

Beach Cities Health District

Los Angeles County, California

Serving the residents of Hermosa Beach, Manhattan Beach and Redondo Beach, California

Comprehensive Annual Financial Report

Fiscal Year ended June 30, 2016



BEACH CITIES HEALTH DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2016



514 N. Prospect Avenue
Redondo Beach, California 90277

Prepared by:
Finance Department

BEACH CITIES HEALTH DISTRICT
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2016

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December 19, 2016

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, 2016. The District is committed to sound fiscal policies, responsible management and transparency in financial reporting.

Responsibility for the accuracy and completeness of the presented data herein, including all disclosures rests with the District. To the best of our knowledge and belief, the enclosed data are 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.

Please refer to the Management Discussion & Analysis (MD&A) section beginning on page 4 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 supplementary information required by *Government Auditing Standards*, issued by the Comptroller General of The United States, and provides information and analysis that users need to interpret the basic financial statements.

The BCHD CAFR is presented in four sections per standard practices: (1) Introductory, (2) Financial, (3) Required Supplemental Information, and (4) Statistical. (1) The introductory section, unaudited, includes this transmittal letter, list of the Board and Officers and the District’s organizational chart for the fiscal year 2015-2016. (2) The financial statement section includes the independent auditor’s report, management’s discussion & analysis, basic financial statements and related footnotes other schedules that provide detailed information relative to the basic financial statements. (3) Required supplemental information are additional information deemed relevant to the audit of the District. (4) 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 FY2016, the District delivered and funded services to its residents and citizens through the life spans; children, youth and adults, adhering to its financial strategies, 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). POC is included in the District’s reporting entity because its board is comprised of all District board members, and thus it

is operationally and financially intertwined with the District. Therefore, POC is reported on a blended component unit basis as part of the primary government.

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 preventive health and wellness programs that promote healthy lifestyles, physical fitness and emotional well-being.

District Services. The Beach Cities Health District service are based on the strategically developed Health Priorities and delivery is organized around functional areas: Life Span Services, Health and Fitness Centers, Property Management and Support Administration.

The **Life Span Services Department** consists of the Youth, Adult and Older Adult Services, plus the Blue Zones projects that spans all age groups.

School Health Services provide a variety of physical, mental and social health programs for children and youth within the beach cities school setting. These include: health education for elementary students; life skills and substance abuse education for middle school students; and obesity prevention education at the elementary level. LiveWell Kids and LiveWell Tots programs 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 Health Priorities areas including Nutrition education, Physical activity, Counseling, Substance Abuse, Emotional and Social Health Education.

Older Adult 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, assistance with participation in Covered California and access to District's Senior, Sick and Disabled Health Fund (for qualified residents).

The Blue Zones project is a multi-discipline effort acting in concert with 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 groups engage in activities most likely to produce evidence-based outcomes to raise the health of the community. Gallup Polls have added data to help demonstrate effectiveness of the District services.

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

The Center for Health & Fitness (CHF) is a medically-based, health and fitness facility that targets adults and older adults from physician referrals and from the District at large. CHF provides affordable, age-appropriate physical activities to assist community members in their efforts to achieve optimal health. It offers such as cardio and strength equipment, a variety of fitness classes, including Silver Sneakers and Silver & Fit programs, Personal Training, and Physical Therapy and Nutrition.

AdventurePlex is a health, fitness and educational center created especially for youth and toddlers. 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 a specially designed toddler play room (a.k.a. Toddler Town). AdventurePlex also focuses on family fun with many special events throughout the year, an array of classes and day camp sessions.

The **Property Management Department** provides around 30% of the District funding through leasing activities. The District owns approximately 262,000 sq. ft. of rental property. With the District oversight, the properties at the main campus are managed by a 3rd party Property Management company.

The **Support Administration Departments** provides support through Human Resources, Finance and Accounting, Information Technology, Health Promotions and Executive functions. The funding from the Joint Ventures, Treasury and Property Tax resources are recognized in the Finance department. The Treasury investment portfolio has a value of \$27 million.

Beach Cities Health District's Special Revenue fund segregates activities related to Prospect One Corporation, established to construct and operate medical office building space on the main campus of the District. The Special Revenue fund has no current activities.

The District Profile, Economic Condition and Outlook. The District serves the residents of the Cities of Hermosa Beach, Manhattan Beach and Redondo Beach, in the Los Angeles's South Bay area. The US Census Bureau reports in their 2010-2014 American Community Survey 5-year estimates a combined population of these cities to be 122,770. Redondo Beach being the largest with 55%, Manhattan Beach 29% and Hermosa Beach 16% of the population.

The District experiences the same economic pressures and improvements felt by many organizations locally, nationally and globally – low interest rates, improved property tax values, improved economic spending and increased employee salaries and benefits costs. While property values remained flat from 2008-09 through 2011-12 they are now continuing to trend higher and are increasing slightly year-over-year. The District's investment income continues to be affected by prolonged low interest rates.

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 accepted in the United States of America. 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 government entity and 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 Governmental laws, regulations and reporting requirements. The District is governed by a Board of Directors, who guides, reviews and oversees its strategies and internal control structure and who provides directives to District management.

In addition to internal controls, the District maintains budgetary controls. The objective of budgetary 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 budgeted expenditures, is established annually by resolution by the Board. As demonstrated by the statements and schedules in the financial section and required supplemental information 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 per the California Government Code sections 53600, et seq.

Independent Audit. The accounting firm of Davis Farr, LLP (previously called Mayer Hoffman McCann P.C.), Certified Public Accountants, was selected by the BCHD Board for fiscal year 2013-14 audit and subsequent four years. The auditor's report on the basic financial statements is included in the financial section of this report (pages 1-3).

Report Evaluation. This report seeks to meet established criteria for excellence in financial reporting, providing an easily-readable and efficiently-organized Comprehensive Annual Financial Report (CAFR) whose contents conform to existing standards. This is reflected in continued earning of the award certificate found in the introductory section one and on page viii.

Acknowledgements. Preparation of this report could not be accomplished without the efforts of the District management and staff and the staff of our independent auditors, Davis Farr, LLP Certified Public Accountants. We would like to express our appreciation to everybody who assisted and contributed to its preparation.

Without the continuing review, directives 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,



Monica Suua
Chief Financial Officer

Beach Cities Health District

District Officials
September 2016



Michelle Bholat, M.D.,
MPH
President Pro Tem



Noel Chun, M.D.,
Secretary-Treasurer



Jane Diehl,
President



Lenore Bloss,
Board Member



Vanessa Poster,
Board Member

BOARD OF DIRECTORS

Jane Diehl, President
Michelle Bholat, M.D., MPH, President Pro Tem
Noel Chun, M.D., Secretary-Treasurer
Vanessa Poster, Board Member
Lenore Bloss, Board Member

Length of Service

2 years
2 years
9 years
18 years
1 year

DISTRICT EXECUTIVE LEADERSHIP

Susan Burden, Chief Executive Officer
William Kim, M.D., Chief Medical Advisor
Jackie Berling, Chief Wellness Officer
Monica Suua, Chief Financial Officer

11 years
1 year
13 years
1.5 Years

FINANCE DEPARTMENT

Juliana Jenkins, Sr. Accountant
Patty Cortez, Payroll Accountant
Charlnisha Garnett, Staff Accountant

11 years
1 year
1 Year



Susan Burden
CEO



William Kim, M.D.
CMA

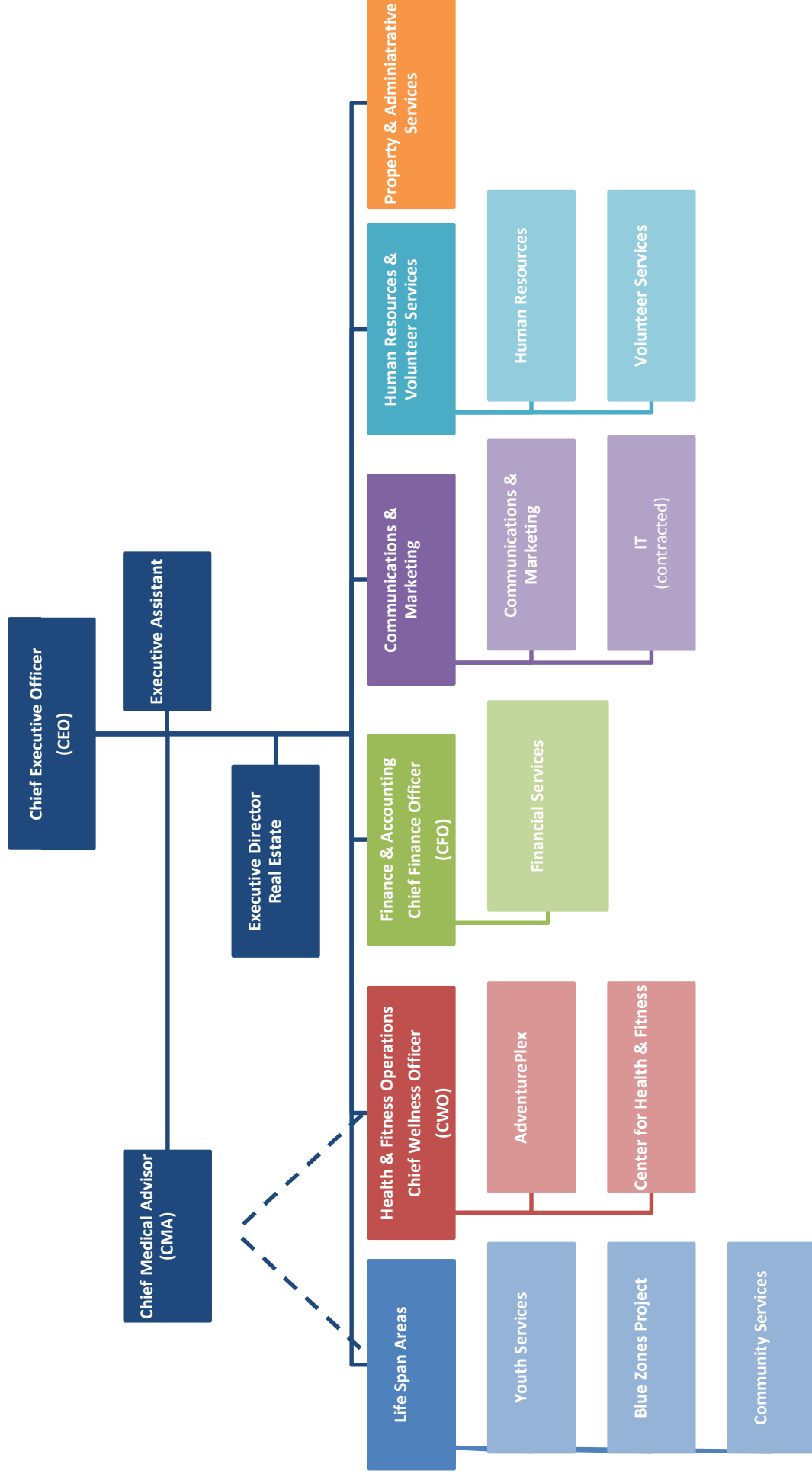


Jackie Berling
CWO



Monica Suua
CFO

Organization Chart



California Society of Municipal Finance Officers

Certificate of Award

*Outstanding Financial Reporting Award
Fiscal Year Ending June 30, 2015*

Presented to the

Beach Cities Health District

For meeting the criteria established to achieve the Outstanding Financial Reporting Award.

February 23, 2016



A handwritten signature in dark ink, appearing to read "Jesse Takahashi".

Jesse Takahashi
CSMFO President

A handwritten signature in dark ink, appearing to read "Michael Gomez".

Michael Gomez, Chair
Professional Standards and
Recognition Committee

Dedicated Excellence in Municipal Financial Reporting

Independent Auditor's Report

Board of Directors
Beach Cities Health District
Redondo Beach, California

Report on the Financial Statements

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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Sunrise Beach Cities Assisted Living, L.P., which represents 14.71%, 16.64%, and 15.67%, respectively, of the assets, net position, and revenues of the District. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Sunrise Beach Cities Assisted Living, L.P., is based solely on the report of the other auditors. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes

evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the 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 District as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the District's 2015 financial statements, and we expressed an unmodified opinion on the respective governmental activities and each major fund in our report dated February 29, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis*, *Budgetary Comparison Information*, *Schedule of Plan Contributions*, and the *Schedule of the Plan's Proportionate Share of the Net Pension Liability* 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The information contained in the *Introductory Section* and the *Statistical Section* is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information contained 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2016 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

Handwritten signature in blue ink, appearing to read "Dennis Farn".

Irvine, California
December 19, 2016

Management of the Beach Cities Health District (BCHD, the District) has prepared 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, 2016. Readers are encouraged to read this information alongside the District's financial statements, which follow.

Financial Highlights

- The assets of the District including Deferred Outflows are \$69.0 million. Total liabilities including Deferred Inflows of Resources are \$8.3 million. At the close of the fiscal year end June 30, 2016 total assets exceeded total liabilities by \$60.7 million (net position). Of this amount, \$36.9 million (unrestricted net position) may be used to meet the District's on-going operations and obligations to residents and creditors.
- The cost of all governmental activities this year was \$13.0 million, down from \$13.4 million for the previous year, including interest on long-term debt.
- 75% of the District's services were financed with funding sources other than taxes. The amount financed by taxpayers through property taxes was \$3.1 million, 25% of total revenues, compared to \$3.0 million, 26% in prior year.
- The governmental fund balance of the Beach Cities Health District's general fund increased by \$0.2 million during the current fiscal year. While the District expenditures increased compared to prior year due to increase in Capital investments, the increase in the fund balance was attributable to that most revenues experienced improvements with the biggest increase in investment earnings compared to prior year.
- As of the close of the current fiscal year, the unassigned Governmental fund balance for the general fund was \$26.1 million, or 198% of general fund expenditures, and decrease from prior year 206%, due to increase in Capital investment expenditures.

