

SEQUOIA HEALTHCARE DISTRICT

Financial Statements

June 30, 2005

SEQUOIA HEALTHCARE DISTRICT

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Sequoia Healthcare District
Redwood City, California

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of Sequoia Healthcare District (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *State Controllers Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position the governmental activities, the business-type activities, and each major fund of Sequoia Healthcare District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The required supplementary information such as the management's discussion and analysis on pages 2 through 9, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Vavrinek, Trine, Day & Co., LLP
Palo Alto, California

November 9, 2005

SEQUOIA HEALTHCARE DISTRICT
Management's Discussion and Analysis
June 30, 2005

INTRODUCTION

This report presents Management's analysis of Sequoia Healthcare District's (the "District") financial condition and activities as of and for the year ending June 30, 2005. Management's Discussion and Analysis ("MDA") is intended to serve as an introduction to the District's basic financial statements. This document has been prepared based on reporting requirements included in Statement No. 34 of the Governmental Accounting Standards Board (GASB). GASB 34 has made changes to the contents and the format of the financial statements of governmental agencies, which include the Government-wide Financial Statements on a full accrual basis including the cost of the capital assets and related depreciation.

This information should be read in conjunction with the District's audited financial statements.

The information in the MDA includes the following elements:

- Organization and Business
- Overview of Basic Financial Statements
- Financial Analysis
- Capital Assets
- Economic Factors and Future Plans
- Request for Information

ORGANIZATION AND BUSINESS

Sequoia Healthcare District is a governmental entity legally constituted as a special district under California law, and is located in Redwood City, California. The District's mission as adopted by the board is to improve the quality of life for District residents by providing oversight and support to Sequoia Hospital and by supporting and encouraging programs and activities designed to achieve health, wellness and disease prevention for residents of the District. In accordance with the Strategic Plan ratified by the Board on February 19, 2003, the District's strategic vision is to be the catalyst that stimulates sustainable efforts to assure access to health and health care for District residents today and for years to come.

The District transferred specific assets, including operations, to Sequoia Health Services ("SHS") on September 30, 1996. SHS is a California nonprofit benefit corporation, whose members are the District and Catholic Healthcare West (CHW). The specific assets transferred include all of the Hospital's assets including property, plant and equipment, except for two medical office buildings, certain other properties and \$10 million in cash, cash equivalents and other assets due to applicable law. The Basic Financial Statements addressed in this MDA do not relate to the principle hospital operations or any other transferred assets to SHS.

Effective April 19, 2005, the District adopted policies and procedures pursuant to Section 32104 of the California Health and Safety Code. The purpose of these policies and procedures is to

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provide the Board of Directors the time and place of holding its regular meetings and the manner of calling the same, and establish rules for its proceedings and possibly adopt such rules and regulations not inconsistent with law as may be necessary for the exercise of the powers conferred and the performance of the duties imposed on the board.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District's basic financial statements comprise the Government-Wide Statement of Net Assets and Statement of Activities; the Governmental Fund Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance; and the Proprietary Fund Statement of Net Assets, Statement of Revenues, Expenses and Changes in Fund Net Assets, and Statement of Cash Flows; and the Notes to the Financial Statements.

Government-Wide Financial Statements

Government-Wide Financial Statements utilize the economic resources measurement focus using the full accrual basis of accounting similar to commercial enterprises. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

For the current year the only difference between the Government-Wide Financial Statements and the Fund Financial Statements is the classifications within the fund balances. Under GASB 34 board designated reserves of fund balances are considered unrestricted. The Fund Financial Statements reduce the unrestricted portion of the fund balance by the amounts designated for specific purposes by the District. Therefore, the following discussion and analysis will generally be equally applicable to the Government-Wide and Fund Financial Statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses Government and Proprietary fund accounting to ensure and demonstrate compliance with financial-related legal requirements. As indicated above, the Governmental Fund is used to account for the District's basic services and the Proprietary Fund is used to account for the District's leasing activity.

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

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The District's financial statements include:

Balance Sheet

The Governmental Fund Balance Sheet presents information on the District's assets and liabilities, with the difference between the two reported as fund balance. Over time, increases or decreases in fund balance may serve as a useful indicator of the financial health of the District. To assess the overall health of the District, achievement of the District's mission needs to be considered as well.

The Governmental Fund Balance Sheet provides detail of assets and liabilities and describes the components of the \$61.7 million fund balance. The fund balance includes \$38.9 million that is board designated for preservation of corpus and \$5.9 million that is board designated for the depreciation fund. The remaining \$16.9 million is unreserved or undesignated for a total fund balance of \$61.7 million.

Statement of Revenues, Expenses, and Changes in Fund Balance

While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the Statement of Revenues, Expenditures, and Changes in Fund Balance presents the results of the District's operations over the course of the fiscal year and information as to how the fund balance changed over the year. This can be used as an indicator of the extent to which the District has successfully recovered its costs through user fees (rental income) or other funds received (tax revenues). All changes in fund balance are reported during the period on the modified accrual method of accounting which had no significant differences from full accrual accounting, in which the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Statement of Cash Flows

The Proprietary Fund Statement of Cash Flows presents changes in cash and cash equivalents resulting from operational, capital, non-capital, and investing activities. This statement summarizes the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or receipt and excludes non-cash accounting measures of depreciation or amortization of assets.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to basic financial statements can be found following the financial statements in the audited financial statements.

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Management's Discussion and Analysis
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Other Information

In addition to the basic financial statements and accompanying notes, this report may present certain required supplementary information comparing budget to actual results of operations. The District is not required to adopt an annual budget and during fiscal 2005, a budget was not implemented. However, starting fiscal 2006, the District has approved and adopted a budget.

