues remained level and expenditures decreased over prior year.

REVENUES, EXPENDITURES & CHANGES IN FUND BALANCE

	Actual (\$ Millions)		Increase
	2012	2011	(Decrease)
Revenues			
Program Income	\$ 2.4	\$ 2.4	\$ 0.0
Financing & Rental Income	2.0	2.1	(0.0)
Property Taxes	2.5	2.5	0.0
Investment Earnings	1.8	2.0	(0.2)
Limited Partnership	1.2	1.1	0.0
Other	0.1	0.1	(0.0)
Total Revenues	10.1	10.2	(0.1)
Expenditures			
Current			
Salaries & related	5.0	5.1	(0.1)
Grants & projects	1.3	1.4	(0.1)
Professional Fees	1.5	1.3	0.2
Facilities Management	0.5	0.6	(0.1)
Community Relations	0.2	0.3	(0.1)
General & Administrative	0.4	0.4	0.0
Cost of Goods Sold	0.1	0.1	(0.0)
Human Resources	0.2	0.1	0.0
Information Systems	0.1	0.1	0.0
Other	0.1	0.1	(0.0)
Capital Outlay	0.4	0.4	(0.0)
Debt Service			
Interest and other fiscal	0.5	0.5	(0.0)
Principal Retirement	0.3	0.2	0.0
	10.5	10.6	(0.1)
Excess of revenues over (under) expenditures	(0.4)	(0.3)	(0.0)
Other finance resources	0.1		0.1
	(0.3)	(0.3)	0.1
Beginning Fund Balance	39.1	38.8	0.3
Prior period adjustment	0.1	0.7	
Ending Fund Balance	\$ 38.9	\$ 39.1	\$ (0.2)

Property Tax revenue remained level, of particular note despite the national economic downturn's effect on the local real estate. Investment earnings decreased slightly as the national economic downturn's effect on interest rates impacted the average yield of the District's ladder portfolio. Program revenues remained virtually level with prior year.

Both operating expenditures and outlay for capital remained level with prior-year spending.

Capital Asset and Debt Administration

The District's investment in capital assets for its governmental activities as of June 30, 2012 amounts to \$31,137,009 (net of accumulated depreciation). This investment includes land, buildings, furniture, fixtures, equipment, improvements, and construction in progress. The total decrease in the District's capital assets for the current fiscal year was 4%.

Major capital asset events for the year

• Phone system (capital lease)	\$98,000
• New parking structure sidewalk	\$71,000
• Laundry relocation	\$57,000
• Fitness Center software conversion	\$25,000
• AdventurePlex auto-belay system	\$17,000
• Air handler coil replacement	\$16,000
• Cooling tower	\$12,000
• Co-generation transformer	\$11,000
• Air compressor pump	\$10,000
• Heat Exchanger piping	\$10,000
• Chilled water pump	\$9,000
• AdventurePlex A/C server	\$7,000
• Air handler motor	\$6,000

The District's total debt decreased by \$134,000, primarily due to the addition of a capital lease with NEC Financial Service, LLC. for a phone system, which increased debt by \$98,000, to the increase of OPEB obligation of \$34,000 and to the scheduled amortization of the District's only long-term debt component, the Prospect South Bay capital lease which decreased by \$256,000.

Economic Outlook

Fiscal Year 2011-12 finds the regional economy stabilizing somewhat, but at lower pre-recession levels. Every budget cycle involves a new analysis and forecasting as we find ourselves still squeezed between diminishing funding and increasing demand for services. Of primary concern to the District is the aging population as the mathematically-predictable baby boom population ages, a demographic increasingly subject to on health and wellness activities which the District offers. The local economy continues to suffer from the influences of elevated unemployment, high oil and transportation costs, housing defaults, increasing pension and health care costs, state and federal debt, and local business failures. General fund revenues have had to be substantially adjusted mid-course due to the economic influence on the District's public-private partnerships. Property Tax revenue is projected to increase slightly. Investment earnings continue to decrease as the average yield falls with every maturing bond that was purchased several years ago and is now re-invested in the record-low interest rate environment. This was taken into consideration in the current budget.

Since the recession officially ended in June 2009, the District's local economy comprising the cities of Hermosa Beach, Manhattan Beach and Redondo Beach have fared better than most cities in Southern California, particularly the out-lying areas must subject to new-construction vulnerability in the real estate drop. However Beach Cities Health District continues to pursue increased funding for the foreseeable increase in senior services demand through improved and expanded leasing opportunities. The next budget to be brought to the Board of Directors for review and approval will include improved leasing revenue from already-executed leases, which will help to mitigate the crops in property tax and interest revenue funding influenced by the greater economy.

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, 2012

	Governmental Activities
ASSETS	
Cash and investments	\$ 25,500,405
Accounts receivable - net	544,347
Interest receivable	196,273
Loans receivable	4,972
Notes receivable	17,465,726
Taxes receivable	176,282
Pass through grants receivable	11,978
Prepaid items	406,810
Inventory	9,790
Investment in limited partnerships	3,178,302
Capital assets not being depreciated	4,401,926
Capital assets - net of accumulated depreciation	26,735,083
	<hr/>
Total assets	78,631,894
	<hr/>
LIABILITIES	
Current liabilities:	
Accounts payable	360,686
Accrued liabilities	518,006
Accrued payroll	99,591
Deposits	179,133
Unearned revenue	173,103
Compensated absences	353,966
Noncurrent liabilities:	
Due within one year	292,956
Due in more than one year	5,591,146
	<hr/>
Total liabilities	7,568,587
	<hr/>
NET ASSETS	
Invested in capital assets, net of related debt	25,352,715
Unrestricted	45,710,592
	<hr/>
Total net assets	\$ 71,063,307
	<hr/>

See notes to the basic financial statements

BEACH CITIES HEALTH DISTRICT
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012

<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	\$ 11,491,661	\$ 2,431,990	\$ (9,059,671)
Interest on long-term debt	<u>470,530</u>		<u>(470,530)</u>
Total Governmental Activities	<u>\$ 11,962,191</u>	<u>\$ 2,431,990</u>	<u>(9,530,201)</u>

General Revenues:

Taxes:

Property taxes	2,499,090
Earnings on investments	3,895,549
Income from limited partnerships	1,151,587
Other income	<u>133,951</u>

Total general revenues	<u>7,680,177</u>
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Change in net assets	<u>(1,850,024)</u>
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Net assets - July 1, 2011	72,846,626
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Prior period adjustments	<u>66,705</u>
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Net assets - July 1, 2011, restated	<u>72,913,331</u>
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Net assets - June 30, 2012	<u>\$ 71,063,307</u>
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See notes to the basic financial statements

**BEACH CITIES HEALTH DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012**

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash and investments	\$ 24,365,550	\$ 1,134,855	\$ 25,500,405
Accounts receivable - net	544,347		544,347
Due from other funds		56,500	56,500
Interest receivable	196,273		196,273
Loans receivable	4,972		4,972
Notes receivable	17,465,726		17,465,726
Taxes receivable	176,282		176,282
Pass through grants receivable	11,978		11,978
Prepaid items	406,810		406,810
Inventory	9,790		9,790
Investment in limited partnerships	3,178,302		3,178,302
Total assets	<u>\$ 46,360,030</u>	<u>\$ 1,191,355</u>	<u>\$ 47,551,385</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 360,686	\$ -	\$ 360,686
Accrued liabilities	518,006		518,006
Accrued payroll	99,591		99,591
Due to other funds	56,500		56,500
Deposits	179,133		179,133
Deferred revenue	5,869,116		5,869,116
Compensated absences	353,966		353,966
Total liabilities	<u>7,436,998</u>		<u>7,436,998</u>
Fund balances			
Nonspendable:			
Inventory	9,790		9,790
Prepaid items	406,810		406,810
Notes receivable, net of deferred revenue	11,769,713		11,769,713
Investment in Limited Partnerships	3,178,302		3,178,302
Assigned		1,191,355	1,191,355
Unassigned	23,558,417		23,558,417
Total fund balances	<u>38,923,032</u>	<u>1,191,355</u>	<u>40,114,387</u>
Total liabilities and fund balances	<u>\$ 46,360,030</u>	<u>\$ 1,191,355</u>	<u>\$ 47,551,385</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, 2012**

Fund balances of governmental funds	\$ 40,114,387
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.	5,696,013
Capital leases 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.	(5,784,294)
Capital assets, net of accumulated depreciation, have not been included as financial resources in governmental funds.	31,137,009
Other postemployment benefits (OPEB) are not due and payable in the current period and, therefore, are not reported in the balance sheet of the governmental funds.	<u>(99,808)</u>
Net assets of governmental activities	<u><u>\$ 71,063,307</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, 2012