Overview of the Financial Statements

The MD&A is intended to serve as an introduction to and overview of the Beach Cities Health District's basic financial statements. The District's basic financial statements are comprised of three components: 1) Government-wide financial statements, 2) Government Fund financial statements, with a reconciliation of the Government Fund financial statements to the Government-wide financial statements, and 3) notes to the financial statements. Accompanying these three basic financial statements are required supplemental information (RSI).

Government-wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the District's finances and financial position, in a manner similar to private-sector businesses. These can be found on pages 10-11 of this report.

The statement of net position is similar to a balance sheet in the private-sector 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 position. Over time, increases or decreases in net position (i.e. net assets) may serve as a useful indicator of whether the financial position of the District is improving or declining.

The statement of activities is similar to a profit and loss statement in the private-sector presents information showing how the district's net position changed during the most recent fiscal year. All changes in net position 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. receivables are setup for revenues earned but not yet received and accrued liabilities are set-up for 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 12-14 of this report.

Governmental funds are used to account for essentially the same functions and operations 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 fund activities and balances with similar information presented for government-wide activities and net position.

To facilitate the comparison between the governmental fund balance and governmental-wide net position the financial statements herein include a reconciliation between the two on page 13. In addition, to provide a comparison between the net change of activities in government fund balance and the net change in government-wide net position activities, the financial statements herein also include a reconciliation between the two on page 15.

Notes to the financial statements – The notes provide additional information that is essential to a full understanding of the balances and activities presented in both the government-wide and government fund financial statements. The notes to the financial statements can be found on pages 16-51.

Required supplementary information – The MD&A and certain other information as applicable to the District are required to be presented with the basic financial statements. Information such as net pension liability, pension contributions and budgetary comparisons are required information for the District to be included. The required supplemental information can be found on pages 52-56.

Government-wide Financial Analysis

As noted previously, net position may serve over time as an indicator of overall financial position. For the District assets exceeded liabilities by \$60.7 million at the close of the fiscal year ended June 30, 2016. Which is an increase in net position from prior fiscal year by \$0.2 million, resulting from increases in current assets and decreases in long-term debt.

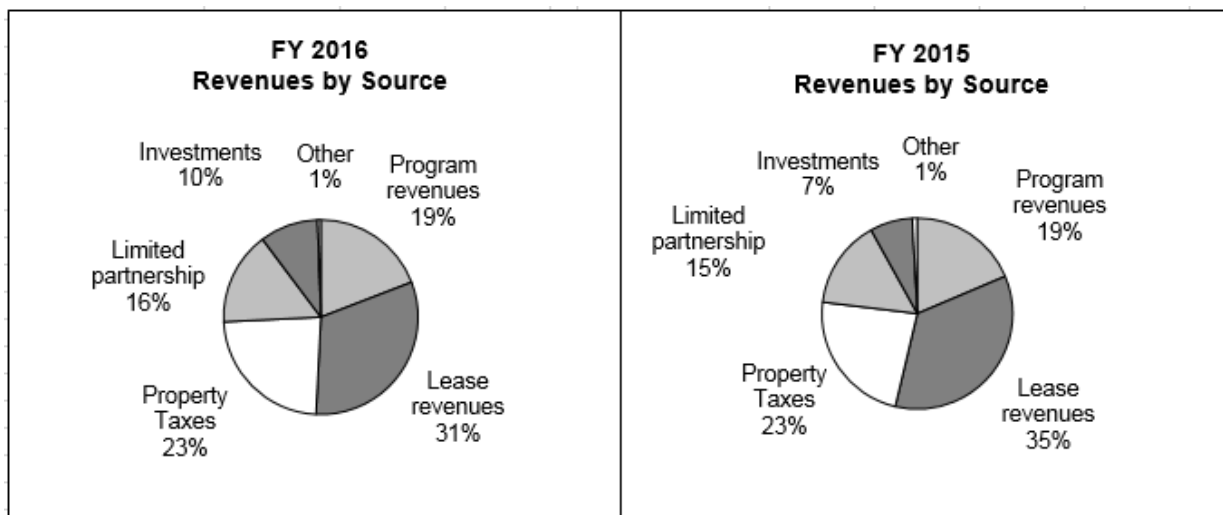
Statement of Net Position (\$ Millions)			
	Governmental Activities		Increase (Decrease)
	2016	2015	
<u>Assets</u>			
Current and other assets	\$ 41.5	\$ 41.3	\$ 0.2
Capital assets	27.2	27.8	(0.6)
Total assets	68.7	69.1	(0.4)
<u>Deferred Outflows of Resources</u>			
Pension Contributions	0.3	0.4	(0.1)
<u>Liabilities</u>			
Long-term debt outstanding	6.7	7.3	(0.6)
Other liabilities	1.1	1.1	(0.0)
Total liabilities	7.8	8.4	(0.6)
<u>Deferred Inflows of Resources</u>			
Pension Contributions	0.5	0.7	(0.2)
<u>Net Position</u>			
Net investment in capital			
assets	22.6	22.8	(0.2)
Restricted	1.2	1.2	-
Unrestricted	36.9	36.5	0.4
Total Net Position	\$ 60.7	\$ 60.5	\$ 0.2

A significant portion of the District's Net Position, \$22.6 million net and \$27.2 million gross (39.6 percent of total assets), reflects its investment in Capital Assets (land, buildings, land and building improvements, furniture, fixtures, computer equipment, fitness equipment, etc.). The District uses these capital assets to provide services to residents; consequently these assets are not available for future spending. The District's "Net investment in capital assets" is reported net of related capital lease debt and the resources needed to repay this debt must be provided from other sources, since the capital assets are in use themselves and cannot be used to liquidate these liabilities.

Besides the investments in capital assets, \$1.2 million represent resources restricted specifically for Prospect One Corporation, a component unit of Beach Cities Health District. Therefore the remaining balance of unrestricted net assets, \$36.9 million, may be used to meet the District's ongoing operations and services to its citizens.

The cost of all governmental activities, including interest on long-term debt, this year was \$13.0 million, down slightly from \$13.4 million for the previous year. As shown in the Statement of Activities on page 11, the amount financed by taxpayers through property taxes was \$3.1 million, compared to \$3.0 million in the prior year. This represents 23% of total revenues; 77% of the District's services are financed with other funding sources.

As shown in the following chart another 19% of the cost of services was paid by Program Revenues (user fees), those directly benefiting from programs (Program Revenues are \$2.6 million), and the remaining 58% are revenues generated from District owned resources (property lease revenues, limited partnership income and interest and earnings from investments).



Governmental Funds Financial Analysis

The Beach Cities Health District uses fund accounting to report on services provided to its citizens and to ensure and demonstrate compliance with governmental financial reporting requirements.

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 short-term liquidity and 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 \$40.4 million. 65% of this amount, \$26.2 million, constitutes unassigned fund balance, which is available for spending at the District's discretion. The remainder of the fund balance is assigned or non-spendable, not available for discretionary spending; primarily a) the District's investment in limited partnerships (\$10.1 million), b) net notes receivable (\$2.9 million) and c) Prospect One Fund designated a Special Revenue Fund (\$1.2 million) restricted for medical building purposes.

General Fund. The general fund is the only operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$26.1 million, of a total fund balance of \$39.2 million. As a measure of the district's liquidity, unassigned fund balance represents 198% of total general fund expenditures.

The fund balance of Beach Cities Health District's general fund increased by \$0.2 million during the current fiscal year. This was attributable to an operating surplus of \$2.3 million less capital expenditures and debt service of \$2.1 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. There was no activity in the Special Revenue fund for the current fiscal year.

Fund balance of the Special Revenue Fund at the end of the year was \$1.2 million, no change over prior year.

General Fund Budgetary Highlights

In May 2015, the Board of Directors approved a balanced budget for the Fiscal Year 2015-2016 that forecast an operating surplus of \$700,000 updated to \$770,000, before capital expenditures, maintaining commitments to existing service levels and allowing for scheduled capital expenditures.

The District budgeted revenues of \$12,476,080, a 2% or (\$287,000) decrease in revenues for fiscal year 2015-16 over prior year actual fiscal year 2014-15 revenues. The budgeted decrease in revenues were mainly due to (1) collection of multi-year building operating expenditure (BOE) reimbursements included in prior year FY2014-15 actual, plus (2) receipt of Notes Receivable (NR) amortized purchase discount not budgeted. Excluding the BOE collections from both years and the NR amortized purchase discount, revenues for FY2015-16 increased 5% or \$582,000 compared to prior year FY2014-15 actual revenues. The increase in budgeted revenues were primarily in joint ventures and property taxes combined \$534,000. The remaining revenue sources, Program (User fees), lease, interest and other revenues were expected to recover slightly from prior year with a budgeted combined 1%, \$48,000, increase.

The District budgeted operating expenditures of \$11,709,000 excluding payment on principle debt, a 1% or \$172,000 increase compared to prior year actuals of \$11,537,000 excluding payment on principle debt due to normal anticipated cost increases in services and labor.

Expenditures for Capital Outlay, District's long-term investment in capital assets of \$1,770,000 were included in this budget, including \$149,000 carryover of prior year approved capital project spending. Actual capital expenditures normally vary from budget due largely to timing of project spending from year to year.

Actual change in the District Fund Balance exceeded the District budgeted Fund Balance change by a positive \$1,251,000. As can be seen on page 54, actual revenues exceeded budgeted revenues by \$948,000. \$352,000 is due to the purchase discount on a Notes Receivable not budgeted. The remaining \$594,000 is primarily from favorable actual lease revenues, including reimbursements of building operating expenditures and Program revenues (User fees), offset mainly by unfavorable actual income from budgeted partnership revenues.

Total actual expenditures were favorable to budgeted expenditures by \$302,000 primarily due to actual savings in salaries and related expenses and delayed expenditures for Capital projects. The major unfavorable variance of \$352,000 is due to non-budgeted retirement of principle debt. Other minor overages to the budget are in Professional Fees, Facility Management, Community Relations, and Information Services mainly due to increased services provided by the District's Center for Health and Fitness and purchases of needed computer workstations.

Program income derive from the District's Center for Health and Fitness user fees, managed monthly using actual-to-budget variance control at the program level in order to manage expenses proportionally as revenue fluctuates. Unfavorable operational expenditure variances mentioned above are largely a function of variable costs related to the generation of revenues. As can be seen on page 54, Program revenues are \$2,573,000, favorable to budget by \$174,000. The District adjusts controllable expenditures across all district departments to maintain a balanced budget.

General Fund Current Fiscal Year Performance Highlights Compared to Prior Fiscal Year

As shown in the following table, total revenues increased by \$0.6 million over prior year due to increases in investment earnings from slightly improved interest rates and securities with gains in market value, more property taxes from higher property values in the District, increased program revenues from expanded and improved Health and Fitness Services and finally improved partnership income that is recovering marginally from prior year's economic challenges.

The \$0.4 million increase in Investment earnings were driven by gains in market value of securities. Interest gain in the District investment portfolio was 2% while amortized interest from the District Notes Receivable decreased by 2%. Property tax revenue increased by 6%, which is a reflection of local improved real estate values and an improved local economy. Leasing revenues is showing a decrease because the prior fiscal year included collection by the District of deferred building operating expenditure reimbursement from tenants. Otherwise, leasing revenue is increasing around 2% due to normal rent rate increases from leasing contracts that are expected to be in place for several years to come. Program revenues improved 8% over prior year mainly due to opening of a new space named "Toddler Town" where parents can take their toddlers for enriched play and learning. And finally the District's Limited Partnership income increased by 9% or \$0.2 million, \$140,000 from the District 80% partner, Sunrise Beach Cities Assisted Living, L.P. and \$24,000 from the District 5% partner, Beach District Surgery Center, LLC.

Expenditures remained consistent with prior year with some overages compared to prior year due to the implementation of the new Toddler Town program mentioned above. Total expenditures did increase by \$0.7 million over prior year mainly due to more Capital investment (Outlay) expenditures discussed in the next section.

REVENUES, EXPENDITURES & CHANGES IN FUND BALANCE

	Actual (\$ Millions)		Increase
	2016	2015	(Decrease)
Revenues			
Leasing Revenue	\$ 4.2	\$ 4.5	\$ (0.2)
Property Taxes	3.1	3.0	0.2
Program Income	2.6	2.4	0.2
Limited Partnership	2.1	1.9	0.2
Investment Earnings	1.3	0.9	0.4
Other	0.1	0.1	(0.0)
Total Revenues	13.4	12.8	0.6
Expenditures			
Current			
Salaries & related	5.4	5.4	(0.0)
Grants & projects	1.3	1.3	(0.1)
Professional Fees	1.3	1.3	0.1
Facilities Management	1.6	1.5	0.2
Community Relations	0.5	0.7	(0.2)
General & Administrative	0.4	0.4	0.0
Cost of Goods Sold	0.0	0.0	(0.0)
Human Resources	0.3	0.3	(0.0)
Information Systems	0.2	0.1	0.0
Other	0.1	0.1	0.0
Capital Outlay	1.3	0.6	0.8
Debt Service			
Interest and other fiscal	0.4	0.3	0.0
Principal Retirement	0.4	0.4	(0.0)
	13.2	12.4	0.7
Excess of revenues over (under) expenditures	0.2	0.3	(0.1)
Other finance resources	-	-	-
	0.2	0.3	(0.1)
Beginning Fund Balance	40.2	39.9	0.3
Prior period adjustment	-	-	-
Ending Fund Balance	\$ 40.4	\$ 40.2	\$ 0.2

Capital Asset and Debt Administration

The District's investment in capital assets, page 35 (Note 6), for its governmental activities as of June 30, 2016 amounts to \$27,156,908, including Construction in Progress (CIP) and net of accumulated depreciation. The capital investments include land, buildings, furniture, fixtures, equipment, and land and building improvements. The District added \$1,345,000 in Capital assets in the current fiscal year. The net value of capital assets still decreased for the current fiscal year by 2.2% due to depreciation expenses exceeding the additions of capital assets.

Major capital asset additions for the year:

• CIP – New Chiller	304,000
• CIP – Building Development	302,000
• Elevator Modernization	200,000
• Toddler Town creation	173,000
• Parking Lot Improvements	98,000
• New Supply Fan	87,000

The District's paid down its capital lease debt by paying \$428,218 in principle, \$352,000 for the Prospect South Bay Parking, \$53,000 for Fitness Equipment and \$23,000 for Phone system.

Economic Outlook

Fiscal Year 2015-16 saw the regional economy improving alongside the nationally improved economy evidenced by increased consumer confidence, improved unemployment rates and job growth numbers. Property values have also seen improvements nationally, with locally property values improving alongside and even greater. With improved local property values, the District's Property Tax revenue has seen continued increases year-over-year by approximately 6% per year since 2011-12 from remaining flat around 2008-2011. Interest rates has increased slightly but still remain low causing relatively flat interest income from the District investment portfolio.

With improved economic indicators and outlook, in addition to the increase in property taxes, the General Fund saw increases across all of its other revenue sources as well. Program fees that are consumption based saw an increase not only from the new programs but also from existing programs. The Partnerships that are service based also showed an increase in income based on the stronger consumer purchasing powers. Investments earnings increased substantially in FY 2015-16 due to the improved economic influences.

Beach Cities Health District will continue to pursue increased funding through expansion of user fee services for good value, investment opportunities in the open market and expansion of leasing activities. If the economy continues to be strong and improve, the District funding will increase alongside. The District's services will continue to be financed with three quarters of its funding from sources other than taxes. That is, from leasing activities, partnership interests, investments earnings and user fees,

Requests for Information

This Comprehensive Annual Financial Report (CAFR) is designed to provide a general overview of the Beach Cities Health District's financial activities and position. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Beach Cities Health District, Finance Department, 1200 Del Amo Street, Redondo Beach, CA 90277.

BEACH CITIES HEALTH DISTRICT

Statement of Net Position

As of June 30, 2016
(with comparative data for prior year)

	Governmental Activities	
	2016	2015
ASSETS		
Cash and investments (note 2)	\$ 28,015,685	27,395,415
Accounts receivable - net	238,502	418,635
Interest receivable	111,195	97,543
Notes receivable - net investment (note 4)	2,689,425	2,918,198
Taxes receivable	64,885	64,357
Pass through grants receivable	13,983	14,009
Prepaid items	300,440	304,120
Investment in limited partnerships (note 7)	10,106,875	10,139,898
Capital assets not being depreciated (note 6)	4,401,926	4,401,926
Capital assets - net of accumulated depreciation (note 6)	<u>22,754,982</u>	<u>23,365,021</u>
TOTAL ASSETS	<u>68,697,898</u>	<u>69,119,122</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension contributions (note 10)	246,826	284,802
Additional pension deferral (note 10)	48,647	75,673
Actuarial (note 10)	<u>40,578</u>	<u>3,197</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>336,051</u>	<u>363,672</u>
LIABILITIES		
Current liabilities:		
Accounts payable	225,704	299,714
Accrued liabilities	251,647	117,933
Accrued payroll	191,007	157,220
Deposits	178,992	175,984
Unearned service fees	243,726	270,817
Noncurrent liabilities:		
Due within one year (note 8)	772,273	727,247
Due in more than one year (note 8)	4,413,426	4,799,277
Net pension liability (note 10)	<u>1,552,792</u>	<u>1,806,648</u>
TOTAL LIABILITIES	<u>7,829,567</u>	<u>8,354,840</u>
DEFERRED INFLOWS OF RESOURCES		
Pension actuarial	460,190	655,698
Additional deferral	<u>20,678</u>	<u>-</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>480,868</u>	<u>655,698</u>
NET POSITION		
Net investment in capital assets	22,572,806	22,754,628
Restricted for medical building purposes	1,206,761	1,206,761
Unrestricted	<u>36,943,947</u>	<u>36,510,867</u>
TOTAL NET POSITION	<u>\$ 60,723,514</u>	<u>60,472,256</u>

See accompanying notes to basic financial statements.

BEACH CITIES HEALTH DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2016
(with comparative data for prior year)

Functions	Expenses	Program Revenues Charges for Services	Governmental Activities	
			Net (Expense) Revenue and Change in Net Position	
			2016	2015
Primary government:				
Preventive health services	\$ 12,676,927	2,572,774	(10,104,153)	(10,585,911)
Interest on long-term debt	<u>367,891</u>	<u>-</u>	<u>(367,891)</u>	<u>(394,683)</u>
Total	<u>\$ 13,044,818</u>	<u>2,572,774</u>	<u>(10,472,044)</u>	<u>(10,980,594)</u>
General revenues:				
Lease revenues			4,116,447	4,076,146
Property taxes			3,145,703	2,960,181
Income from limited partnerships			2,083,332	1,919,408
Earnings on investments			1,301,865	917,677
Other income			<u>75,955</u>	<u>110,180</u>
Total general revenues			<u>10,723,302</u>	<u>9,983,592</u>
Change in net position			251,258	(997,002)
Net position, beginning of year			<u>60,472,256</u>	<u>61,469,258</u>
Net position, end of year			<u>\$ 60,723,514</u>	<u>60,472,256</u>

See accompanying notes to basic financial statements.

BEACH CITIES HEALTH DISTRICT

Governmental Funds

Balance Sheet

As of June 30, 2016

(with comparative data for prior year)

	General Fund	Prospect One Fund	Totals	
			2016	2015
<u>ASSETS</u>				
Cash and investments (note 2)	\$ 26,858,983	1,156,702	28,015,685	27,395,415
Account receivable - net	238,502	-	238,502	418,635
Due from other funds (note 5)	-	50,059	50,059	50,059
Interest receivable	111,195	-	111,195	97,543
Notes receivable - net investment (note 4)	2,689,425	-	2,689,425	2,918,198
Taxes receivable	64,885	-	64,885	64,357
Pass through grants receivable	13,983	-	13,983	14,009
Prepaid items	300,440	-	300,440	304,120
Investment in limited partnerships (note 7)	10,106,875	-	10,106,875	10,139,898
TOTAL ASSETS	\$ 40,384,288	1,206,761	41,591,049	41,402,234
<u>LIABILITIES</u>				
Accounts payable	\$ 225,704	-	225,704	299,714
Accrued expenses	251,647	-	251,647	117,933
Accrued payroll	191,007	-	191,007	157,220
Due to other funds (note 5)	50,059	-	50,059	50,059
Deposits	178,992	-	178,992	175,984
Unearned service fees	243,726	-	243,726	270,817
TOTAL LIABILITIES	1,141,135	-	1,141,135	1,071,727
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Unavailable revenue	37,475	-	37,475	165,967
TOTAL DEFERRED INFLOWS OF RESOURCES	37,475	-	37,475	165,967
<u>FUND BALANCES</u>				
Nonspendable:				
Prepaid items	300,440	-	300,440	304,120
Note receivable	2,689,425	-	2,689,425	2,918,198
Investment in limited partnerships	10,106,875	-	10,106,875	10,139,898
Restricted for medical building purposes	-	1,206,761	1,206,761	1,206,761
Unassigned	26,108,938	-	26,108,938	25,595,563
TOTAL FUND BALANCES	39,205,678	1,206,761	40,412,439	40,164,540
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 40,384,288	1,206,761	41,591,049	41,402,234

See accompanying notes to basic financial statements.

BEACH CITIES HEALTH DISTRICT

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position

June 30, 2016

FUND BALANCES OF GOVERNMENTAL FUNDS	\$ 40,412,439
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the fund.	37,475
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Long-term debt and compensated absences that have not been included in the governmental fund statements. The payables, however, are a liability in the Statement of Net Position:

Capital lease payable	(4,584,102)
Compensated absences	(344,056)

Net pension liability and related deferred inflows of resources are not due and payable in the current period. Deferred outflow of resources is not considered a current asset or financial resource. As a result, these items are not reported in the governmental funds (note 10).

Deferred outflows - contributions	246,826
Deferred outflows - additional deferral	48,647
Deferred outflows - actuarial	40,578
Deferred inflows - actuarial	(460,190)
Deferred inflows - additional	(20,678)
Net pension liability	(1,552,792)

Capital assets, net of accumulated depreciation, have not been included as financial resources in governmental funds.	27,156,908
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Other postemployment benefits (OPEB) are not due and payable in the current period and, therefore, are not reported on the balance sheet of the governmental funds.	<u>(257,541)</u>
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NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 60,723,514</u></u>
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See accompanying notes to basic financial statements.

BEACH CITIES HEALTH DISTRICT

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2016
(with comparative data for prior year)

	General Fund	Prospect One Fund	Totals	
			2016	2015
REVENUES				
Financing and rental income related to leases	\$ 4,244,939	-	4,244,939	4,479,867
Property taxes	3,145,703	-	3,145,703	2,960,181
Program income	2,572,774	-	2,572,774	2,376,262
Income from limited partnership	2,083,332	-	2,083,332	1,919,408
Investment earnings	1,301,865	-	1,301,865	917,677
Other revenues	24,991	-	24,991	32,343
Intergovernmental	50,964	-	50,964	77,837
TOTAL REVENUES	13,424,568	-	13,424,568	12,763,575
EXPENDITURES				
Current:				
Salaries and related expenses	5,392,860	-	5,392,860	5,420,574
Health programs	1,269,788	-	1,269,788	1,345,957
Professional fees	1,349,459	-	1,349,459	1,274,264
Facilities management	1,627,570	-	1,627,570	1,457,267
Community relations	538,321	-	538,321	748,104
General and administrative	428,946	-	428,946	389,897
Human resources	255,180	-	255,180	281,259
Information services	157,465	-	157,465	118,294
Cost of goods sold	32,958	-	32,958	47,843
Other	59,445	-	59,445	58,475
Capital outlay	1,344,677	-	1,344,677	573,916
Debt service:				
Principal retirement	352,109	-	352,109	325,317
Interest and other fiscal charges	367,891	-	367,891	394,683
TOTAL EXPENDITURES	13,176,669	-	13,176,669	12,435,850
NET CHANGES IN FUND BALANCES	247,899	-	247,899	327,725
FUND BALANCES, BEGINNING OF YEAR	38,957,779	1,206,761	40,164,540	39,836,815
FUND BALANCES, END OF YEAR	\$ 39,205,678	1,206,761	40,412,439	40,164,540

See accompanying notes to basic financial statements.

BEACH CITIES HEALTH DISTRICT

Governmental Funds

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

For the Fiscal Year Ended June 30, 2016

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	247,899
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Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Expenditures for capital assets	1,344,678
Depreciation expense	(1,954,717)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	428,217
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To record as a revenue the net change in compensated absences in the Statement of Activities.	(45,026)
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Revenues that are measurable but not available are recorded as unavailable revenue under the modified accrual basis of accounting.	(128,492)
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The net pension liability included in the Statement of Activities does not provide (require) the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	401,065
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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.	<u>(42,366)</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$</u>	<u>251,258</u>
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See accompanying notes to basic financial statements.

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2016

(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 (GAAP) 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 (District) and Prospect One Corporation (Corporation). The District is a government agency that was created in 1955 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. The 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 (GASB) Statement No. 14, as amended by GASB Statements No. 39 and No. 61. 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 Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. Generally, 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.

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies (Continued)

(b) Government-wide and Fund Financial Statements (Continued)

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

(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 within the availability period.

(d) Fund Classifications

Major funds are defined as funds that have assets, liabilities, revenues or expenditures equal to at least ten percent of their fund-type total and at least five percent of the grand total of all fund types. The General Fund is always a major fund. The District may also select other funds it believes should be presented as major funds. The District reports the following major funds:

- *General Fund* – The General Fund is the general operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.
- *Prospect One Fund* – The Prospect One Fund accounts for all activities of the Prospect One Corporation.

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(1) **Summary of Significant Accounting Policies (Continued)**

(e) **Cash and Investments**

The District operates its investment portfolio under the Prudent Investor Standard (California Government Code §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 needs 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'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. The Local Agency Investment Fund (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.

(f) **Fair Value Measurements**

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(1) **Summary of Significant Accounting Policies (Continued)**

(f) Fair Value Measurements (Continued)

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable input reflect an entity's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include an entity's own data.

(g) 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* – 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* – 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.

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(1) **Summary of Significant Accounting Policies (Continued)**

(g) **Receivables and Payables (Continued)**

- *Tax Levy Dates* – 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.
- *Tax Collections* – Collection of taxes is 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 Fiscal Year 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.

(h) **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.

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies (Continued)

(i) 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, 2016.

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	10 – 32
Machinery and equipment	2 – 9
Furniture and fixtures	2 – 9

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

(j) 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. As of June 30, 2016, the balance of vacation leave is \$344,056.

(k) Long-Term Obligations

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

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(1) **Summary of Significant Accounting Policies (Continued)**

(l) Deferred Outflows/Inflows of Resources

When applicable, the Statement of Net Position and Balance Sheet will report a separate section for deferred outflows of resources. Deferred outflows of resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, are not recognized as an expense or expenditure until that time. The government has three items that qualify for reporting in this category: pension contributions; additional deferral; and actuarial. All of these items relate to the recording of the pension liability.

When applicable, the Statement of Net Position and the Balance Sheet will report a separate section for deferred inflows of resources. Deferred inflows of resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as an inflow of resources (revenue) until that time. The District has three items that qualify for reporting in this category. One of these items arises only under a modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is reported only on the Balance Sheet for the governmental funds. The governmental funds report unavailable revenue related to items received outside of the District's availability period of 60 days. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other items, actuarial and additional deferral, are the net difference between the projected and actual earnings on the District's pension plan investments.