	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES			
Property taxes	\$ 2,499,090	\$ -	\$ 2,499,090
Program income	2,431,990		2,431,990
Financing and rental income related to lease	2,041,241		2,041,241
Investment earnings	1,838,852	15,456	1,854,308
Income from limited partnership	1,151,587		1,151,587
Intergovernmental	89,196		89,196
Other revenue	44,755		44,755
	<u>10,096,711</u>	<u>15,456</u>	<u>10,112,167</u>
Total revenues	<u>10,096,711</u>	<u>15,456</u>	<u>10,112,167</u>
EXPENDITURES			
Current:			
Salaries and related expenses	5,005,276		5,005,276
Professional fees	1,517,613		1,517,613
Grants and projects	1,321,735		1,321,735
Facilities management	458,785	40	458,825
Community relations	197,270		197,270
General and administrative	393,737		393,737
Human resources	160,070		160,070
Information services	130,722		130,722
Cost of goods sold	124,192		124,192
Other	54,383		54,383
Capital outlay	371,137		371,137
Debt service:			
Principal retirement	266,715		266,715
Interest and other fiscal charges	470,530		470,530
	<u>10,472,165</u>	<u>40</u>	<u>10,472,205</u>
Total expenditures	<u>10,472,165</u>	<u>40</u>	<u>10,472,205</u>
Excess of revenues over (under) expenditures	<u>(375,454)</u>	<u>15,416</u>	<u>(360,038)</u>
OTHER FINANCING SOURCES			
Proceeds from capital lease	98,431		98,431
	<u>98,431</u>		<u>98,431</u>
Total other financing sources (uses)	<u>98,431</u>		<u>98,431</u>
Net changes in fund balances	<u>(277,023)</u>	<u>15,416</u>	<u>(261,607)</u>
Fund balances - July 1, 2011	39,133,350	1,175,939	40,309,289
Prior period adjustments	66,705		66,705
Fund balances - July 1, 2011, restated	<u>39,200,055</u>	<u>1,175,939</u>	<u>40,375,994</u>
Fund balances - June 30, 2012	<u>\$ 38,923,032</u>	<u>\$ 1,191,355</u>	<u>\$ 40,114,387</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, 2012**

Net change in fund balances - total governmental funds	\$ (261,607)
Amounts reported for governmental activities in the statement of activities differ because:	
The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal and issuance cost of long-term debt consumes the current financial resources of the governmental funds. Issuance of bond principal is an other financing source and repayment of bond principal and issuance cost are an expenditure in governmental funds, but the issuance increases long-term liabilities and the repayment reduces long-term liabilities in the statement of net assets. This is the net change of the issuance of long-term debt and the principal repayments.	
Issuance of long-term debt - capital lease	(98,431)
Retirement of principle	266,715
Receipt of principal on notes receivable is recorded as a revenue in the governmental funds but reduces the receivable in the statement of net assets	(256,565)
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.	(1,466,473)
Other postemployment benefits (OPEB) included in the statement of activities do not provide(require) the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(33,663)
Change in net assets of governmental activities	<u>\$ (1,850,024)</u>

See notes to the basic financial statements

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

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, 2012

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 investment portfolio under the Prudent Investor Standard (California Government Code Section 53600.3) which states, in essence, that “when investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated need of the District, that a prudent person in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the District.

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, 2012

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 they 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, 2012

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, 2012.

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

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:

<u>Assets</u>	<u>Years</u>
Building 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). It is the District's estimate that these compensated absences will be used within one year. At June 30, 2012, vacation leave of \$353,966 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

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. All other net assets are considered unrestricted.

E. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District's policy is to apply restricted net assets first.

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. 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.

G. New Accounting Pronouncements

The District has implemented the requirement of GASB Statement No. 64 during the fiscal year ended June 30, 2012.

GASB Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53)

This Statement is effective for periods beginning after June 15, 2011. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. Implementation of GASB Statement No. 64 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2012.

H. 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 \$5,784,294 long-term debt difference is as follows:

Long-term debt:	
Capital leases payable	<u>\$ 5,784,294</u>
Net adjustment to reduce fund balance of total governmental funds to arrive at net assets of governmental activities	<u>\$ 5,784,294</u>

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.”

The details of this difference are as follows:

Capital outlay:	
Capital outlay	\$ 371,137
Depreciation	<u>(1,837,610)</u>
Net adjustment to reduce fund balance of total governmental funds to arrive at net assets of governmental activities	 <u>\$ (1,466,473)</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 \$256,565 difference are as follows:

Notes receivable:	
Prospect South Bay note receivable	
- deferred revenue	<u>\$ (256,565)</u>
Net adjustment to reduce fund balance of total governmental funds to arrive at net assets of governmental activities	 <u>\$ (256,565)</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.

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

General Budget Policies (Continued)

The following are expenditures which exceed appropriations in the general fund for the fiscal year ended June 30, 2012.

	Final <u>Appropriation</u>	<u>Expenditures</u>	<u>Excess</u>
Major Fund:			
General fund:			
Facilities management	\$ 444,135	\$ 458,785	\$ (14,650)
Professional fees	1,382,944	1,517,613	(134,669)
Other	52,800	54,383	(1,583)
Capital outlay	300,754	371,137	(70,383)
Debt Service:			
Principal retirement		266,715	(266,715)
Interest and other fiscal charges	463,435	470,530	(7,095)

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of June 30, 2012 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	<u>\$ 25,500,405</u>
Total cash and investments	<u>\$ 25,500,405</u>

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

Petty cash	\$ 5,720
Deposits with financial institutions	453,901
Investments	<u>25,040,784</u>
Total cash and investments	<u>\$ 25,500,405</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

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 3 - CASH AND INVESTMENTS (Continued)

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

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	\$ 50,000,000
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	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	20%	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.

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:

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 3 - CASH AND INVESTMENTS (Continued)

B. Disclosures Relating to Interest Rate Risk (Continued)

Investment Type	Totals	Remaining maturity (in Months)				
		12 Months or Less	13 to 24 Months	25 to 36 Months	37 to 48 Months	49 to 60 Months
State Investment Pool	\$ 1,199,720	\$ 1,199,720	\$ -	\$ -	\$ -	\$ -
Medium Term Notes	6,202,095	493,562	1,682,036	1,819,590	531,820	1,675,087
Municipal Obligations	299,208				299,208	
U.S. Treasury Securities	9,210,055		1,491,303	2,256,125	4,155,980	1,306,647
U.S. Agency Securities	8,096,469		4,434,494	2,644,961	517,906	499,108
Money Market Funds	33,237	33,237				
	<u>\$25,040,784</u>	<u>\$ 1,726,519</u>	<u>\$ 7,607,833</u>	<u>\$ 6,720,676</u>	<u>\$ 5,504,914</u>	<u>\$ 3,480,842</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	\$ 1,199,720	N/A	\$ -	\$ -	\$ -	\$ -	\$ 1,199,720
Medium Term Notes	6,202,095	A			2,834,860	3,254,085	113,150 *
Municipal Obligations	299,208			299,208			
U.S. Treasury Securities	9,210,055	N/A	9,210,055				
U.S. Agency Securities	8,096,469			4,194,642	3,901,827		
Money Market Funds	33,237			33,237			
Total	<u>\$25,040,784</u>		<u>\$ 9,210,055</u>	<u>\$ 4,527,087</u>	<u>\$ 6,736,687</u>	<u>\$ 3,254,085</u>	<u>\$ 1,312,870</u>

* See note 17 for details.

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:

Issuer	Investment Type	Reported Amount
FNMA	U.S. Agency Securities	\$ 4,194,698
FHLMC	U.S. Agency Securities	3,901,771

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments in one issuer that represent 5% or more of total investments (other than U.S. Treasury Securities, Mutual funds, and external investment pools) by reporting unit (primary government, governmental activities, business type activities, fiduciary funds, major funds, nonmajor funds in the aggregate, etc.) are as follows:

\$8,096,469 of cash and investments reported in the Governmental Activities Statement of net assets are held in federal agency securities, \$4,194,698 (FNMA), \$3,901,771 (FHLMC). The FNMA bears interest at various rates of 0.500% through 4.625% and matures on September 23, 2013 through October 26, 2015. The FHLMC also bears interest at various rates of 0.500% through 2.000% and matures on October 15, 2013 through August 26, 2016.

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, 2012, none of the District's deposits with financial institutions were held in uncollateralized accounts. As of June 30, 2012, the District's 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>
Medium Term Notes	\$ 6,202,095
Municipal Obligations	299,208
U.S. Treasury Securities	9,210,055
U.S. Agency Securities	8,096,469
Money Market Funds	33,237

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, 2012

NOTE 4 – OPERATING LEASES AS LESSOR

South Bay Family Health Care Center

The District 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. The cost of living adjustment on November 1, 2011 changed the monthly base rent to \$12,993.

Cancer Care Associates Medical Group

The District 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 the 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. The adjustment in February 2011 changed the base rent to \$16,191. The lease terms were renewed and renegotiated effective August 2011. There will be no rent due from May 2011 through May 2012 and the rent will then increase to \$24,679. Effective June 2012, the rent will increase to \$25,323 for the 4th floor space and \$1,523 for the lower level space. Reimbursement to the District for a portion of the common area operating expenses is paid monthly at a fixed negotiated rate of \$8,584 per month.

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. The cost of living adjustment on March 1, 2009 changed the monthly base rent to \$20,168.

Pacific South Bay Dialysis Center, LLC

The District and Pacific South Bay Dialysis Center, LLC have 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. The fourth amendment to the lease dated December 30, 2009 increased the base rent to \$5,150, effective on January 1, 2011.

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. The option was not executed and the lease has been on a monthly basis. A new lease term commenced on November 1, 2010 through October 31, 2013. Lease payments of \$2,765 are due on the first day of each month including reimbursement of Common Area Maintenance Expenses.