(m) Pensions

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments, including refunds of employee contributions, are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD)	June 30, 2014
Measurement Date (MD)	June 30, 2015
Measurement Period (MP)	June 30, 2014 to June 30, 2015

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(1) **Summary of Significant Accounting Policies (Continued)**

(n) Fund Balances

Fund balances are reported in the fund statements in the following classifications:

- *Nonspendable* – this includes amounts that cannot be spent because they are either not spendable in form (such as inventory) or legally or contractually required to be maintained intact (such as endowments).
- *Restricted* – this includes amounts that can be spent only for specific purposes stipulated by legal requirements imposed by other governments, external resource providers, or creditors. Board of Directors imposed restrictions do not create restricted fund balance unless the legal document that initially authorized the revenue (associated with that portion of fund balance) also included language that specified the limited use for which the authorized revenues were to be expended.
- *Committed* – includes amounts that can be used only for the specific purposes determined by a formal action of the Board. It includes legislation (Board action) that can only be overturned by new legislation requiring the same type of voting consensus that created the original action. Therefore, if the Board action limiting the use of the funds is separate from the action (legislation) that created (enabled) the funding source, then it is committed, not restricted. For the District, a resolution is the highest level of decision-making authority that is used to establish a commitment of fund balance.
- *Assigned* – this includes amounts that are designated or expressed by the Board of Directors, but does not require a formal action such as a resolution or ordinance. The Board may delegate the ability of an employee or committee to assign uses of specific funds, for specific purposes.
- *Unassigned* – this includes the remaining spendable amounts which are not included in one of the other classifications.

It is the District's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned and unassigned resources, in the absence of a formal policy adopted by the Board.

(o) Net Position

In the government-wide financial statements, net position represents the difference between assets and liabilities and deferred inflows and outflows and is classified into three categories:

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(1) **Summary of Significant Accounting Policies (Continued)**

(o) Net Position (Continued)

- *Net Investment in capital assets* – consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- *Restricted for medical building purposes* – represents the net position that is restricted for medical building purposes and is not accessible for general use because their use is subject to restrictions enforceable by third parties.
- *Unrestricted net position* – represents those assets that are available for general use.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first.

(p) 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.

(q) Prior Year Data

Selected information from the prior years has been included in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2015 from which this selected financial data was derived. Certain minor reclassifications of prior year data have been made in order to enhance its comparability with current year figures.

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(2) Cash and Investments

Cash and investments as of June 30, 2016 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and investments	<u>\$28,015,685</u>
Total cash and investments	<u>\$28,015,685</u>

Cash and investments as of June 30, 2016 consist of the following:

Petty cash	\$ 3,650
Deposits with financial institutions	881,445
Investments	<u>27,130,590</u>
Total cash and investments	<u>\$28,015,685</u>

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

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Investment Fund (LAIF)	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	180 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

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(2) Cash and Investments (Continued)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Registered state warrants or treasury notes of the State of California	5 years	25%	None
Indebtedness of any local agency within the State of California	5 years	25%	None
Repurchase agreements	90 Days	20%	None
Medium term notes	5 years	30%	None
Obligations of the International Bank for Reconstruction and Development, the International Finance Corporation, and the Inter-American Development Bank	5 years	30%	None

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

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:

<u>Investment Type</u>	<u>Totals</u>	<u>Remaining maturity (in Months)</u>		
		<u>12 Months or Less</u>	<u>13 to 36 Months</u>	<u>37 to 60 Months</u>
LAIF	\$ 2,322,720	2,322,720	-	-
Asset-Backed Security/				
Collateralized Mortgage Obligation	753,819	-	753,819	2,316,237
Medium Term notes	6,966,421	520,424	4,129,761	-
Federal Agency Collateralized				
Mortgage Obligation	667,823	-	667,823	-
Federal Agency Bond/Note	4,844,705	1,285,207	3,559,498	-
Municipal Bond/Note	1,396,419	513,625	882,794	-
Supra-National Agency Bond/Note	336,147	-	336,147	-
U.S Treasury Bond/Note	<u>9,842,536</u>	<u>-</u>	<u>1,979,723</u>	<u>7,862,813</u>
Totals	<u>\$27,130,590</u>	<u>4,641,976</u>	<u>12,309,564</u>	<u>10,179,050</u>

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(2) Cash and Investments (Continued)

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	Rating as of Fiscal Year End				
		Legal Rating	AAA	AA	A	BBB	Not Rated
LAIF	\$ 2,322,720	N/A	-	-	-	-	2,322,720
Asset-Backed Security	753,819	A	753,819	-	-	-	-
Medium Term Notes	6,966,421	N/A	-	1,035,023	4,799,033	-	-
Federal Agency Obligation	667,823	N/A	-	667,823	-	1,132,365	-
Federal Agency Bond/ Note	4,844,705	N/A	-	4,844,705	-	-	-
Municipal Obligations	1,396,419	N/A	504,095	766,325	125,999	-	-
Supra-National Agency Bond/Note	336,147	AA	336,147	-	-	-	-
U.S. Agency Securities	<u>9,842,536</u>	N/A	<u>-</u>	<u>9,842,536</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$27,130,590</u>		<u>1,594,061</u>	<u>17,156,412</u>	<u>4,925,032</u>	<u>1,132,365</u>	<u>2,322,720</u>

Concentration of Credit Risk

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

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Fannie Mae	Federal Agency Bond/Note	\$3,321,560

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(2) Cash and Investments (Continued)

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, 2016, 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>
U.S. Treasury Bond/Notes	\$9,842,536
Medium Term Notes	6,966,421
U.S. Agency Securities	5,512,528
Municipal Bond/Note	1,396,419
Asset-Backed Security	753,819
Supra-National Agency Bond	336,147

Investment in State Investment Pool

The District is a voluntary participant in 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 the Financial Statements

(Continued)

(2) **Cash and Investments (Continued)**

Fair Value Measurement

The District categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The City has the following recurring fair value measurements as of June 30, 2016:

	<u>Fair Value Hierarchy</u>			<u>Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Local Agency Investment Fund	\$ -	2,322,720	-	2,322,720
Asset-Backed Security/ Collateralized Mortgage Obligation	-	753,819	-	753,819
Medium Term notes	-	6,966,421	-	6,966,421
Federal Agency Collateralized Mortgage Obligation	-	667,823	-	667,823
Federal Agency Bond/Note	-	4,844,705	-	4,844,705
Municipal Bond/Note	-	1,396,419	-	1,396,419
Supra-National Agency Bond/Note	-	336,147	-	336,147
U.S Treasury Bond/Notes	<u>9,842,536</u>	<u>-</u>	<u>-</u>	<u>9,842,536</u>
Total investments	<u>\$9,842,536</u>	<u>17,288,054</u>	<u>-</u>	<u>27,130,590</u>

The District also holds investments in limited partnerships valued at Net Asset Value (NAV) of units held, as reported by the general partner. The District reviews and evaluates the values and assesses the valuation methods and assumptions used in determining the fair value of these alternative investments. Because alternative investments are not readily marketable, NAV is used as a practical expedient, and their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a readily available market for such investments existed, and differences could be material. The fair value of investments in limited partnerships is \$10,106,875 as of June 30, 2016.

(3) **Operating Leases as Lessor**

South Bay Family Health Care Center

The District entered into a lease agreement with South Bay Family Healthcare Center 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 is adjusted by the cost of living adjustment. As of the most recent cost of living adjustment, the monthly base rent has increased to \$13,372.

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(3) Operating Leases as Lessor (Continued)

Torrance Health Association (formerly 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 and commenced on 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. As of the most recent cost of living adjustment, the monthly base rent has increased to \$28,635.

Sunrise Beach Cities Assisted Living, LP

The District has entered into a lease agreement dated December 11, 1997, with Sunrise Beach Cities 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 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 to 10 years as detailed in the lease agreement. As of the most recent cost of living adjustment, the monthly base rent has increased to \$23,333.

U.S. Renal Care, Inc.

The District and U.S. Renal Care, Inc. (formerly 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 of 514 North Prospect Avenue, Redondo Beach. The sixth amendment to the lease dated January 10, 2013, increased the monthly base rent to \$6,022, effective on January 1, 2013, and will increase base rent annually by 3% each remaining year of the lease. As of June 30, 2016, the base rent has increased to \$6,022.

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(3) 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 that commenced on March 1, 2005, and the monthly lease payment is \$36,036. The lease term has been extended through February 28, 2020, and the base rent has increased to \$41,290. The base rent will be adjusted by a factor of 3% of the base rent paid in the immediate preceding 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, Inc. to lease 35,008 square feet located at 514 N. Prospect Ave. The lease is for a term of 10 years and commenced in May 2006. At the start of the lease agreement, the base rent for the lease 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 to \$60,988 per month.

Prader Willi California Foundation

The District entered into a lease agreement dated June 20, 2011, with Prader Willi California Foundation to lease 631 square feet located at 514 N. Prospect Avenue, Redondo Beach. At the start of the lease agreement, the base rent for both the lease and a reimbursement to the District for common area operating expenses was a total of \$1,060 per month. The base rental payments are adjusted by the change in the consumer price index on the first day of the 10th month following the commencement of the lease, and as of each 12th month thereafter during the term of the lease. In no event shall any increase be greater than 3% per year, on a non-cumulative basis. The base rents are adjusted by the greater of the consumer price index (All Urban Consumers Index – Los Angeles), or 3%, beginning on the second anniversary of the lease term date. As of June 30, 2016, the base rent has increased to \$1,525.

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(3) **Operating Leases as Lessor (Continued)**

The Regents of the University of California

The District entered into a lease agreement dated April 1, 2012, with The Regents of the University of California, c/o University of California, Los Angeles Real Estate, to lease 8,708 square feet located at 514 N. Prospect Avenue, Redondo Beach. The lease is for a term of 10 years and commenced in April 2012. At the start of the lease agreement, the base rent for both the lease and a reimbursement to the District for common area operating expenses was a total of \$24,382 per month. The base rents are adjusted by the change in the consumer price index on the first day of the 10th month following the commencement of the lease, and as of each 12th month thereafter during the term of the lease. In no event shall any increase be greater than three percent per year, on a non-cumulative basis. As of June 30, 2016, the base rent has increased to \$25,690.

Beach Cities Child Development Center, Inc.

The District entered into a lease agreement dated January 5, 2011, with Beach Cities Child Development Center, Inc., to lease approximately 6,000 square feet of interior space and 6,414 square feet of exterior face located at 514 N. Prospect Avenue, Redondo Beach. The lease is for a term of 10 years and commenced in February 2011. Per the lease agreement, the base rent for the lease and reimbursement to the District for common area operating expenses was a total of \$10,238 per month commencing the 35th month of occupancy per the agreement, and is increased annually at the rate of 3.5% during the duration of the agreement. As of June 30, 2016, the base rent has increased to \$13,104.

(4) **Notes Receivable**

On September 11, 2002, as a result of a settlement agreement between the District and Prospect South Bay, a California Limited Partnership (Partnership), the District purchased a note (Ducot note) that had an unpaid outstanding balance of \$12,073,740. The amount of cash paid to acquire this note was \$3,915,396. The difference between the face value (unpaid outstanding balance) of the note at the date of purchase and the amount paid to acquire the note is required by generally accepted accounting principles to be recognized as a purchase discount that is amortized over the term of the note. Monthly payments of \$96,472 through December 2024 are due on the note receivable.

At June 30, 2016, the note had an unpaid balance of \$7,139,276 and a remaining unamortized purchase discount of \$4,682,888, resulting in the reporting of an investment in note receivable at a net cost of \$2,456,388.

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(4) Notes Receivable (Continued)

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

Fiscal Year Ended June 30,	Principal	Interest	Total
2017	\$ 612,782	544,877	1,157,659
2018	663,247	494,412	1,157,659
2019	717,868	439,791	1,157,659
2020	776,988	380,671	1,157,659
2021	840,976	316,683	1,157,659
2022-2025	<u>3,527,415</u>	<u>524,389</u>	<u>4,051,804</u>
Totals	<u>\$7,139,276</u>	<u>2,700,823</u>	<u>9,840,099</u>

On January 5, 2011, the District executed a standard industrial/commercial single tenant lease agreement and a revolving promissory note with Beach Cities Child Development Center for the premises located at 514 Prospect Avenue, Redondo Beach. Pursuant to the agreements, the lessee agreed to lease the premises for a period of approximately 10 years, and to make 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 note with an initial principal balance of \$420,000. The outstanding amount under the term note bears interest equal to 7%. Monthly payments are due through December 2020. The note is secured by the security interest granted in the security agreement. As of June 30, 2016, the note has a balance of \$233,037. Principal and interest to be received on the note are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2017	\$ 47,368	14,791	62,159
2018	50,793	11,367	62,160
2019	54,464	7,695	62,159
2020	58,402	3,758	62,160
2021	<u>22,010</u>	<u>315</u>	<u>22,325</u>
Totals	<u>\$ 233,037</u>	<u>37,926</u>	<u>270,963</u>

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(4) Notes Receivable (Continued)

As of June 30, 2016, the District's net investment in notes receivable was:

Ducot note – unpaid balance	\$ 7,139,276
Ducot note – unamortized purchase discount	<u>(4,682,888)</u>
Net investment in notes receivable	2,456,388
Note – Beach Cities Child Development Center	<u>233,037</u>
Total net investment in notes receivable	<u>\$ 2,689,425</u>

(5) Interfund Activity

The following represents the interfund activity of the District for the fiscal year ended June 30, 2016. Current interfund balances arise in the normal course of business. They are expected to be repaid shortly after the end of the fiscal year.

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ -	50,059
Prospect One Fund	<u>50,059</u>	<u>-</u>
Totals	<u>\$50,059</u>	<u>50,059</u>

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(6) Capital Assets

Changes in capital assets for governmental activities for the fiscal year ended June 30, 2016 were as follows:

	Balance at <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>June 30, 2016</u>
Capital assets not being depreciated:				
Land	\$ 4,401,926	-	-	4,401,926
Construction in progress	-	606,411	-	606,411
Total capital assets not being depreciated	<u>4,401,926</u>	<u>606,411</u>	<u>-</u>	<u>5,008,337</u>
Capital assets being depreciated:				
Buildings and improvements	45,595,110	696,772	-	46,291,882
Equipment, furniture and fixtures	<u>1,000,866</u>	<u>41,495</u>	<u>-</u>	<u>1,042,361</u>
Total capital assets being depreciated	<u>46,595,976</u>	<u>738,267</u>	<u>-</u>	<u>47,334,243</u>
Less accumulated depreciation for:				
Buildings and improvements	(22,804,509)	(1,798,641)	-	(24,603,150)
Equipment, furniture and fixtures	<u>(426,446)</u>	<u>(156,076)</u>	<u>-</u>	<u>(582,522)</u>
Total accumulated depreciation	<u>(23,230,955)</u>	<u>(1,954,717)</u>	<u>-</u>	<u>(25,185,672)</u>
Capital assets being depreciated, net	<u>23,365,021</u>	<u>(1,216,450)</u>	<u>-</u>	<u>22,148,571</u>
Capital assets, net	<u>\$ 27,766,947</u>	<u>(610,039)</u>	<u>-</u>	<u>27,156,908</u>

Depreciation

Depreciation expense was charged to governmental functions as follows:

Preventive Health Services	<u>\$ 1,954,717</u>
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(7) Investments 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. 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.