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 4 – OPERATING LEASES AS LESSOR (Continued)

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 lease term has been extended through February 28, 2015 commencing March 1, 2011 and base rent increases to \$37,776. The base rental payments will be adjusted by a factor of three percent (3%) of the base rent paid in the immediate preceding twelve (12) month period on the first day of the 24th month following the commencement of the lease.

Silverado Senior Living

The District entered into a lease agreement dated May 18, 2006, with Silverado Senior Living Redondo Beach, Inc. to lease 35,008 square feet located at 514 N. Prospect Avenue, Redondo Beach. The lease is for a term of 10 years commencing May 2006. 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 \$38,126 per month. The base rental payments are adjusted by the change in the 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. Subsequent lease amendments added additional space of 3,519 square feet on March 1, 2007. 3,231 square feet effective March 1, 2009 and 9,577 square feet on November 1, 2011. The latest adjustment in May 2012 changed the base rent for both lease and operating expense reimbursement to \$79,517 per month.

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 267 months. At June 30, 2012, the note has a balance of \$ 9,158,296 and a remaining unamortized discount of \$359,162 for a net receivable of \$8,799,133.

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 5 - NOTES RECEIVABLE (Continued)

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

Fiscal Year Ended June 30,	Principal	Interest	Total
2013	\$ 446,507	\$ 711,152	\$ 1,157,659
2014	483,279	674,380	1,157,659
2015	523,079	634,580	1,157,659
2016	566,156	591,503	1,157,659
2017	612,782	544,877	1,157,659
2018-2022	3,909,312	1,878,982	5,788,294
2023-2025	2,617,181	276,964	2,894,145
Less: Discount	(359,163)		(359,162)
	<u>\$ 8,799,133</u>	<u>\$ 5,312,438</u>	<u>\$ 14,111,572</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 the 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. The 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, 2012, the note has a balance of \$103,596.

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

Fiscal Year Ended June 30,	Principal	Interest	Total
2013	\$ 27,886	\$ 1,884	\$ 29,770
2014	22,157	1,384	23,541
2015	22,629	912	23,541
2016	23,111	430	23,541
2017	7,813	34	7,847
	<u>\$ 103,596</u>	<u>\$ 4,644</u>	<u>\$ 108,240</u>

The District entered into a lease agreement with Silverado Senior Living on May 18, 2006 to lease 35,008 square feet located on floors lower level, one, two, three and four at 514 N. Prospect Avenue, Redondo Beach. The lease term is for ten (10) years commencing July 1, 2006 and the monthly lease payment is \$28,126. The leased area was expanded to 35,578 square feet and the base rent increased to \$28,781.50 effective February 1, 2007. The leased area was then expanded to 38,809 square feet and the base rent increased to \$35,244 effective March 1, 2009. The leased area was then expanded to 51,213 square feet and the base rent increased to \$56,546, effective May 1, 2012. The base rental payments will be adjusted

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 5 - NOTES RECEIVABLE (Continued)

every three (3) years by a factor of 3% (three percent) of the base rent paid in the immediate preceding twelve (12) month period on the first day of the 36th (thirty-sixth) month following the commencement of the lease.

The lessee also entered into a leasehold improvement agreement pursuant to which the lessee was to 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 of the improvements. 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). 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. Additionally, during the fiscal year 2008-2009, the District added another line of credit for \$3,500,000 with interest accrued at a fixed rate of 10% per year. The District had a drawdown of \$680,876, which was loaned to the lessee for the fiscal year 2009-10.

On November 1, 2010, the third amendment to the lease was made to lease additional space consisting of 9,577 square feet located at 514 N. Prospect Avenue and an accompanying credit agreement for the third amendment to the lease was entered into for improvements and alterations to the additional space (2010 improvement). Per the third amendment and the 2010 improvement agreement, the District (Lender) agreed to provide the Silverado Senior Living (Borrower) a revolving credit line of \$2,515,000 with interest accrued at a fixed rate of 10% per annum. The loans will be interest only and added to the principal balance until February 1, 2012. The District had a drawdown of \$312,595 and accrued interest of \$6,092 from the third amendment for the fiscal year 2010-11 and also had a drawdown of \$2,047,472 for the fiscal year 2011-12. As of June 30, 2012, the balance of the note was \$8,165,402. Principal and interest to be received on the note are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2013	\$ 845,428	\$ 574,397	\$ 1,419,825
2014	832,355	519,572	1,351,927
2015	892,295	460,001	1,352,296
2016	958,283	394,014	1,352,297
2017	1,030,938	321,359	1,352,297
2018-2020	3,606,103	772,143	4,378,246
	<u>\$ 8,165,402</u>	<u>\$ 3,041,486</u>	<u>\$ 11,206,888</u>

On January 5, 2011, the District executed a standard industrial/commercial single tenant lease agreement with Beach Cities Child Development Center for the premises located at 514 Prospect Avenue, Redondo Beach, 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 the lessee's operation of the premises. The District originally agreed to lend the lessee \$420,000 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. The lessee then discharged its obligations under the revolving promissory note (which has been cancelled) by executing a term promissory

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 5 - NOTES RECEIVABLE (Continued)

note with an initial principal balance of \$420,000. The unpaid amount from time to time outstanding under the revolving note and term note bears interest equal to 7%. Monthly payments are due through December, 2021. The note is secured by the security interest granted in the security agreement. As of June 30, 2012, the note has a balance of \$397,595. Principal and interest to be received on the note are as follows:

Fiscal Years Ended June 30,	Principal	Interest	Total
2013	\$ 35,494	\$ 26,707	\$ 62,201
2014	38,053	24,142	62,195
2015	40,804	21,391	62,195
2016	43,754	18,441	62,195
2017	46,917	15,278	62,195
2018-2021	192,573	25,110	217,683
	<u>\$ 397,595</u>	<u>\$ 131,069</u>	<u>\$ 528,664</u>

NOTE 6 – ACCOUNTS RECEIVABLE

The following is a list of accounts receivable at June 30, 2012:

Governmental Activities -

	Receivable	Allowance	Net
Accounts Receivable	\$ 561,750	\$ 17,403	\$ 544,347
Total Governmental Activities	<u>\$ 561,750</u>	<u>\$ 17,403</u>	<u>\$ 544,347</u>

The District has established an allowance for doubtful accounts for the rent receivable. As of June 30, 2012, the balance of \$17,403 presents the uncollected rent payments that were due on April 2008.

NOTE 7 – INTERFUND ACTIVITY

The following represents the interfund activity of the District for the fiscal year ended June 30, 2012.

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.

	Interfund Receivable	Interfund Payable
General Fund	\$ -	\$ 56,500
Special Revenue Fund	56,500	
	<u>\$ 56,500</u>	<u>\$ 56,500</u>

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 8 – CAPITAL ASSETS

Governmental Activities

Changes in capital assets for governmental activities for the fiscal year ended June 30, 2012 were as follows:

	Balance July 1, 2011	Additions	Deletions	Transfers	Balance June 30, 2012
Capital Assets, not being depreciated:					
Land	\$ 4,401,926	\$ -	\$ -	\$ -	\$ 4,401,926
Construction in progress	56,083			(56,083)	
Total	4,458,009			(56,083)	4,401,926
Capital Assets, being depreciated:					
Buildings and improvements	44,682,076	230,906		56,083	44,969,065
Equipment, furniture, and fixtures	1,639,912	140,231			1,780,143
Total	46,321,988	371,137		56,083	46,749,208
Less accumulated depreciation for:					
Buildings and improvements	(16,792,843)	(1,740,698)			(18,533,541)
Equipment, furniture, and fixtures	(1,383,672)	(96,912)			(1,480,584)
Total	(18,176,515)	(1,837,610)			(20,014,125)
Total, net of accumulated depreciation	28,145,473	(1,466,473)		56,083	26,735,083
Total Capital Assets, Net	\$ 32,603,482	\$ (1,466,473)	\$ -	\$ -	\$ 31,137,009

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. Additional information regarding the partnership can be obtained by contacting the District.

As of the fiscal year ended June 30, 2012, after allocation of partnership income (loss) and distributions from the partnership to the District, the investment amount is as follows:

Investment in Sunrise Beach Cities assisted Living, L.P. at June 30, 2012	\$ 3,117,634
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Beach District Surgery Center, LLC.

On 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. The partnership is managed by Beach District Surgery Center, LLC and additional information regarding the partnership can be obtained by contacting the District.

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 9 – INVESTMENT IN LIMITED PARTNERSHIPS (Continued)

As of the fiscal year ended June 30, 2012, after allocation of partnership income (loss) and distributions from the partnership to the District, the investment amount is as follows:

Investment in Beach District Surgery Center, LLC. \$ 60,668
at June 30, 2012

NOTE 10 – CAPITAL LEASES PAYABLE

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Due Within One Year
Governmental Activities:					
Capital leases payable	\$ 5,952,578	\$ 98,431	\$ (266,715)	\$ 5,784,294	\$ 292,956
	<u>\$ 5,952,578</u>	<u>\$ 98,431</u>	<u>\$ (266,715)</u>	<u>\$ 5,784,294</u>	<u>\$ 292,956</u>

Parking Facilities

The District acquired its 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. During the fiscal year 2011-12, the District made the principal payment of \$256,565. The outstanding balance was \$5,696,013 at June 30, 2012.

The following is a summary of changes in the District's capital lease payable for the fiscal year ended June 30, 2012:

Fiscal Year Ended June 30,	Principal	Interest	Total
2013	\$ 277,695	\$ 442,305	\$ 720,000
2014	300,564	419,436	720,000
2015	325,317	394,683	720,000
2016	352,109	367,891	720,000
2017	381,107	338,893	720,000
2018-2022	2,431,318	1,168,682	3,600,000
2023-2025	1,627,903	172,097	1,800,000
	<u>\$ 5,696,013</u>	<u>\$ 3,303,987</u>	<u>\$9,000,000</u>

Phone System

The District entered into a capital lease agreement with NEC Financial Service, LLC. for a phone system with a monthly payment of \$2,156 through November 2016. The loan bears interest at 11.3153% per annum. The initial principal obligation under the lease amounted to \$98,431. During the fiscal year 2011-12, the District made the principal payment of \$10,150. The outstanding balance was \$88,281 at June 30, 2012.

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 10 – CAPITAL LEASES PAYABLE (Continued)

The following is a summary of changes in the District's capital lease payable for the fiscal year ended June 30, 2012:

Fiscal Year Ended June 30,	Principal	Interest	Total
2013	\$ 15,261	\$ 8,451	\$ 23,712
2014	18,548	7,320	25,868
2015	20,759	5,109	25,868
2016	23,233	2,635	25,868
2017	10,480	298	10,778
	<u>\$ 88,281</u>	<u>\$ 23,813</u>	<u>\$ 112,094</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 2011-2012 was 8.921 % 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, 2012, 2011, and 2010 were \$292,310, \$253,446, and \$251,226, 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

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 12 - DEFERRED COMPENSATION PLAN (Continued)

amount deferred is not available to employees until termination, retirement, death or unforeseeable emergency.

The District contracts with a private deferred compensation administration firm 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 – OTHER POSTEMPLOYMENT BENEFITS

Plan Description. The District selected Total Compensation Systems, Inc. to perform an actuarial valuation of the retiree health insurance programs as of May 1, 2011. This includes benefits for 2 retirees and 55 active employees who may become eligible to retire and receive benefits in the future. The District provides medical insurance after the age of 50 to all employees, who meet the requirement of 5 years of service. The District contributes 100% (\$64.80 cap per month).

Annual OPEB and Net OPEB Obligation. The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), and amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation.

Annual required contribution	\$ 34,640
Interest on net OPEB obligation	3,307
Adjustment to annual required contribution	<u>(2,929)</u>
Annual OPEB cost (expense)	35,018
Contributions made	<u>1,355</u>
Change in OPEB obligation	33,663
Net OPEB obligation (assets) - beginning of fiscal year	<u>66,145</u>
Net OPEB obligation (assets) - end of fiscal year	<u><u>\$ 99,808</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012:

Fiscal Years Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contribution	Net of OPEB Obligation (Asset)
6/30/2010	\$ 34,640	6%	\$ 32,673
6/30/2011	34,827	4%	66,145
6/30/2012	35,018	4%	99,808

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funded Status and Funding Progress As of May 1, 2011, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$253,077, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$253,077. The covered payroll (annual payroll of active employees covered by the plan) was \$3,129,368, and the ratio of the UAAL to the covered payroll was 8 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the May 1, 2011, actuarial valuation, the entry age normal cost was used. The actuarial assumptions included a 5.0 percent investment rate of return, which is the expected long-term investment return on plan assets and an annual healthcare cost trend rate of 4 percent. The actuarial value of assets is \$0. The UAAL is amortized as a flat percentage of covered payroll over thirty years. The remaining amortization period at May 1, 2011 was thirty years. The amortization period closed for initial UAAL and open for remaining UAAL for thirty years.

NOTE 14 – 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 there have been no material settlements in excess of coverage in any of the past three fiscal years.

General Liability Insurance

Directors & Officers liability coverage: Annual premiums are paid by the District and are adjusted retrospectively to cover costs. The coverage of Directors, Officers and Trustees Liability includes entity coverage, duty to defend, and employee practice liability. Insurance coverage is for up to \$5,000,000 per occurrence and \$5,000,000 in aggregate defense expenses paid within limits with a \$50,000 deductible per claim.

Commercial Crime liability coverage: Annual premiums are paid by the District and are adjusted retrospectively to cover costs. The coverage of the Commercial Crime liability includes employee theft per loss coverage, forgery and alteration including credit, debit or charge card forgery, inside of premises (theft of money, and securities, robbery, safe burglary of other property), outside the premises, computer fraud including funds transfers, money orders and counterfeit paper currency. Insurance coverage is for up to \$1,000,000 per occurrence with \$2,500 of deductible.

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 14 – RISK MANAGEMENT (Continued)

Health Care liability coverage: Annual premiums are paid by the District and are adjusted retrospectively to cover costs. The Health Care liability coverage includes evidence of healthcare entity professional liability, bodily injury & property damage liability, personal injury, advertising injury liability, employee benefit liability coverage. Insurance coverage is for up to \$1,000,000 per claim and a \$3,000,000 aggregate per contracted period.

Automobile liability coverage: Annual premiums are paid by the District. The automobile liability coverage includes bodily injury and property damage liability, an uninsured/underinsured motorist coverage sub-limit of \$1,000,000 per accident, hired/non-owned auto liability, medical payment of \$5,000 per accident, collision coverage at fair market value, and comprehensive coverage at fair market value. Insurance coverage is for up to \$1,000,000 per accident (combined single limit) with \$250 comprehensive and \$500 collision deductibles.

Adventure Course liability coverage: Annual premiums are paid by the District. Insurance coverage is for up to \$1,000,000 per occurrence and \$2,000,000 aggregate with a \$5,000 deductible.

Property & Earthquake Insurance

Hospital All Risk Property Program (HARPP): The coverage of the insurance includes all risk of direct physical loss or damage excluding earthquake and flood, boiler & machinery, and repair or replacement cost valuation for real and personal property. Insurance coverage is for up to \$1,000,000,000 loss limit per occurrence and \$100,000,000 of boiler & machinery loss limit per occurrence, and repair and replacement cost valuation for real or personal property for \$100,000,000 per occurrence and \$200,000,000 aggregate. The primary terrorism limit is shared by all of the insured per the Public Entity Property Insurance Program (PEPIP). The deductible amounts are \$10,000 for all risk, \$25,000 for boiler & machinery, and \$10,000 for primary terrorism.

NOTE 15 - NET ASSETS AND FUND BALANCES– GOVERNMENTAL ACTIVITIES

A. Net Assets

Net assets are the excess of all the District's assets over all its liabilities, regardless of fund. Net assets are divided into three captions under GASB Statement No. 34. These captions apply only to net assets, which is determined only at the government-wide level, proprietary funds, and fiduciary funds and are described below.

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

Restricted describes the portion of net assets, which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, redevelopment funds restricted for low-and-moderate income purposes, and gas tax funds for street construction.

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

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 15 - NET ASSETS AND FUND BALANCES- GOVERNMENTAL ACTIVITIES
(Continued)

A. Net Assets (Continued)

Details of the three categories are as follows:

	<u>Governmental Activities</u>
Invested in capital assets, net of related debt:	
Total capital assets, net of accumulated depreciation	\$ 31,137,009
Less: total capital related debt	<u>(5,784,294)</u>
Invested in capital assets, net of related debt	25,352,715
Unrestricted	<u>45,710,592</u>
	<u><u>\$ 71,063,307</u></u>

B. Fund Balances

As of June 30, 2012, fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the governing board.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or director may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
Fund balances			
Nonspendable:			
Inventory	\$ 9,790	\$ -	\$ 9,790
Prepaid items	406,810		406,810
Notes receivable, net of deferred revenue	11,769,713		11,769,713
Investment in Limited Partnerships	3,178,302		3,178,302
Assigned:			
Prospect One Corporation		1,191,355	1,191,355
Unassigned	<u>23,558,417</u>		<u>23,558,417</u>
Total fund balances	<u><u>\$ 38,923,032</u></u>	<u><u>\$ 1,191,355</u></u>	<u><u>\$ 40,114,387</u></u>

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 15 – NET ASSETS AND FUND BALANCES – GOVERNMENTAL ACTIVITIES
(Continued)

B. Fund Balances (Continued)

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balance are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

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- CREDIT RISK OF INVESTMENT

As of the fiscal year ended June 30, 2008, the District had an investment in Lehman Brothers that had a rating of an A. The investment became unrated in that year and the market value has decreased, as of June 30, 2012, to \$113,150. On-going bankruptcy un-winding of Lehman Brothers has been proceeding and the District received two installments of the residual value which the mark-to market pricing reflects. During the fiscal year 2011-12, the District received \$30,238.

NOTE 18- PRIOR PERIOD ADJUSTMENT

A prior period adjustment in the statement of activities was due to an understatement of investment in limited partnership of \$66,705 from the previous fiscal year.