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(7) Investments in Limited Partnerships (Continued)

As of the fiscal year ended June 30, 2016, after allocation of partnership income (loss) and distributions from the partnership to the District, the investment in the Sunrise Beach Cities Assisted Living, L.P. was \$10,038,907. Financial statements may be obtained by sending a written request to Sunrise Senior Living, LLC, 7902 Westpark Drive, McLean, VA 22102.

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. As of the fiscal year ended June 30, 2016, after allocation of partnership income (loss) and distributions from the partnership to the District, the investment in the Beach District Surgery Center, LLC, was \$67,968. Financial statements may be obtained by sending a written request to Beach District Surgery Center, LLC, 514 N. Prospect Ave Suite 100, Redondo Beach, CA 90277.

(8) Long-Term Liabilities

The following is a summary of changes in Governmental Activities long-term debt for the fiscal year ended June 30, 2016:

	Balance as of July 1, 2015	Additions	Deletions	Balance as of June 30, 2016	Due Within One Year
Capital leases payable	\$ 5,012,319	-	(428,217)	4,584,102	428,217
Compensated absences payable	299,030	253,112	(208,086)	344,056	344,056
Other post-employment benefit obligation	215,175	46,567	(4,201)	257,541	-
Total	<u>\$ 5,526,524</u>	<u>299,679</u>	<u>(640,504)</u>	<u>5,185,699</u>	<u>772,273</u>

Capital Leases Payable

Parking Facility – In 2002, the District acquired the right to use certain parking facilities from Prospect South Bay, a California Limited Partnership. In return for the right to use the facilities, the District agreed to make monthly payments of \$60,000 through December 2025. The agreement provides for interest at 7.94% a year. The initial principal obligation under the agreement amounted to \$7,509,201, which was recorded as a capital lease payable for the acquisition of the parking facilities. During the fiscal year ended June 30, 2016, the District made the principal payment of \$352,109. The outstanding balance was \$4,440,326 at June 30, 2016. The following is a summary of future minimum lease payment requirements:

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(8) Long-Term Liabilities (Continued)

Fiscal Year Ended June 30,	Principal	Interest	Total
2017	\$ 381,107	338,893	720,000
2018	412,493	307,507	720,000
2019	446,463	273,537	720,000
2020	483,232	236,768	720,000
2021	523,028	196,972	720,000
2021-2025	<u>2,194,005</u>	<u>325,995</u>	<u>2,520,000</u>
Totals	<u>\$ 4,440,328</u>	<u>1,679,672</u>	<u>6,120,000</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 12.19% per annum. The initial principal obligation under the lease amounted to \$98,431. The outstanding balance was \$10,457 at June 30, 2016. The following is a summary of future minimum lease payment requirements:

Fiscal Year Ended June 30,	Principal	Interest	Total
2017	\$ 10,457	321	10,778
Totals	<u>\$ 10,457</u>	<u>321</u>	<u>10,778</u>

Fitness Equipment – The District entered into two capital lease agreements, Government Obligation Contracts, with Kansas State Bank of Manhattan in December 2013 and June 2014. The December 2013 capital lease for various types of fitness equipment, such as treadmills and steppers, has an initial obligation of \$237,114, 3.61% interest rate and 60 equal monthly payments of \$4,326. The June 2014 capital lease for indoor bikes has an initial obligation of \$27,032, 4.68% interest rate and forty-eight equal monthly payments of \$619. The outstanding balances were \$119,762 and \$13,556, respectively at June 30, 2016

Fiscal Year Ended June 30,	Principal	Interest	Total
2017	\$ 55,164	4,167	59,331
2018	56,727	1,985	58,712
2019	<u>21,427</u>	<u>201</u>	<u>21,628</u>
Totals	<u>\$ 133,318</u>	<u>6,353</u>	<u>139,671</u>

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(9) Operating Leases as Lessee

Administrative Office – The District entered into an operating lease agreement with Redondo Beach Unified School District to lease 6,954 square feet located at 1200 Del Amo Street, Redondo Beach. The lease is for a term of sixteen years commencing January 1, 2014, and the monthly lease payment is \$6,954 due at the first of each month. The leasing contract presents two options to be extended from January 1, 2030 to December 31, 2044, and January 1, 2045 to December 31, 2059. The base rent will be adjusted by a factor of 3% biennially on the anniversary of the rent date. However, the base rent will be reduced for the last 10 years of the original term by an amount equal to the amortized tenant improvements, and the value of rent adjustment shall not exceed \$232,000. The lease expires December 31, 2029. The following is a summary of future minimum payment requirements:

<u>Fiscal Year</u> <u>Ended June 30,</u>	<u>Annual Payment</u>
2017	\$ 85,956
2018	87,204
2019	65,252
2020	66,506
2021	67,760
2022-2026	357,556
2027-2029	<u>230,820</u>
Totals	<u>\$961,054</u>

(10) Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District's separate Miscellaneous and PEPRA Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Local Government resolution. A full description of the pension plan benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 2014 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the June 30, 2014 actuarial valuation report. This report is a publically available valuation report that can be obtained at CalPERS' website under Forms and Publications.

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(10) Defined Benefit Pension Plan (Continued)

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>Miscellaneous</u> Prior to January 1, 2013	<u>PEPRA</u> On or after January 1, 2013
Hire date		
Benefit formula	2% @ 60	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50-60	52-62
Monthly benefits, as a percentage of eligible compensation	1.092% to 2.418%	1% to 2.5%
Required employee contribution rates	6.880%	6.250%
Required employer contribution rates	7.163%	6.237%

Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contributions rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

Actuarial Methods and Assumptions used to determine Total Pension Liability

For the measurement period ending June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2014 and June 30, 2015 total pension liability were based on the following actuarial methods and assumptions:

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(10) **Defined Benefit Pension Plan (Continued)**

Actuarial cost method	Entry age normal in accordance with GASB 68
Asset valuation method	Market value of assets
Actuarial assumptions:	
Discount rate	7.65%
Inflation	2.75%
Payroll growth	Varies by entry age and service
Investment rate of return	7.50% net pension plan investment and administrative expenses; includes inflation
Mortality rate table	Derived using CalPERS' membership data for all funds

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of the 2010 CalPERS Experience Study for the period from 1997 to 2007, including updates to salary increase, mortality and retirement rates. The experience study report can be obtained from the CalPERS' website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS' website under the GASB 68 section.

According to Paragraph 30 of GASB 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan. However, employers may determine the impact at the plan level for their own financial reporting purposes. Refer to page 43 of this report, which provides information on the sensitivity of the net pension liability to changes in the discount rate.

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(10) **Defined Benefit Pension Plan (Continued)**

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11 to 60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	Current Target Allocation	Real Return Years 1 – 10 ¹	Real Return Years 11+ ²
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	(0.55)%	(1.05)%

¹An expected inflation of 2.5% used for this period

²An expected inflation of 3.0% used for this period

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(10) **Defined Benefit Pension Plan (Continued)**

Allocation of Net Pension Liability and Pension Expense to Individual Employers

A key aspect of GASB 68 pertaining to cost-sharing employers is the establishment of an approach to allocate the net pension liability and pension expense to the individual employers within the risk pool. Paragraph 49 of GASB 68 indicates that for pools where contribution rates within the pool are based on separate relationships, the proportional allocation should reflect those relationships. The allocation method utilized by CalPERS determines the employer's share by reflecting these relationships through the plans they sponsor within the risk pool. Plan liability and asset-related information are used where available, and proportional allocations of individual plan amounts as of the valuation date are used where not available.

- (1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the Miscellaneous Risk Pool (risk pool) as a whole on the valuation date (June 30, 2014). The risk pool's fiduciary net position (FNP) subtracted from its total pension liability (TPL) determines the net pension liability (NPL) at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2015). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date.

Note: For purposes of FNP in this step (2) and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2015, less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2014-15).

- (3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date.
- (4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.
- (5) The plan's TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(10) Defined Benefit Pension Plan (Continued)

- (6) The plan's NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5). The plan's proportion of aggregate employer contributions is equal to the plan's proportion of FNP calculated in (4). The plan's proportionate share of risk pool pension expense is developed as the sum of the related proportionate shares of the components of the aggregate pension expense

The following table shows the Plan's proportionate share of the net pension liability over the measurement period:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2014 (VD)	\$ 9,984,775	8,178,127	1,806,648
Balance at: 6/30/2015 (MD)	10,597,525	9,044,733	1,552,792
Net Changes during 2014-15	612,750	866,606	(253,856)

The District's proportionate share of the net pension liability for each plan as of June 30, 2014 and 2015 was as follows:

	Miscellaneous	PEPRA
Proportion – June 30, 2014	99.96%	0.04%
Proportion – June 30, 2015	100.19%	-0.19%
Change – Increase (Decrease)	0.23%	-0.23%

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of the Measurement Date, calculated using the discount rate of 7.65 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan's net pension liability	\$2,604,141	1,552,792	684,782

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(10) **Defined Benefit Pension Plan (Continued)**

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Recognition of Gains and Losses

Under GASB 68, deferred inflows and deferred outflows of resources related to pensions are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred inflows and deferred outflows to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings	5 year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired). The EARSL for the 2014-15 measurement period is 3.8 years, which was obtained by dividing the total service years of 467,023 (the sum of remaining service lifetimes of the active employees) by 122,410 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0.

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

As of the start of the measurement period (June 30, 2014), the NPL was \$1,806,648. For the measurement period ending June 30, 2015 (the measurement date), the District recognized pension income of \$154,238 for the Plan (the pension expense for the risk pool for the measurement period is \$169,012,983). As of June 30, 2015, the District reports other amounts for the Plan as deferred outflow and deferred inflow of resources related to pensions as follows:

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(10) Defined Benefit Pension Plan (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 246,826	-
Differences between expected and actual experience	18,232	-
Differences between proportionate share of contribution and actual contribution	48,647	(20,678)
Changes of assumptions	-	(172,495)
Net difference between projected and actual earnings on pension plan investments	20,831	-
Adjustment due to differences in proportions	1,515	(287,695)
Totals	\$ 336,051	(480,868)

The \$48,647 deferred outflows of resources and the \$20,678 deferred inflows of resources are derived from the difference between actual contributions made by the employer and the employer's proportionate share of the risk pool's total contributions. This deferral and the corresponding amortization amount are calculated separately by each employer. The employer's pension expense is adjusted for the amortization of this additional deferral. This item is required to be amortized over the plan's Expected Average Remaining Service Lives (EARSL). The \$246,826 reported as deferred outflows of resources related to employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement period Ended June 30,	Deferred Outflows / (Inflows) of Resources
2016	\$ 67,581
2017	(178,106)
2018	(144,826)
2019	110,534

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(11) **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 be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors.

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

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. Employees select investments from a range of options presented by the fiduciary.

Since the District has placed the assets into a trust, 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. The District makes no contribution to the plan on behalf of the members.

(12) **Other Post-Employment Benefits (OPEB)**

Plan Description

The District selected Total Compensation Systems, Inc. to perform an actuarial valuation of the retiree health insurance programs as of May 1, 2014. This includes benefits for 3 retirees and 55 active employees who may become eligible to retire and receive benefits in the future. The District makes medical insurance available after the age of 50 to all employees, who meet the requirement of 5 years of service. The District contributes 100% (\$89.25 cap per month) of the administrative fee while the retiree pays the premium.

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(12) **Other Post-Employment Benefits (OPEB) (Continued)**

Annual OPEB and Net OPEB Obligation

The District's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 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 of District contributions (retiree benefits paid by the District), and changes in the District's net OPEB obligation.

Annual required contribution	\$ 45,883
Interest on net OPEB obligation	10,221
Adjustment to annual required contribution	<u>(9,537)</u>
Annual OPEB cost	46,567
Contributions made	<u>(4,201)</u>
Change in OPEB obligation	42,366
Net OPEB obligation – beginning of fiscal year	<u>215,175</u>
Net OPEB obligation – end of fiscal year	<u><u>\$ 257,541</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016:

Fiscal Year	Annual OPEB Cost	Actual Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	42,614	1,705	4%	174,790
6/30/2015	43,748	3,363	8%	215,175
6/30/2016	46,567	4,201	9%	257,541

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(12) **Other Post-Employment Benefits (OPEB) (Continued)**

Funded Status and Funding Progress

As of May 1, 2014, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$284,931, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$284,931. The covered payroll (annual payroll of active employees covered by the plan) was \$3,316,042, and the ratio of the UAAL to the covered payroll was 9.1%.

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, 2014, actuarial valuation, the entry age normal cost was used. The actuarial assumptions included a 4.75% investment rate of return, which is the expected long-term investment return on plan assets, and an annual healthcare cost trend rate of 4.00%. The actuarial value of assets was \$0. The UAAL is to be amortized as a flat percentage of covered payroll over thirty years. The remaining amortization period at May 1, 2014 was thirty years. The amortization period closed for initial UAAL and open for remaining UAAL for thirty years.

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(12) Other Post-Employment Benefits (OPEB) (Continued)

The ARC was determined as part of the May 1, 2014 actuarial valuation using the following methods and assumptions:

Actuarial cost method	Entry age normal
Amortization method	Level-percentage of payroll
Average remaining period	29 years as of the valuation date
Discount rate	4.50%
Inflation rate	2.75%
Projected salary increases	2.75%
Healthcare cost trend rate	4.00%

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	(UAAL) (b-a)	Funded ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
5/01/11	\$0	\$253,077	\$253,077	0%	\$3,129,368	8.1%
5/01/14	0	284,931	284,931	0%	3,316,042	9.1%

(13) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and there have been no material settlements in excess of coverage in any of the past three fiscal years.