NOTE 19 – RELATED PARTY TRANSACTION

The District contracts with a third party to provide Urgent Medical Care for eligible participants of the Center for Health Connection (which is a program of the District). The Center for Health Connection (CHC) can issue a service authorization (SAF) to help pay for basic health care services on a limited basis to individuals without health insurance who meet the CHC income criteria and live in the beach cities. The beach cities include the cities of Hermosa Beach, Manhattan Beach, and Redondo Beach. Eligible participants for Urgent Medical Care can receive a SAF for same day acute medical care for non-life threatening health issues (Urgent Medical Care through the CHC program is restricted to the contracted Provider noted above). Eligible participants are referred by the Center for Health Connection. The spouse of the District employee who directs the daily operations of the Center for Health Connection is a partner of the contracted Provider. The District employee who directs the Center for Health Connections is also the employee that executes the contract for the Urgent Medical Care Provider. The District entered into the initial agreement for services with the Provider prior to the District employee (referenced above) being hired by the District.

NOTE 20 – SUBSEQUENT EVENT

On September 5, 2012, the District received the Notice of Finance from the Sunrise Beach Cities Assisted Living, L.P, (the Partnership), of where the District has 80% of the limited partnership interest, in regards to the Amended and Restated Limited Partnership Agreement. Per agreement, the Partnership received a letter regarding the impending maturity of the leasehold deed to trust loan serviced by Berkadia Commercial Mortgage and the General Partner accepted the proposed resolution to pay off the principal and interest for \$9,677,320 and \$53,833, respectively. To pay off the proposed amount, the District, an investor partner, made the proportionate share of the payment in the amount of \$7,767,755 on October 1, 2012.

BEACH CITIES HEALTH DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 21 – MANAGEMENT REVIEW OF SUBSEQUENT EVENTS

Management of the District has evaluated subsequent events through December 18, 2012, the date these financial statements were available to be issued, and has determined there were no other material events requiring disclosure.

BEACH CITIES HEALTH DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR RETIREE HEALTH PLAN
June 30, 2012

Postemployment Benefit Plans Other than Pensions

Trend Information

Actuarial Valuation Date	Unit Credit Cost Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Ratio	Annual Covered Payroll	UAAL As a % of Payroll
5/1/11	\$ 253,077	\$ -	\$ 253,077	- %	\$ 3,129,368	8.1%

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, 2012

	Budgeted Amount		Actual	Variance with
	Original	Final	Amount	Final Budget
				Positive
				(Negative)
REVENUES				
Property taxes	\$ 2,450,400	\$ 2,450,400	\$ 2,499,090	\$ 48,690
Program income	2,591,282	2,591,282	2,431,990	(159,292)
Financing and rental income related to lease	1,678,266	1,678,266	2,041,241	362,975
Investment earnings	1,921,990	1,921,990	1,838,852	(83,138)
Income from limited partnership	1,443,567	1,443,567	1,151,587	(291,980)
Intergovernmental	113,747	113,747	89,196	(24,551)
Other revenue	26,040	26,040	44,755	18,715
Total revenues	10,225,292	10,225,292	10,096,711	(128,581)
EXPENDITURES				
Current:				
Salaries and related expenses	5,171,564	5,209,184	5,005,276	203,908
Grant and projects	1,527,154	1,527,163	1,321,735	205,428
Professional fees	1,384,437	1,382,944	1,517,613	(134,669)
Facilities management	425,730	444,135	458,785	(14,650)
General and administrative	463,842	454,858	393,737	61,121
Community relations	225,755	228,303	197,270	31,033
Human resources	160,710	183,430	160,070	23,360
Information services	157,419	138,028	130,722	7,306
Cost of goods sold	144,590	144,594	124,192	20,402
Other	52,800	52,800	54,383	(1,583)
Capital outlay	247,815	300,754	371,137	(70,383)
Debt service:				
Principal retirement			266,715	(266,715)
Interest and other fiscal charges	463,435	463,435	470,530	(7,095)
Total expenditures	10,425,251	10,529,628	10,472,165	57,463
Excess of revenues over (under) expenditures	(199,959)	(304,336)	(375,454)	(71,118)
OTHER FINANCING SOURCES (USES)				
Proceeds from capital lease			98,431	98,431
Total other financing sources (uses)			98,431	98,431
Net change in fund balance	(199,959)	(304,336)	(277,023)	27,313
Fund balance - July 1, 2011	39,133,350	39,133,350	39,133,350	
Prior period adjustments			66,705	66,705
Fund balance - July 1, 2011, restated	39,133,350	39,133,350	39,200,055	66,705
Fund balance - June 30, 2012	\$ 38,933,391	\$ 38,829,014	\$ 38,923,032	\$ 94,018

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**Beach Cities Health District
Net Assets by Component
Current and Prior Eight Years***

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Government Activities									
Invested in Capital Assets	33,531,968	32,586,285	31,245,897	30,281,172	29,642,282	28,704,953	27,835,813	26,650,904	25,352,715
Restricted	-	-	-	-	-	-	-	-	-
Unrestricted	50,117,598	48,714,583	48,133,226	47,531,870	46,066,231	45,722,077	46,118,089	46,195,722	45,710,592
Total Government Activities	83,649,566	81,300,868	79,379,123	77,813,042	75,708,513	74,427,030	73,953,902	72,846,626	71,063,307
Business-type Activities									
Invested in Capital Assets	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-	-	-	-
Total Business-type Activities	-	-	-	-	-	-	-	-	-
Primary Government									
Invested in Capital Assets	33,531,968	32,586,285	31,245,897	30,281,172	29,642,282	28,704,953	27,835,813	26,650,904	25,352,715
Restricted	-	-	-	-	-	-	-	-	-
Unrestricted	50,117,598	48,714,583	48,133,226	47,531,870	46,066,231	45,722,077	46,118,089	46,195,722	45,710,592
Total Primary Government net assets	83,649,566	81,300,868	79,379,123	77,813,042	75,708,513	74,427,030	73,953,902	72,846,626	71,063,307

* Accrual-basis financial information for the District as a whole is available beginning in FY2003-04, the year that GASB Statement 34 was implemented. Ten years of comparable data will therefore be accumulated for comparison for FY2012-13 reporting

**Beach Cities Health District
Changes in Net Assets
Current and Prior Eight Years***

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Expenses									
Government Activities:									
Current:									
Grants & projects	1,981,481	1,946,770	1,785,264	1,888,980	1,771,475	1,603,432	1,466,357	1,413,255	1,321,735
Salaries & related	3,606,896	3,941,364	4,512,766	4,630,632	4,879,115	5,231,198	5,095,077	5,102,909	5,038,939
General & Administrative	1,948,134	1,986,043	1,992,179	2,244,528	3,177,400	3,033,659	2,434,877	2,420,702	2,487,912
Human Resources	132,386	151,921	162,293	153,781	154,983	148,591	143,746	131,924	160,070
Information Systems	22,771	42,031	7,532	75,735	81,438	84,254	77,812	108,083	130,722
Community Relations	298,370	419,717	362,085	419,665	493,778	406,189	322,529	259,174	197,270
Facilities Management	581,895	967,895	1,189,215	822,444	503,298	354,479	528,665	592,614	458,825
Professional Fees	704,076	654,417	892,038	880,951	950,711	752,736	748,723	1,290,224	1,517,613
Cost of Goods Sold	86,257	171,486	278,276	272,531	306,452	257,085	148,077	147,862	124,192
Other	91,251	119,769	183,434	274,720	36,650	270,326	45,694	65,453	54,383
Debt Service:									
Interest & Other Fiscal charges	588,623	543,406	560,414	547,272	533,052	517,680	500,993	482,956	470,530
Total Government Activities	10,042,140	10,944,819	11,925,496	12,211,239	12,888,352	12,659,629	11,512,550	12,015,156	11,962,191
Expenses									
Business-type activities:									
Not Applicable	-	-	-	-	-	-	-	-	-
Total Primary Government Expenses	10,042,140	10,944,819	11,925,496	12,211,239	12,888,352	12,659,629	11,512,550	12,015,156	11,962,191
Program Revenues									
Government Activities:									
Program Revenues	2,605,934	2,798,944	2,636,372	2,568,788	2,658,807	2,605,809	2,370,140	2,395,112	2,431,990
Total Government Activities									
Revenues	2,605,934	2,798,944	2,636,372	2,568,788	2,658,807	2,605,809	2,370,140	2,395,112	2,431,990
Business-type activities:									
Not Applicable	-	-	-	-	-	-	-	-	-
Total Primary Government Program									
Revenues	2,605,934	2,798,944	2,636,372	2,568,788	2,658,807	2,605,809	2,370,140	2,395,112	2,431,990
Net Revenue (Expenses)	(7,436,206)	(8,145,875)	(9,289,124)	(9,642,451)	(10,229,545)	(10,053,820)	(9,142,410)	(9,620,044)	(9,530,201)