General Liability Insurance

Directors and 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.

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(13) **Risk Management (Continued)**

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 a \$2,500 deductible.

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 and property damage liability, personal injury, advertising injury liability, employee benefit liability coverage. Insurance coverage is for up to \$2,000,000 per claim, and a \$5,000,000 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 and Earthquake Insurance

Hospital All Risk Property Program (HARPP): The coverage of this insurance includes all risk of direct physical loss or damage excluding earthquake and flood, boiler and 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 and 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 and machinery, and \$10,000 for primary terrorism.

BEACH CITIES HEALTH DISTRICT

Notes to the Financial Statements

(Continued)

(14) **Related Party Transactions**

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 an 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 CHC. Until September 2015, the spouse of a District employee who directed the daily operations of the CHC was a partner of the contracted provider. The District employee who directed the CHC was also the employee that executed 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.

BEACH CITIES HEALTH DISTRICT

Schedule of the Plan's Proportionate Share of the Net Pension Liability and Related Ratios as of the Measurement Date

For the Fiscal Year Ended June, 30, 2016

(With comparative information for the last 10 years) *

	Measurement Date	
	6/30/2014	6/30/2015
Plan's proportion of the net pension liability (asset)	0.0291%	0.0566%
Plan's proportionate share of the net pension liability (asset)	\$ 1,806,648	\$ 1,552,792
Plan's covered employee payroll	\$ 3,443,030	\$ 3,666,056
Plan's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	52.4726%	42.3559%
Plan's proportionate share of the fiduciary net position as a percentage of the plan's proportionate share total pension liability	81.1494%	85.3476%
Plan's proportionate share of aggregate employer contributions	\$ 221,150	\$ 312,865

* The fiscal year ended June 30, 2015 was the first year of implementation, therefore information for the period previous to that measurement date is unavailable.

BEACH CITIES HEALTH DISTRICT

Schedule of Plan Contributions

For the Fiscal Year Ended June, 30, 2016

(With comparative information for the last 10 years) *

	Fiscal Year	
	2014-2015	2015-2016
Actuarially determined contribution	\$ 284,802	246,826
Contributions in relation to the actuarially determined contribution	<u>(284,802)</u>	<u>(246,826)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>
Covered employee payroll	\$ 3,443,030	3,666,056
Contributions as a percentage of covered employee payroll	8.27%	6.73%

* The fiscal year ended June 30, 2015 was the first year of implementation, therefore information for the period previous to that measurement date is unavailable.

BEACH CITIES HEALTH DISTRICT

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2016
(with comparative data for prior year)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	2015 Actual
REVENUES:					
Financing and rental income related to lease	\$ 3,673,535	3,673,535	4,244,939	571,404	4,479,867
Property taxes	3,091,224	3,091,224	3,145,703	54,479	2,960,181
Program income	2,397,952	2,397,952	2,572,774	174,822	2,376,262
Income from limited partnership	2,322,000	2,322,000	2,083,332	(238,668)	1,919,408
Investment earnings	931,990	931,990	1,301,865	369,875	917,677
Other revenue	59,379	59,379	24,991	(34,388)	32,343
Intergovernmental	-	-	50,964	50,964	77,837
TOTAL REVENUES	12,476,080	12,476,080	13,424,568	948,488	12,763,575
EXPENDITURES:					
Current:					
Salaries and related expenses	5,712,151	5,566,672	5,392,860	173,812	5,420,574
Health programs	1,358,040	1,358,040	1,269,788	88,252	1,345,957
Professional fees	1,220,272	1,326,228	1,349,459	(23,231)	1,274,264
Facilities management	1,633,245	1,605,530	1,627,570	(22,040)	1,457,267
Community relations	525,496	525,496	538,321	(12,825)	748,104
General and administrative	454,195	454,195	428,946	25,249	389,892
Human resources	252,349	252,349	255,180	(2,831)	281,259
Information services	140,484	140,484	157,465	(16,981)	118,294
Cost of goods sold	30,242	30,242	32,958	(2,716)	47,843
Other	55,000	55,000	59,445	(4,445)	58,475
Capital outlay	916,000	1,770,018	1,344,677	425,341	573,916
Debt service:					
Principal retirement	-	-	352,109	(352,109)	325,317
Interest and other fiscal charges	394,683	394,683	367,891	26,792	394,683
TOTAL EXPENDITURES	12,692,157	13,478,937	13,176,669	302,268	12,435,845
NET CHANGES IN FUND BALANCE	(216,077)	(1,002,857)	247,899	1,250,756	327,730
FUND BALANCE AT BEGINNING OF YEAR	38,957,779	38,957,779	38,957,779	-	38,630,049
FUND BALANCE AT END OF YEAR	\$ 38,741,702	37,954,922	39,205,678	1,250,756	38,957,779

BEACH CITIES HEALTH DISTRICT

Notes to Required Supplementary Information

For the Fiscal Year Ended June, 30, 2016

(1) Pension Information

Change in Benefit Terms: The figures in the preceding schedules do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014, as they have minimal cost impact. This applies for voluntary benefit changes, as well as any offers of two years additional service credit (a.k.a. Golden Handshakes).

Changes in Assumptions: GASB 68, paragraph 68 states that the long long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

(2) Budgetary Information

The Board of Directors of the Beach Cities Health District (District) adopts an annual budget for the General Fund, which provides for the operation of the District. It includes proposed annual expenditures and estimated annual revenues. The District does not adopt an annual budget for its Special Revenue Fund. The budget for the General Fund is adopted on a basis substantially consistent with accounting principles generally accepted in the United States of America.

The following are expenditures exceeded appropriations in the General Fund for the fiscal year ended June 30, 2016:

	Final	Expenditures	Expenditures in Excess of
	<u>Appropriation</u>	<u>Expenditures</u>	<u>Appropriation</u>
General Fund:			
Professional fees	\$ 1,326,228	1,349,459	23,231
Facilities management	1,605,530	1,627,570	22,040
Community relations	525,496	538,321	12,825
Human resources	252,349	255,180	2,831
Information services	140,484	157,465	16,981
Cost of goods sold	30,242	32,958	2,716
Other	55,000	59,445	4,445
Debt service:			
Principal retirement	-	352,109	352,109
Total expenditures	<u>\$ 3,935,329</u>	<u>4,372,507</u>	<u>437,178</u>

Statistical Section

**Beach Cities Health District
Net Position by Component
Current and Prior Ten Years**

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Government Activities											
Net Investment in Capital Assets	31,245,897	30,281,172	29,642,282	28,704,953	27,835,813	26,650,904	25,352,715	24,157,514	23,675,147	22,754,628	22,572,806
Restricted	-	-	-	-	-	-	-	-	1,206,766	1,206,761	1,206,761
Unrestricted	48,133,226	47,531,870	46,066,231	45,722,077	46,118,089	46,195,722	45,710,592	45,246,344	38,674,977	36,510,867	36,943,947
Total Government Activities	79,379,123	77,813,042	75,708,513	74,427,030	73,953,902	72,846,626	71,063,307	69,403,858	63,556,890	60,472,256	60,723,514
Business-type Activities											
Net Investment in Capital Assets	-	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-	-	-	-	-	-
Total Business-type Activities	-	-	-	-	-	-	-	-	-	-	-
Primary Government											
Net Investment in Capital Assets	31,245,897	30,281,172	29,642,282	28,704,953	27,835,813	26,650,904	25,352,715	24,157,514	23,675,147	22,754,628	22,572,806
Restricted	-	-	-	-	-	-	-	-	1,206,766	1,206,761	1,206,761
Unrestricted	48,133,226	47,531,870	46,066,231	45,722,077	46,118,089	46,195,722	45,710,592	45,246,344	38,674,977	36,510,867	36,943,947
Total Primary Government net position	79,379,123	77,813,042	75,708,513	74,427,030	73,953,902	72,846,626	71,063,307	69,403,858	63,556,890	60,472,256	60,723,514
Restatements (See Auditor Notes)	-	-	318,706	(19,870)	660,196	66,705	-	(5,418,317)	(2,087,632)	-	-
Total Primary Government net position - Restated	79,379,123	77,813,042	76,027,219	74,407,160	74,614,098	72,913,331	71,063,307	63,985,541	61,469,258	60,472,256	60,723,514

**Beach Cities Health District
Changes in Net Position
Current and Prior Ten Years**

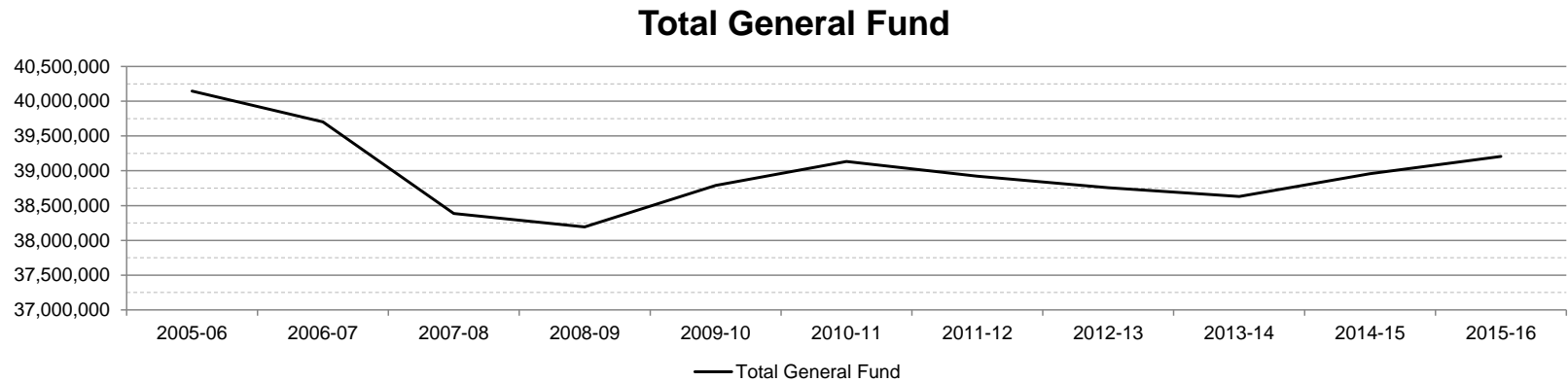
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Expenses											
Government Activities											
Salaries & related	4,512,766	4,630,632	4,879,115	5,231,198	5,095,077	5,102,909	5,038,939	5,167,681	5,493,593	5,420,574	5,079,187
Health Programs	1,785,264	1,888,980	1,771,475	1,603,432	1,466,357	1,413,255	1,321,735	1,484,011	1,309,116	1,345,957	1,269,788
Professional Fees	892,038	880,951	950,711	752,736	748,723	1,290,224	1,517,613	1,501,649	1,233,726	1,274,132	1,349,459
Facilities Management	1,189,215	822,444	503,298	354,479	528,665	592,614	458,825	333,023	558,702	1,457,267	1,627,570
Community Relations	362,085	419,665	493,778	406,189	322,529	259,174	197,270	321,082	538,505	748,104	538,321
G & A (including PTO and Pension Exp)	1,992,179	2,244,528	3,177,400	3,033,659	2,434,877	2,420,702	2,487,912	2,509,517	2,230,586	2,210,268	2,307,555
Human Resources	162,293	153,781	154,983	148,591	143,746	131,924	160,070	184,585	194,802	281,259	255,180
Information Systems	7,532	75,735	81,438	84,254	77,812	108,083	130,722	112,203	166,911	118,294	157,465
Cost of Goods Sold	278,276	272,531	306,452	257,085	148,077	147,862	124,192	137,891	117,052	47,843	32,958
Other	183,434	274,720	36,650	270,326	45,694	65,453	54,383	51,895	45,471	58,475	59,444
Debt Service:											
Interest & Other Fiscal charges	560,414	547,272	533,052	517,680	500,993	482,956	470,530	450,756	419,436	394,683	367,891
Total Government Activities Expenses	11,925,496	12,211,239	12,888,352	12,659,629	11,512,550	12,015,156	11,962,191	12,254,293	12,307,900	13,356,856	13,044,818
Business-type activities:											
Not Applicable	-	-	-	-	-	-	-	-	-	-	-
Total Primary Government Expenses	11,925,496	12,211,239	12,888,352	12,659,629	11,512,550	12,015,156	11,962,191	12,254,293	12,307,900	13,356,856	13,044,818
Program Revenues											
Government Activities											
Program Revenues	2,636,372	2,568,788	2,658,807	2,605,809	2,370,140	2,395,112	2,431,990	2,417,327	2,806,501	2,376,262	2,572,774
Total Government Activities Revenues	2,636,372	2,568,788	2,658,807	2,605,809	2,370,140	2,395,112	2,431,990	2,417,327	2,806,501	2,376,262	2,572,774
Business-type activities:											
Not Applicable	-	-	-	-	-	-	-	-	-	-	-
Total Primary Government Program Revenues	2,636,372	2,568,788	2,658,807	2,605,809	2,370,140	2,395,112	2,431,990	2,417,327	2,806,501	2,376,262	2,572,774
Net Revenue (Expenses)	(9,289,124)	(9,642,451)	(10,229,545)	(10,053,820)	(9,142,410)	(9,620,044)	(9,530,201)	(9,836,966)	(9,501,399)	(10,980,594)	(10,472,044)

**Beach Cities Health District
Changes in Net Position
Current and Prior Ten Years**

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
General Revenues And Other Changes in Net Position											
Government Activities											
Financing and Rental Income	2,150,073	1,522,469	2,075,747	2,123,750	2,196,821	2,074,595	2,041,241	2,591,094	2,657,864	4,076,146	4,116,447
Property Taxes	1,961,538	2,101,460	2,310,323	2,431,068	2,442,334	2,465,284	2,499,090	2,734,979	2,874,045	2,960,181	3,145,703
Income from Limited Partnerships	1,255,494	1,633,834	1,023,918	1,223,811	1,204,270	1,136,200	1,151,587	1,574,326	2,134,248	1,919,408	2,083,332
Earnings on Investment	1,419,276	2,754,320	2,544,024	2,400,700	2,651,449	2,032,734	1,854,308	1,037,688	1,235,885	917,677	1,301,865
Other Income	182,666	188,583	171,004	274,302	194,278	143,759	133,951	239,430	170,706	110,180	75,955
Sale of Property	398,332	-	-	-	-	-	-	-	-	-	-
Total Government Activities Revenues	7,367,379	8,200,666	8,125,016	8,453,631	8,689,152	7,852,572	7,680,177	8,177,517	9,072,748	9,983,592	10,723,302
Business-type activities:											
Not Applicable	-	-	-	-	-	-	-	-	-	-	-
Total Primary Government General Revenues	7,367,379	8,200,666	8,125,016	8,453,631	8,689,152	7,852,572	7,680,177	8,177,517	9,072,748	9,983,592	10,723,302
Changes in Net Position											
Government Activities	(1,921,745)	(1,441,785)	(2,104,529)	(1,600,189)	(453,258)	(1,767,472)	(1,850,024)	(1,659,449)	(428,651)	(997,002)	251,258
Business-type activities:	-	-	-	-	-	-	-	-	-	-	-
Total Primary Government	(1,921,745)	(1,441,785)	(2,104,529)	(1,600,189)	(453,258)	(1,767,472)	(1,850,024)	(1,659,449)	(428,651)	(997,002)	251,258

**Beach Cities Health District
Governmental Fund Balances
Current and Prior Ten Years**

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11*	2011-12	2012-13	2013-14	2014-15	2015-16
General Fund											
Reserved	7,369,382	7,167,234	8,426,855	12,821,687	13,291,295	-	-	-	-	-	-
Unreserved	32,776,598	32,534,180	29,957,744	25,371,285	25,499,203	-	-	-	-	-	-
Nondisposable	-	-	-	-	-	13,568,770	15,364,615	13,984,428	13,657,807	13,362,216	13,096,740
Assigned	-	-	-	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	25,564,580	23,558,417	24,770,884	24,972,242	25,595,563	26,108,938
Total General Fund	40,145,980	39,701,414	38,384,599	38,192,972	38,790,498	39,133,350	38,923,032	38,755,312	38,630,049	38,957,779	39,205,678
All Other Governmental Funds											
Reserved	-	-	-	-	-	-	-	-	-	-	-
Unreserved, reported in: Special Revenue Funds	1,016,621	1,032,559	1,070,683	1,120,476	1,154,167	1,175,939	1,191,355	1,206,766	1,206,766	1,206,761	1,206,761
Total All Other Governmental Funds	1,016,621	1,032,559	1,070,683	1,120,476	1,154,167	1,175,939	1,191,355	1,206,766	1,206,766	1,206,761	1,206,761



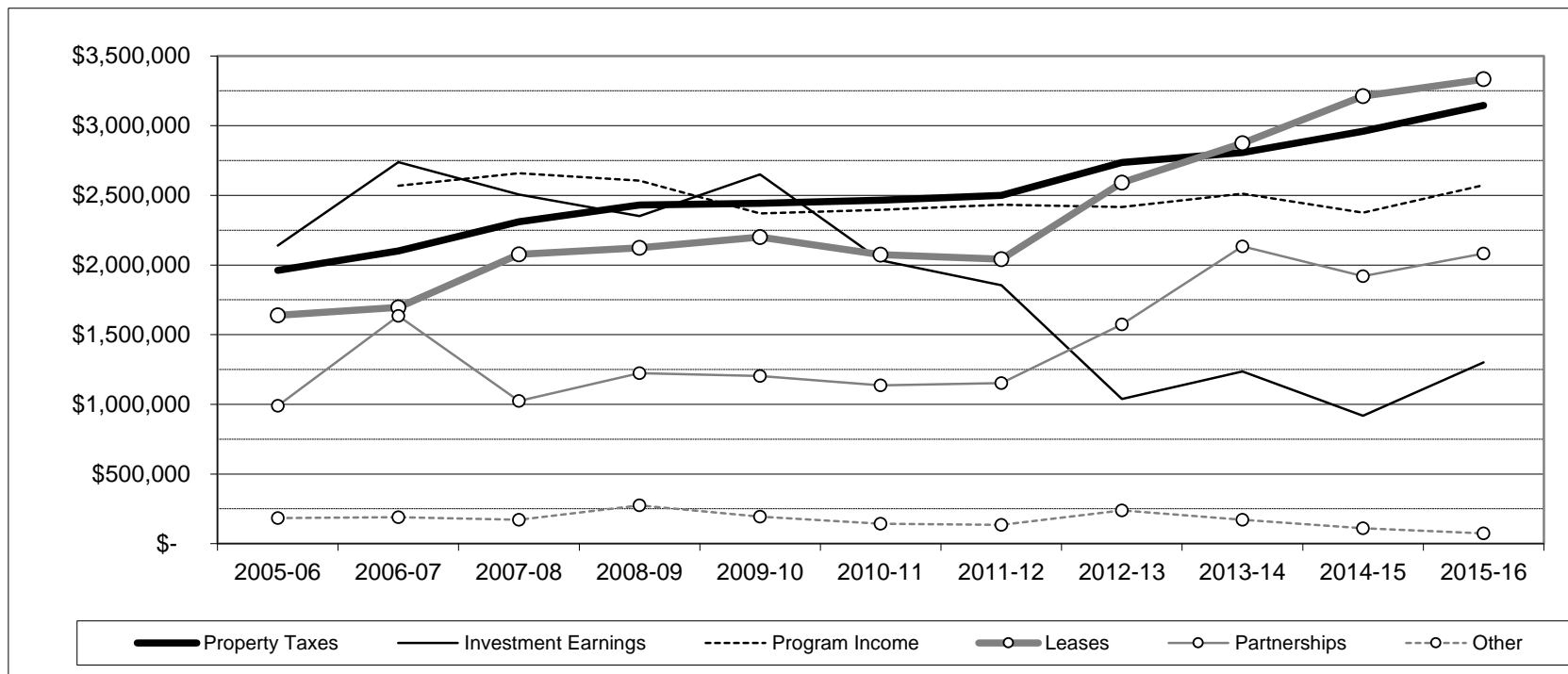
* Categories of Fund Balance were revised in compliance with GASB 54 beginning in Fiscal Year 2010-11

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

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Revenues											
Financing and Rental Income	2,297,516	1,695,197	2,075,747	2,123,750	2,196,821	2,074,595	2,041,241	2,591,094	2,874,045	4,479,867	4,244,939
Property Taxes	1,961,538	2,101,460	2,310,323	2,431,068	2,442,334	2,465,284	2,499,090	2,734,979	2,806,501	2,960,181	3,145,703
Program Income	2,697,659	2,568,788	2,658,807	2,605,809	2,370,140	2,395,112	2,431,990	2,417,327	2,512,897	2,376,262	2,572,774
Income from Limited Partnership	1,255,494	1,633,834	1,023,918	1,223,811	1,204,270	1,136,200	1,151,587	1,574,326	2,134,248	1,919,408	2,083,332
Investment Earnings	1,419,050	2,754,320	2,544,024	2,400,700	2,651,449	2,032,734	1,854,308	1,037,688	1,235,885	917,677	1,301,865
Other Revenue	580,998	188,583	171,004	274,302	194,278	143,759	133,951	239,430	170,706	110,180	73,550
Total Revenues	10,212,255	10,942,182	10,783,823	11,059,440	11,059,292	10,247,684	10,112,167	10,594,844	11,734,282	12,763,575	13,422,163
Expenditures											
Current:											
Salaries & related	4,512,766	4,630,632	4,879,115	5,231,198	5,062,404	5,069,437	5,005,276	5,133,437	5,464,969	5,420,574	5,392,860
Health Programs	1,785,264	1,888,980	1,771,475	1,603,432	1,466,357	1,413,255	1,321,735	1,501,649	1,309,116	1,345,957	1,269,788
Professional Fees	892,038	880,951	950,711	752,736	748,723	1,290,224	1,517,613	1,484,011	1,233,726	1,274,264	1,349,459
Facilities Management	1,189,215	822,444	503,298	354,479	548,141	592,614	458,825	333,023	558,702	1,457,267	1,627,570
Community Relations	362,085	419,665	493,778	406,189	322,529	259,174	197,270	321,082	538,505	748,104	538,321
General & Administrative	292,272	348,703	368,307	910,229	378,696	357,410	393,737	465,278	483,255	389,892	426,541
Human Resources	162,293	153,781	154,983	148,591	143,746	131,924	160,070	184,585	194,802	281,259	255,180
Information Systems	7,532	75,735	81,438	84,254	77,812	108,083	130,722	112,203	166,911	118,294	157,465
Cost of Goods Sold	278,276	272,531	306,452	257,085	148,077	147,862	124,192	137,891	117,052	47,843	32,958
Other	63,983	45,700	36,650	270,326	45,694	65,453	54,383	51,895	45,471	58,475	59,445
Capital Outlay	368,302	987,392	1,796,307	781,461	768,895	404,297	371,137	278,386	964,399	573,916	1,344,677
Debt Service:											
Principal Retirement	159,586	172,728	186,948	202,320	219,008	237,043	266,715	292,957	300,564	325,317	352,109
Interest & Other Fiscal charges	560,414	547,272	533,052	517,680	500,993	482,956	470,530	450,756	419,436	394,683	367,891
Total Expenditures	10,634,026	11,246,514	12,062,514	11,519,980	10,431,075	10,559,732	10,472,205	10,747,153	11,796,908	12,435,845	13,174,264
Excess (deficiency) of Revenues over (under) Expenditures	(421,771)	(304,332)	(1,278,691)	(460,540)	628,217	(312,048)	(360,038)	(152,309)	(62,626)	327,730	247,899
Other Financing Sources											
Proceeds from Capital Lease	-	-	-	-	-	-	98,431	-	-	-	-
Net Change in Fund Balances	(421,771)	(304,332)	(1,278,691)	(460,540)	628,217	(312,048)	(261,607)	(152,309)	(62,626)	327,730	247,899
	720,000	720,000	720,000	720,000	720,001	719,999	737,245	743,713	720,000	720,000	720,000
	9,545,724	9,539,122	9,546,207	10,018,519	8,942,179	9,435,436	9,363,823	9,725,054	10,112,509	11,141,929	11,109,587
Debt Service as a percentage of noncapital expenditures	7.54%	7.55%	7.54%	7.19%	8.05%	7.63%	7.87%	7.65%	7.12%	6.46%	6.48%

**Beach Cities Health District
Government-wide Revenues by Function
Current and Prior Ten Years**

Fiscal Year	Property Taxes	Investment Earnings	Program Income	Leases	Partnerships	Other	Sale of Property	Total
2005-06	1,961,538	2,139,050		1,638,803	989,444	182,666	398,332	7,309,833
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
2012-13	2,734,979	1,037,688	2,417,327	2,591,094	1,574,326	239,430	-	10,594,844
2013-14	2,806,501	1,235,885	2,512,897	2,874,045	2,134,248	170,706	-	11,734,282
2014-15	2,960,181	917,677	2,376,262	3,212,405	1,919,408	110,180	-	11,496,113
2015-16	3,145,703	1,301,865	2,572,774	3,333,387	2,083,332	73,550	-	12,510,611

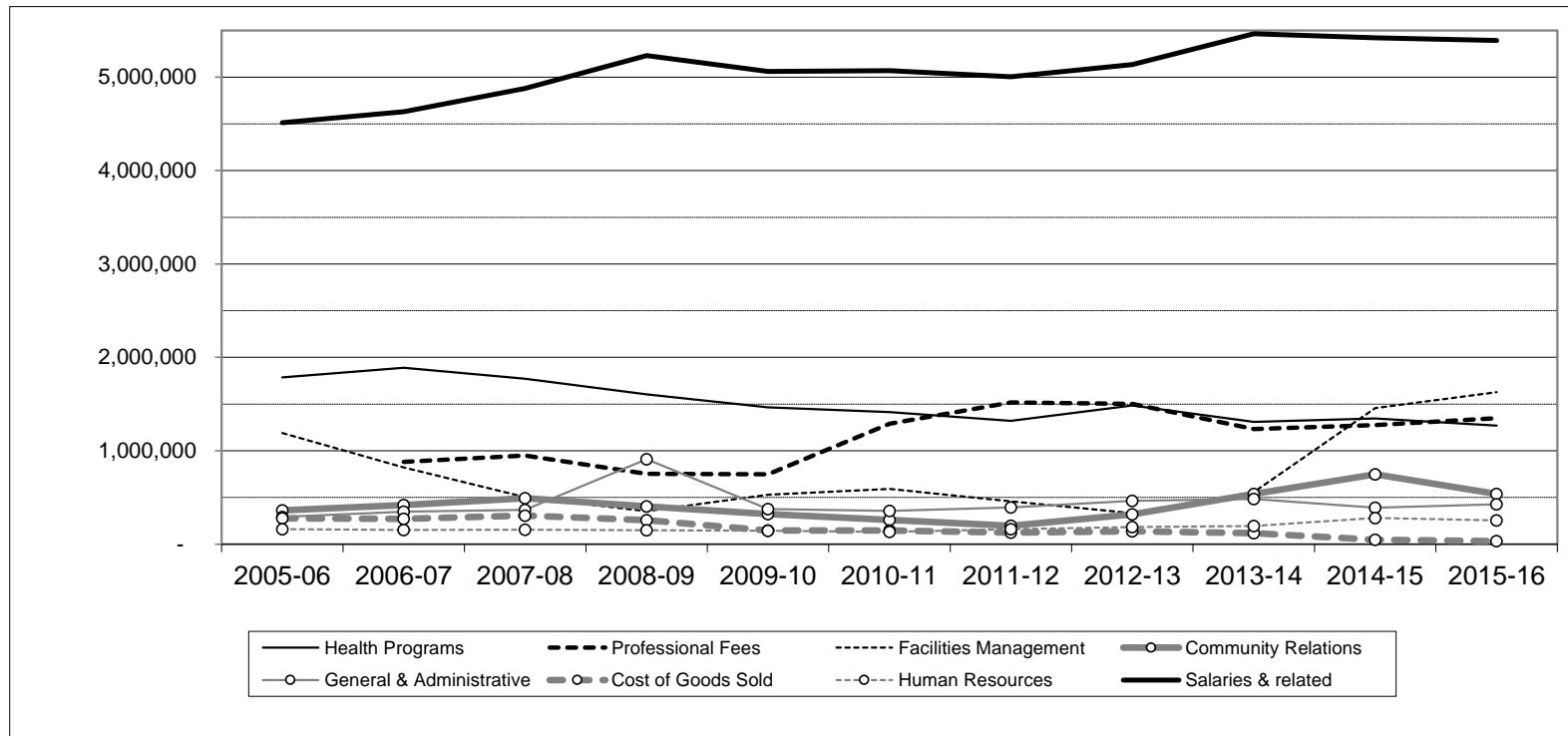


Source: Audited Financial Statements

Beach Cities Health District
Government-wide Expenses by Function
Current and Prior Ten Years