**Beach Cities Health District
Changes in Net Assets
Current and Prior Eight Years***

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
General Revenues And Other Changes in Net Assets									
Government Activities									
Property Taxes	1,614,950	1,815,135	1,961,538	2,101,460	2,310,323	2,431,068	2,442,334	2,465,284	2,499,090
Earnings on Investment	451,307	955,542	1,419,276	2,754,320	2,544,024	2,400,700	2,651,449	2,032,734	1,854,308
Financing and Rental Income	2,125,415	2,251,272	2,150,073	1,522,469	2,075,747	2,123,750	2,196,821	2,074,595	2,041,241
Income from Limited Partnerships	778,833	772,085	1,255,494	1,633,834	1,023,918	1,223,811	1,204,270	1,136,200	1,151,587
Other Income	2,066	3,143	182,666	188,583	171,004	274,302	194,278	143,759	133,951
Sale of Property	7,500	-	398,332	-	-	-	-	-	-
Total Government Activities	4,980,071	5,797,177	7,367,379	8,200,666	8,125,016	8,453,631	8,689,152	7,852,572	7,680,177
Revenues									
Business-type activities:	-	-	-	-	-	-	-	-	-
Not Applicable									
Total Primary Government General Revenues	4,980,071	5,797,177	7,367,379	8,200,666	8,125,016	8,453,631	8,689,152	7,852,572	7,680,177
Changes in Net Assets									
Government Activities	(2,456,135)	(2,348,698)	(1,921,745)	(1,441,785)	(2,104,529)	(1,600,189)	(453,258)	(1,767,472)	(1,850,024)
Business-type activities:	-	-	-	-	-	-	-	-	-
Total Primary Government	(2,456,135)	(2,348,698)	(1,921,745)	(1,441,785)	(2,104,529)	(1,600,189)	(453,258)	(1,767,472)	(1,850,024)

* Accrual-basis financial information for the District as a whole is available beginning in FY2003-04, the year that GASB Statement 34 was implemented. Ten years of comparable data will therefore be accumulated for comparison for FY2012-13 reporting

**Beach Cities Health District
Fund Balances of Governmental Funds
Current and Prior Eight Years***

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11**	2011-12
General Fund									
Reserved	7,369,855	7,355,157	7,369,382	7,167,234	8,426,855	12,821,687	13,291,295	-	-
Unreserved	34,514,710	33,233,469	32,776,598	32,534,180	29,957,744	25,371,285	25,499,203	-	-
Nonspendable	-	-	-	-	-	-	-	13,568,770	15,364,615
Assigned	-	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-	25,564,580	23,558,417
Total General Fund	41,884,565	40,588,626	40,145,980	39,701,414	38,384,599	38,192,972	38,790,498	39,133,350	38,923,032
All Other Governmental Funds									
Reserved	-	-	-	-	-	-	-	-	-
Unreserved, reported in:									
Special Revenue Funds	955,379	995,746	1,016,621	1,032,559	1,070,683	1,120,476	1,154,167	1,175,939	1,191,355
Assigned									
Total All Other Governmental Funds	955,379	995,746	1,016,621	1,032,559	1,070,683	1,120,476	1,154,167	1,175,939	1,191,355

*Accrual-basis financial information for the District as a whole is available beginning in FY2003-04, the year that GASB Statement 34 was implemented. Ten years of comparable data will therefore be accumulated for comparison for FY2012-13 reporting

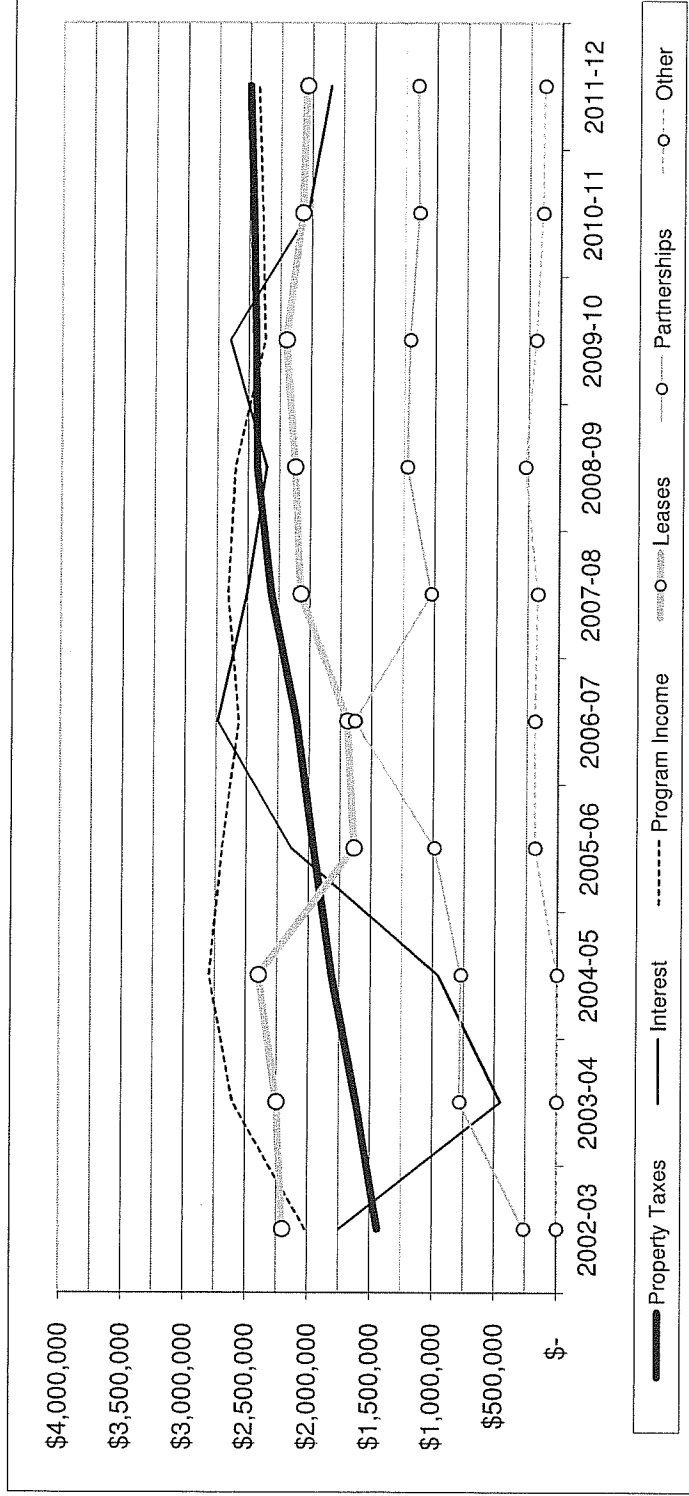
** Categories of Fund Balance were revised in compliance with GASB 54 beginning in Fiscal Year 2010-11

Beach Cities Health District
Changes in Fund Balances of Governmental Funds
Current and Prior Eight Years*

Revenues	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Financing and Rental Income	2,250,696	2,398,715	2,297,516	1,695,197	2,075,747	2,123,750	2,196,821	2,074,595	2,041,241
Investment Earnings	451,307	955,542	1,419,050	2,754,320	2,544,024	2,400,700	2,651,449	2,032,734	1,854,308
Property Taxes	1,614,950	1,815,135	1,961,538	2,101,460	2,310,323	2,431,068	2,442,334	2,465,284	2,499,090
Program Income	2,605,934	2,798,944	2,697,659	2,568,788	2,658,807	2,605,809	2,370,140	2,395,112	2,431,990
Income from Limited Partnership	778,833	772,085	1,255,494	1,633,834	1,023,918	1,223,811	1,204,270	1,136,200	1,151,587
Other Revenue	9,566	3,143	580,998	188,583	171,004	274,302	194,278	143,759	133,951
Total Revenues	7,711,286	8,743,564	10,212,255	10,942,182	10,783,823	11,059,440	11,059,292	10,247,684	10,112,167
Expenditures									
Current:									
Grants & projects	1,981,481	1,946,770	1,785,264	1,888,980	1,771,475	1,603,432	1,466,357	1,413,255	1,321,735
Salaries & related	3,606,895	3,941,364	4,512,766	4,630,632	4,879,115	5,231,198	5,062,404	5,069,437	5,005,276
General & Administrative	299,306	286,136	292,272	348,703	368,307	910,229	378,696	357,410	393,737
Human Resources	132,386	151,921	162,293	153,781	154,983	148,591	143,746	131,924	160,070
Information Systems	22,771	42,031	7,532	75,735	81,438	84,254	77,812	108,083	130,722
Community Relations	298,370	419,717	362,085	419,665	493,778	406,189	322,529	259,174	197,270
Facilities Management	581,895	967,895	1,189,215	822,444	503,298	354,479	548,141	592,614	458,825
Professional Fees	704,076	654,417	892,038	880,951	950,711	752,736	748,723	1,290,224	1,517,613
Cost of Goods Sold	86,257	171,486	278,276	272,531	306,452	257,085	148,077	147,862	124,192
Other	90,197	55,322	63,983	45,700	36,650	270,326	45,694	65,453	54,383
Capital Outlay	97,210	671,228	368,302	987,392	1,796,307	781,461	768,895	404,297	371,137
Debt Service:									
Principal Retirement	125,280	147,443	159,586	172,728	186,948	202,320	219,008	237,043	266,715
Interest & Other Fiscal charges	588,623	543,406	560,414	547,272	533,052	517,680	500,993	482,956	470,530
Total Expenditures	8,614,747	9,999,136	10,634,026	11,246,514	12,062,514	11,519,980	10,431,075	10,559,732	10,472,205
Excess (deficiency) of Revenues over (under) Expenditures	(903,461)	(1,255,572)	(421,771)	(304,332)	(1,278,691)	(460,540)	628,217	(312,048)	(360,038)
Other Financing Sources									
Proceeds from Capital Lease									98,431
Net Change in Fund Balances	(903,461)	(1,255,572)	(421,771)	(304,332)	(1,278,691)	(460,540)	628,217	(312,048)	(261,607)
Debt Service as a percentage of noncapital expenditures	9.15%	8.00%	7.54%	7.55%	7.54%	7.19%	8.05%	7.63%	7.87%