General Fund

Fiscal Year	Salaries & related	Health Programs	Professional Fees	Community Relations	Facilities Management	General & Administrative	Human Resources	Information Systems	Cost of Goods Sold	Other	Total
2005-06	4,512,766	1,785,264		362,085	1,189,215	292,272	162,293	7,532	278,276	63,963	8,653,666
2006-07	4,630,632	1,888,980	880,951	419,665	822,444	348,703	153,781	75,735	272,531	45,700	9,539,122
2007-08	4,879,115	1,771,475	950,711	493,778	503,298	368,307	154,983	81,438	306,452	36,650	9,546,207
2008-09	5,231,198	1,603,432	752,736	406,189	354,479	910,099	148,591	84,254	257,085	270,326	10,018,389
2009-10	5,062,404	1,466,357	748,723	322,529	528,665	376,940	143,746	77,812	148,077	45,694	8,920,947
2010-11	5,069,437	1,413,255	1,290,224	259,174	592,304	357,410	131,924	108,083	147,862	65,453	9,435,126
2011-12	5,005,276	1,321,735	1,517,613	197,270	458,785	393,737	160,070	130,722	124,192	54,383	9,363,783
2012-13	5,133,437	1,484,011	1,501,649	321,082	333,013	465,278	184,585	112,203	137,891	51,895	9,725,044
2013-14	5,464,969	1,309,116	1,233,726	538,505	558,702	483,255	194,802	166,911	117,052	45,471	10,112,509
2014-15	5,420,574	1,345,957	1,274,264	748,104	1,457,267	389,892	281,259	118,294	47,843	58,475	11,141,929
2015-16	5,392,860	1,269,788	1,349,459	538,321	1,627,570	426,541	255,180	157,465	32,958	59,445	11,109,587

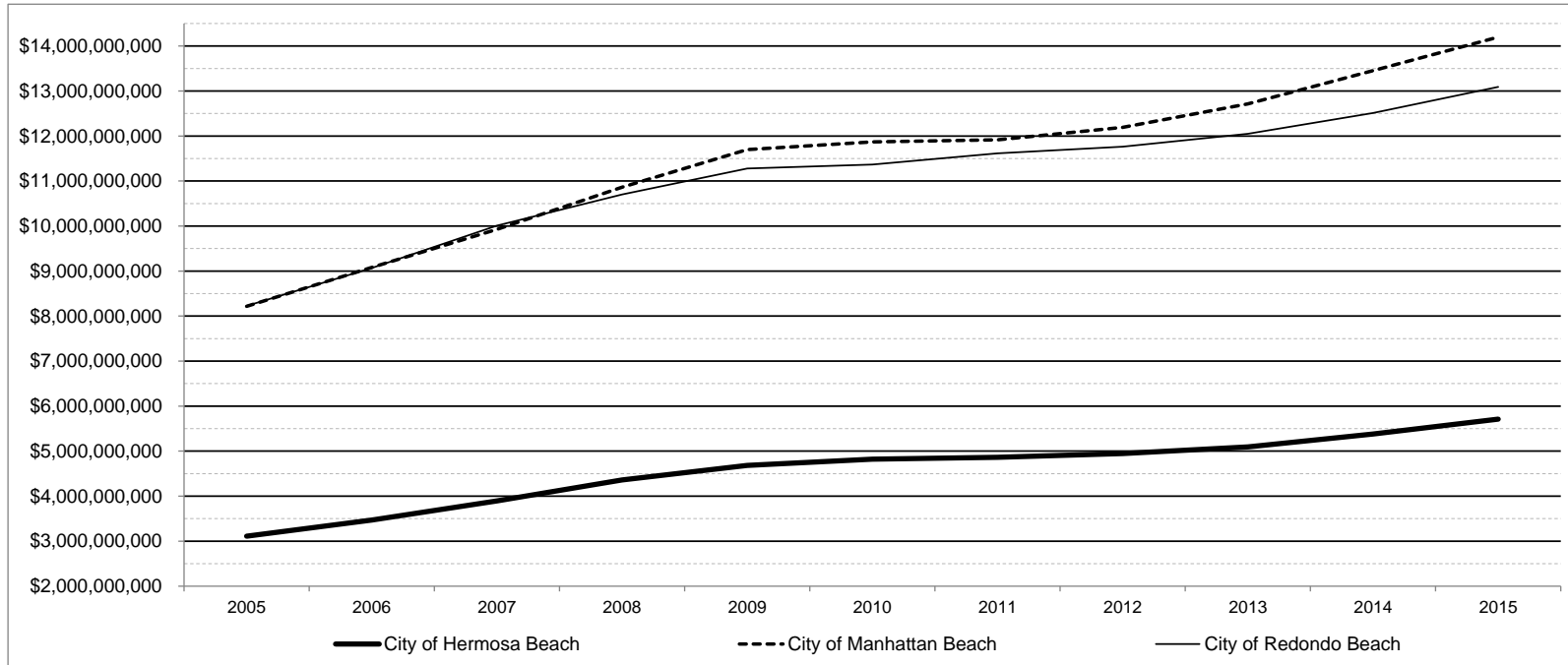


Source: Internal Reports @ June 30, xxxx

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

Total Taxable Assessed Value

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
City of Hermosa Beach	3,110,712,000	3,468,562,000	3,894,900,000	4,358,357,000	4,681,750,000	4,823,728,000	4,862,224,000	4,944,941,000	5,093,190,000	5,379,750,000	5,711,045,000
City of Manhattan Beach	8,216,800,523	9,080,889,082	9,925,464,834	10,861,350,753	11,697,899,600	11,871,677,111	11,913,602,319	12,190,853,653	12,713,329,765	13,453,303,900	14,196,903,333
City of Redondo Beach	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	12,050,139,612	12,512,913,143	13,091,580,729
Total	19,553,651,591	21,619,020,710	23,829,813,562	25,922,361,120	27,657,406,086	28,061,643,271	28,391,262,417	28,896,900,282	29,856,659,377	31,345,967,043	32,999,529,062
Percentage Increase	7.39%	10.56%	10.23%	8.78%	6.69%	1.46%	1.17%	1.78%	3.32%	4.99%	5.28%



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

* 2014-15 Data not yet available for Manhattan Beach thus amount shown is an estimation.

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 represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
City of Hermosa Beach Residents - Total	1.044433%	1.039043%	1.038240%	1.060830%	1.038106%	1.037724%	1.036418%	1.037907%	1.037488%	1.040540%	1.038968%	1.035651%
City of Hermosa Beach *	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Overlapping - Hermosa Beach Residents												
Los Angeles County *	0.000992	0.000923	0.000800	0.000660	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Hermosa Beach Unified School District	0.019308	0.016685	0.014660	0.020430	0.017139	0.016398	0.017250	0.018067	0.016904	0.018550	0.017970	0.014729
El Camino community College District	0.019025	0.016558	0.018380	0.035700	0.016467	0.017026	0.014868	0.016140	0.016884	0.018490	0.017498	0.017422
Metro Water District	0.006100	0.005800	0.005200	0.004700	0.004500	0.004300	0.004300	0.003700	0.003700	0.003500	0.003500	0.003500
City of Redondo Beach Residents - Total	1.0353%	1.0512%	1.0578%	1.0708%	1.0494%	1.0685%	1.0744%	1.0896%	1.1067%	1.1036%	1.1134%	1.1178%
City of Redondo Beach *	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
City of Redondo direct rate	0.1662%	0.1662%	0.1823%	0.2117%	0.1872%	0.1861%	0.1877%	0.1882%	0.1858%	0.1875%	0.1578%	0.1623%
Redevelopment Agency	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 *	0.000990	0.000920	0.000800	0.000660	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Flood Control	0.000470	0.000240	0.000050	0.000050	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Metropolitan Water District	0.006100	0.005800	0.005200	0.004700	0.004500	0.004300	0.004300	0.003700	0.003700	0.003500	0.003500	0.003500
El Camino Community College District	0.019030	0.016560	0.018380	0.035700	0.016470	0.017030	0.014870	0.016140	0.016880	0.018490	0.017500	0.017420
Redondo Beach Unified School District	0.008660	0.027650	0.033360	0.029700	0.028440	0.047140	0.055190	0.069770	0.086100	0.081620	0.092420	0.096890
City of Manhattan Beach Residents - Total	1.06647%	1.06282%	1.06239%	1.07961%	1.05800%	1.12188%	1.11576%	1.14884%	1.11970%	1.15891%	1.16402%	1.09278%
City of Manhattan Beach *	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
City of Manhattan Beach Direct Rate	0.1663%	0.1666%	0.1671%	0.1673%	0.1676%	0.1586%	0.1584%	0.1562%	0.1593%	0.1595%	0.1601%	0.1606%
Overlapping - Manhattan Beach Residents												
Los Angeles County *	0.000990	0.000920	0.000800	0.000660	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Colleges & School Districts	0.059380	0.056100	0.056390	0.074250	0.053500	0.117580	0.111460	0.145140	0.116000	0.155410	0.1605200	0.0892800
Metro Water District	0.006100	0.005800	0.005200	0.004700	0.004500	0.004300	0.004300	0.003700	0.003700	0.003500	0.0035000	0.0035000
Flood Control District	0.000470	0.000240	0.000050	0.000050	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.0000000	0.0000000

* Property Tax Assessment for Beach Cities Health District is included in Los Angeles County Property Tax since 2008 rolled into the 1% General Levy

** 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)
2004	122,699	6,070,165	49,472	3.43%
2005	122,937	6,310,028	51,327	3.03%
2006	122,700	6,703,755	54,635	2.63%
2007	122,639	7,008,287	57,146	2.80%
2008	122,884	7,285,096	59,284	4.03%
2009	123,720	6,368,528	51,475	6.53%
2010	123,120	6,519,286	52,951	7.17%
2011	121,719	6,681,115	54,890	7.27%
2012	122,004	6,812,093	55,835	6.43%
2013	122,668	7,024,011	57,260	5.57%
2014	123,100	7,234,833	58,772	5.23%
2015	87,867	**	**	**

* 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
2015

Employer	Employees	Percentage of
1 Northrop Grumman	6,633	14.31%
2 Redondo Beach Unified School District	710	1.53%
3 Skechers USA, Inc.	692	1.49%
4 Target Corporation	622	1.34%
5 Kinecta Federal Credit Union	550	1.19%
6 Macy's West	467	1.01%
7 City of Redondo	431	0.93%
8 Crown Plaza Hotel	339	0.73%
9 24 hour fitness	288	0.62%
10 City of Manhattan Beach	268	0.58%
11 Cheesecake Factory	261	0.56%
12 United States Postal Service	260	0.56%
13 Fry's Electronics	258	0.56%
14 Nordstrom, Inc.	251	0.54%
15 Marriott-HMC	233	0.50%
16 DHL	209	0.45%
17 Ralph's Grocery	167	0.36%
18 Tecolote Research	129	0.28%
19 City of Hermosa	129	0.28%
20 Bristol Farms	117	0.25%
All Others	33,352	71.93%
Total	46,366	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

FTE Personnel Summary by Department

Department	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Executive/Admin Support	4.0	4.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	3.6
Human Resources	2.0	2.0	5.0	5.0	5.0	5.0	5.0	4.0	4.0	3.0
Finance:										
Information Systems	1.0	1.0	-	-	-	-	-	-	-	0.2
Finance/Accounting/Payroll	4.0	4.0	4.0	4.0	4.0	4.0	4.0	5.0	4.0	4.5
Property Management	3.0	4.0	3.0	3.6	3.6	3.0	3.0	3.0	3.0	1.9
BCHD Café	3.0	4.0	-	-	-	-	-	-	-	-
Total	11.0	13.0	7.0	7.6	7.6	7.0	7.0	8.0	7.0	6.6
Communications	2.0	3.0	2.8	3.0	3.0	3.0	3.0	5.0	5.0	5.6
Youth Services:										
Adventureplex	22.0	20.0	22.0	22.1	22.1	22.1	21.0	21.0	20.0	19.7
Other Youth Services	4.0	5.0	6.0	6.3	6.3	6.3	8.0	7.0	5.0	5.1
Total	26.0	25.0	28.0	28.3	28.3	28.3	29.0	28.0	25.0	24.8
Adult Services:										
Center for Health & Fitness	19.0	19.0	18.0	17.3	17.3	17.3	18.0	19.0	19.0	16.7
Blue Zones Project	-	-	-	1.0	1.0	1.0	2.0	5.0	5.0	5.0
Other Adult Services	4.3	5.0	7.0	5.0	5.0	5.0	3.0	-	1.0	2.0
Total	23.3	24.0	25.0	23.3	23.3	23.3	23.0	24.0	25.0	23.7
Older Adult Services:										
Care Management	8.0	8.0	8.0	8.5	8.5	8.5	8.5	12.0	12.0	11.5
Total	8.0	8.0	8.0	8.5	8.5	8.5	8.5	12.0	12.0	11.5
Total Positions	76.3	79.2	77.8	77.7	77.7	77.1	77.5	83.0	80.0	78.8

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