Beach Cities Health District
Government-wide Revenues by Function
Last Ten Fiscal Years

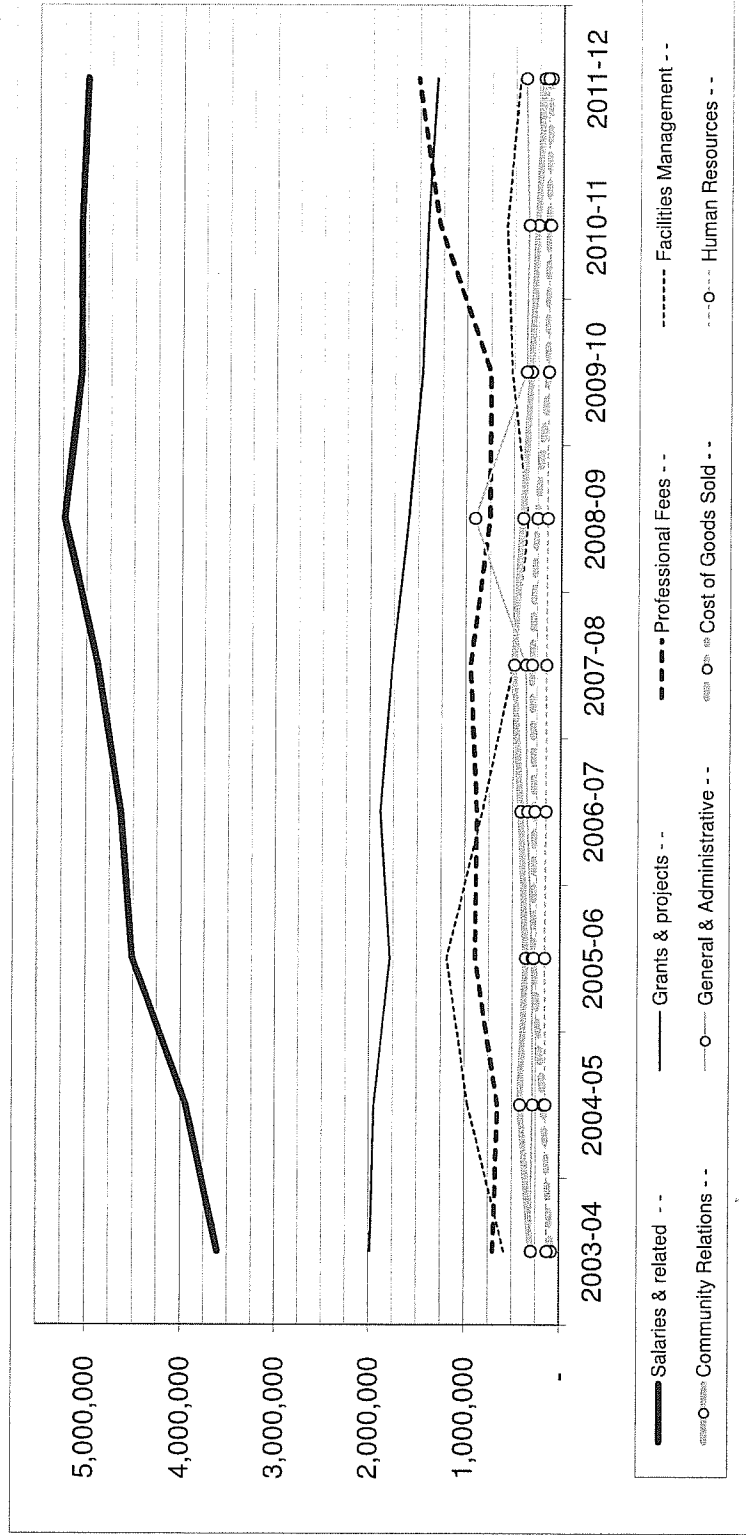
Fiscal Year	Property Taxes	Interest	Program Income	Leases	Partnerships	Other	Sale of Property	Total
2002-03	1,438,785	1,747,420	2,018,799	2,199,935	263,121	-	-	7,668,060
2003-04	1,614,950	451,307	2,605,934	2,250,696	778,833	2,066	7,500	7,711,286
2004-05	1,815,135	955,542	2,798,944	2,398,715	772,085	3,143	-	8,743,564
2005-06	1,961,538	2,139,050	2,697,659	1,638,803	989,444	182,666	398,332	10,007,492
2006-07	2,101,460	2,738,382	2,568,788	1,695,197	1,633,834	188,583	-	10,926,244
2007-08	2,310,323	2,505,900	2,658,807	2,075,747	1,023,918	171,004	-	10,745,699
2008-09	2,431,068	2,350,777	2,605,809	2,123,750	1,223,811	274,302	-	11,009,517
2009-10	2,442,334	2,651,449	2,370,140	2,199,821	1,204,270	194,278	-	11,062,292
2010-11	2,465,284	2,032,734	2,395,112	2,074,595	1,136,200	143,759	-	10,247,684
2011-12	2,499,090	1,854,308	2,431,990	2,041,241	1,151,587	133,951	-	10,112,167



Source: Audited Financial Statements

Beach Cities Health District
Government-wide Expenses by Function
Last Ten Fiscal Years*

Fiscal Year	General Fund										Total
	Salaries & related	Grants & projects	Professional Fees	Facilities Management	Community Relations	General & Administrative	Cost of Goods Sold	Human Resources	Information Systems	Other	
2001-02	-	-	-	-	-	-	-	-	-	-	-
2002-03	-	-	-	-	-	-	-	-	-	-	-
2003-04	3,606,896	1,981,481	701,206	581,895	298,370	299,306	86,257	132,386	22,771	90,197	7,800,765
2004-05	3,941,364	1,946,770	654,417	967,895	419,717	286,136	171,486	151,921	42,031	55,297	8,637,034
2005-06	4,512,766	1,785,264	892,038	1,189,215	362,085	292,272	278,276	162,293	7,532	63,963	9,545,704
2006-07	4,630,632	1,888,980	880,951	822,444	419,665	348,703	272,531	153,781	75,735	45,700	9,539,122
2007-08	4,879,115	1,771,475	950,711	503,298	493,778	368,307	306,452	154,983	81,438	36,650	9,546,207
2008-09	5,231,198	1,603,432	752,736	354,479	406,189	910,099	257,085	148,591	84,254	270,326	10,018,389
2009-10	5,062,404	1,466,357	748,723	528,665	322,529	376,940	148,077	143,746	77,812	45,694	8,920,947
2010-11	5,069,437	1,413,255	1,290,224	592,304	259,174	357,410	147,862	131,924	108,083	65,453	9,435,126
2011-12	5,005,276	1,321,735	1,517,613	458,825	197,270	393,737	124,192	160,070	130,722	54,383	9,363,823



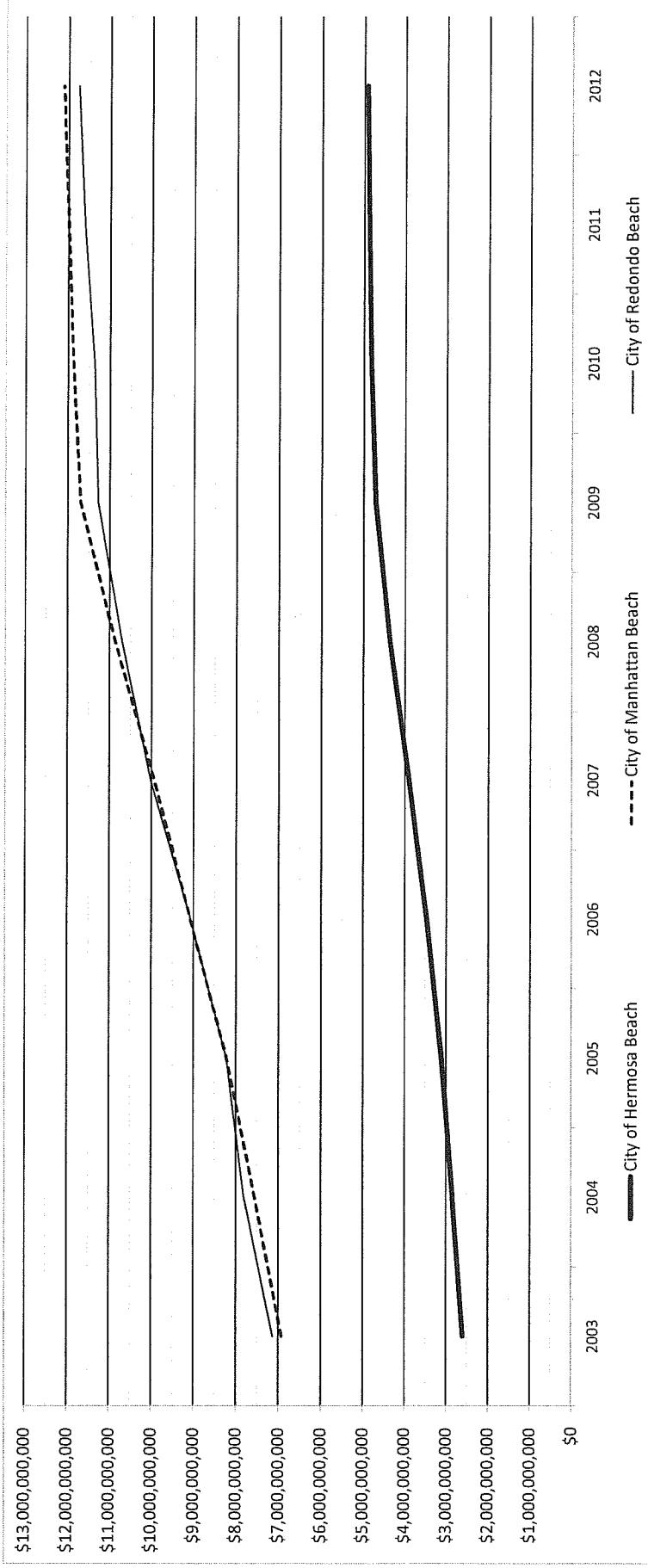
Source: Internal Reports @ June 30, xxxx

* Accrual-basis financial information for the District as a whole is available beginning in FY2003-04, the year that GASB Statement 34 was implemented. Ten years of comparable data will therefore be accumulated for comparison for FY2012-13

**Beach Cities Health District
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Years**

Total Taxable Assessed Value

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
City of Hermosa Beach	2,597,087,000	2,846,459,000	3,110,712,000	3,468,562,000	3,894,900,000	4,358,357,000	4,705,847,448	4,823,727,991	4,871,965,271	4,920,684,924
City of Manhattan Beach	6,923,341,436	7,554,435,006	8,216,800,523	9,080,889,082	9,925,464,834	10,861,350,753	11,697,899,600	11,871,677,111	11,990,393,882	12,110,297,821
City of Redondo Beach	7,133,098,294	7,806,803,523	8,226,139,068	9,069,569,628	10,009,448,728	10,702,653,367	11,277,756,486	11,366,238,160	11,615,436,098	11,761,105,629
Total	16,653,526,730	18,207,697,529	19,553,651,591	21,619,020,710	23,829,813,562	25,922,361,120	27,681,503,534	28,061,643,262	28,477,795,251	28,792,088,374
Percentage Increase	7.88%	9.33%	7.39%	10.56%	10.23%	8.78%	6.79%	1.37%	2.19%	1.25%



Source: Comprehensive Annual Financial Reports of City of Hermosa Beach, City of Manhattan Beach, City of Redondo Beach

* 2011-12 Calculated increase for Redondo Beach only, excludes Hermosa and Manhattan Beach, data unavailable

NOTE: In 1978, the voters of the State of California passed Proposition 13 which limited taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum of 2%). With few exceptions, property is only reassessed as a result of new construction activity or at the time it is sold to a new owner. At that point, the property is reassessed based upon the added value of the construction or at the purchase price (market value) or economic value of the property sold. The assessed valuation data shown above

**Beach Cities Health District
Direct and Overlapping Property Tax Rates
Last Ten Years**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
City of Hermosa Beach Residents City of Hermosa Beach	0.010000	0.010000	0.010000	0.010000	0.010000	0.010000	0.010000	0.010000	0.010000	0.010000
Overlapping - Hermosa Beach Residents Los Angeles County *	0.001033	0.000992	0.000923	0.000800	0.000660	0.000000	0.000000	0.000000	0.000000	0.000000
Hermosa Beach Unified School District	0.000000	0.019308	0.016685	0.014660	0.020430	0.017139	0.016398	0.017250	0.018067	**
El Camino community College District	0.000000	0.019025	0.016558	0.018380	0.035700	0.016467	0.017026	0.014868	0.016140	**
City of Redondo Beach Residents City of Redondo Basic Rate	0.166170	0.166170	0.166170	0.166170	0.166170	0.166170	0.165390	0.165390	0.165390	0.165390
Redevelopment Agency	1.008610	1.007550	1.006970	1.006040	1.005410	1.004500	1.004300	1.004300	1.003700	1.003700
Overlapping - Redondo Beach Residents Los Angeles County ¹	0.001030	0.000990	0.000920	0.000800	0.000660	0.000000	0.000000	0.000000	0.000000	0.000000
Flood Control	0.000880	0.000470	0.000240	0.000050	0.000050	0.000000	0.000000	0.000000	0.000000	0.000000
Metropolitan Water District	0.006700	0.006100	0.005800	0.005200	0.004700	0.004500	0.004300	0.004300	0.003700	0.003700
El Camino Community College District	0.000000	0.019030	0.016560	0.018380	0.035700	0.016470	0.017030	0.014870	0.001614	0.001688
Redondo Beach Unified School District	0.004460	0.008660	0.027650	0.033360	0.029700	0.028440	0.047140	0.055190	0.069770	0.086100
City of Manhattan Beach Residents City of Manhattan Beach (General Levy)	0.010000	0.010000	0.010000	0.010000	0.010000	0.010000	0.010000	0.010000	0.010000	0.010000
City of Manhattan Beach Total direct Rate	0.001660	0.001663	0.001666	0.001671	0.001673	0.001676	0.001678	0.001628	0.001604	**
Overlapping - Manhattan Beach Residents Los Angeles County ¹	0.001030	0.000990	0.000920	0.000800	0.000660	0.000000	0.000000	0.000000	0.000000	0.000000
Colleges & School Districts	0.043280	0.059380	0.056100	0.056390	0.074250	0.053500	0.117580	0.111460	0.145140	**
Metro Water District	0.006700	0.006100	0.005800	0.005200	0.004700	0.004500	0.004300	0.004300	0.003700	**
Flood Control District	0.000880	0.000470	0.000240	0.000050	0.000050	0.000000	0.000000	0.000000	0.000000	0.000000

* Property Tax Assessment for Beach Cities Health District is included in Los Angeles County Property Tax
 ** Not yet available

Source: Comprehensive Annual Financial Reports of City of Hermosa Beach, City of Manhattan Beach, City of Redondo Beach

Beach Cities*
Demographic Statistics
Last Ten Years

Calendar Year	Population Beach Cities Total (1)	Personal Income Beach Cities (in thousands) (2)	Personal Income Beach Cities Per Capita (2)	Unemployment Rate (3)
2003	121,957	5,757,305	47,208	3.67%
2004	122,710	6,070,709	49,472	3.43%
2005	122,953	6,310,850	51,327	3.00%
2006	122,666	6,701,898	54,635	2.60%
2007	122,534	7,002,287	57,146	2.80%
2008	122,840	7,282,488	59,284	4.03%
2009	123,855	6,375,477	51,475	6.53%
2010	121,389	6,427,628	52,951	7.03%
2011	121,775	6,510,538	53,464	7.30%
2012**	121,820	**	**	**

* Beach Cities - includes Cities of Redondo Beach, Hermosa Beach, and Manhattan Beach.

Sources: 1). California Dept. of Finance
2). U.S. Dept. of Commerce
3). State of California Employment Development Department

** Data not yet available

Beach Cities*
Principal Employers
2012

Employer	Employees	Percentage of Total Employment
1 Northrop Grumman	7,565	22.03%
2 Redondo Beach Unified School District	995	2.90%
3 Target Corporation	622	1.81%
4 Kinecta Federal Credit Union	550	1.60%
5 Macy's West	477	1.39%
6 City of Redondo Beach	432	1.26%
7 Crown Plaza Hotel	339	0.99%
8 City of Manhattan Beach	272	0.79%
9 Fry's Electronics	264	0.77%
10 Cheesecake Factory	261	0.76%
11 United States Postal Service	260	0.76%
12 Nordstrom, Inc.	254	0.74%
13 Marriott - HMC Interstate	233	0.68%
14 DHL	207	0.60%
15 Ralph's Grocery	167	0.49%
16 Skechers USA, Inc.	148	0.43%
17 Bristol Farms	129	0.38%
All Others	21,165	61.63%
Total	34,340	100.00%

* Beach Cities - includes Cities of Redondo Beach, Hermosa Beach, and Manhattan Beach.

Source: Redondo/Hermosa/Manhattan Beach Finance Departments

Beach Cities Health District

Personnel Summary by Department

Department	2007	2008	2009	2010	2011	2012
Executive/Admin Support	4	4	2	2	2	2
Human Resources	2	2	5	5	5	5
Finance:						
Information Systems	1	1				
Finance/Accounting/Payroll	4	4	4	4	4	4
Property Management	3	4	3	4	4	3
BCHD Café	3	4				
Total	11	13	7	8	8	7
Communications	2	3	3	3	3	3
Youth Services:						
Adventureplex	22	20	22	22	22	22
Other Youth Services	4	5	6	6	6	6
Total	26	25	27	28	28	28
Adult Services:						
Center for Health & Fitness	19	19	18	17	17	17
Vitality City				1	1	1
Other Adult Services	4	5	7	5	5	5
Total	23	24	24	23	23	23
Older Adult Services:						
Care Management	8	8	8	9	9	9
Total	8	8	8	9	9	9
Total Positions	76	80	76	78	78	77

Source: BCHD Annual Budget
(last five years due to departmental reorganization by function in 2007)