FINANCIAL ANALYSIS

Financial Highlights

- The government-wide total assets of the District exceed the total liabilities by \$69.4 million (net assets) (Table 1).
- Net Assets increased by \$4.7 million or 7.2 percent during the fiscal year (Table 2).
- Capital asset purchases during the year were \$3,404. The Proprietary Fund generated lease revenues exceeding the costs, including depreciation, of \$539 thousand. Current year depreciation was \$809 thousand. Therefore, the net Capital Assets decreased by \$806 thousand or 9.4 percent.
- During the year, overall revenues on the Statement of Activities increased by \$3.8 million or 42.4 percent to \$12.7 million. The significant variances were an increase in investment income of \$2.5 million due to market performance along with an increase of \$1.1 million for pension income (Table 2).

Total expenses on the Statement of Activities remained relatively stable with a small decrease of only \$36 thousand or 0.4 percent to \$8.1 million. The small variance primarily represents a net change with an increase of \$1.1 million in pension expense, which was offset by pension income, and a decrease of grant expense of \$1.2 million due primarily to the timing of funding the Children's Health Initiative (Table 2).

Financial Position

During the year, the District's net assets increased by \$4.7 million or 7.2 percent.

The fund balance of the general fund includes a board designated depreciation amount of \$5.9 million and a board designated \$38.9 million for preservation of corpus. The net assets include \$7.7 million for investment in capital assets and \$16.9 million in unrestricted funds.

The general fund unreserved/undesignated fund balance increased \$3.5 million from \$13.4 million to \$16.9 million.

Table 1 and 2 provide summarized Government-Wide comparative information reported by Fund statement classifications. The functional expenses are detailed on the Statement of Activities and consist of grants to the Sequoia Hospital and Community non-profit organizations and General Administration expenses.

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Net Assets

Table 1
Comparative Statement of Net Assets
June 30, 2005 and 2004
(in thousands)

	<u>2005</u>	<u>2004</u>	<u>Variance</u>	<u>%</u>
Current and other assets	\$ 62,336	\$ 56,896	\$ 5,440	9.6%
Capital assets, net	7,747	8,553	(806)	-9.4%
Total assets	<u>70,083</u>	<u>65,449</u>	<u>4,634</u>	<u>7.1%</u>
Current liabilities	34	54	(20)	-37.0%
Long-term liabilities	645	645	-	0.0%
Total liabilities	<u>679</u>	<u>699</u>	<u>(20)</u>	<u>-2.9%</u>
Net Assets:				
Depreciation fund	5,924	5,115	809	15.8%
Restricted	38,858	37,726	1,132	3.0%
Investment in capital assets	7,748	8,553	(805)	-9.4%
Unrestricted	16,874	13,356	3,518	26.3%
Total net assets	<u>\$ 69,404</u>	<u>\$ 64,750</u>	<u>\$ 4,654</u>	<u>7.2%</u>
Gov'tl Fund Balance	61,656	56,197	5,459	9.7%

Results of Operations

The following table shows changes in the District's net assets for the year. The net asset classifications are on the fund basis showing the Board Designations.

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Table 2
Comparative Statement of Activities
June 30, 2005 and 2004
(in thousands)

	<u>2005</u>	<u>2004</u>	<u>Variance</u>	<u>%</u>
Revenues and Support				
Rental	\$ 1,709	\$ 1,661	\$ 48	2.9%
Tax	5,583	5,578	5	0.1%
Investment	2,209	(312)	2,521	-808.0%
Interest	200	109	91	83.5%
Pension	3,026	1,900	1,126	59.3%
Total Revenues	<u>12,727</u>	<u>8,936</u>	<u>3,791</u>	<u>42.4%</u>
Expenses				
Administrative	770	693	77	11.1%
Pension	3,026	1,900	1,126	59.3%
Property	1,169	1,247	(78)	-6.3%
Grant	3,108	4,269	(1,161)	-27.2%
Total Expenses	<u>8,073</u>	<u>8,109</u>	<u>(36)</u>	<u>-0.4%</u>
Net Income	4,654	827	3,827	462.8%
Net assets, Beg of Yr	64,750	63,923	827	1.3%
Net assets, End of Yr	<u>\$ 69,404</u>	<u>\$ 64,750</u>	<u>\$ 4,654</u>	<u>7.2%</u>

The District's total revenues and support of \$12.7 million for the year increased by \$3.8 million and total expenses remained relatively stable with a decrease of \$36 thousand, resulting in a 462.8 percent increase in net income.

The District's revenues and support are generated from three main categories: Rental income of the two medical office buildings, tax income (the District is apportioned a fraction of the 1 percent property Ad Valorem tax collected by the County of San Mateo) and interest earned from investments. Revenues also include Pension income of \$3.0 million, which is reimbursement from Sequoia Health Services (SHS) for funding of the Sequoia Healthcare District Employee Pension Plan. Note that an expense offset for the same amount is included on the expenses. Therefore, pension activity has no bottom line impact.

The increase in operational expenses is due to activity in each of the following expense categories:

- **Administrative:** The significant variance between years is \$1.1 million of pension expense made to the District Pension Plan. Based on the advice of its enrolled actuary, the Pension Plan Committee determined that the Plan should be funded in the amount of \$3.026 million for fiscal year 2005. Thus, this additional expense is consistent with Management's expectations.

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- Property: Property expenses remained relatively constant between years.
- Grant: Grants comprised 38.5% of the District's expenses for the year. The District supports various health care programs in the local community. Of all the grants, five represent the majority of the expense. They include:
 1. Children's Health Initiative (CHI) (\$675,000). San Mateo County created CHI for the provision of health insurance for indigent and needy children throughout the county. The funds provided by the Sequoia Healthcare District as a partner in this program are earmarked for District residents enrolled in the Children's Health Initiative insurance plan.
 2. Samaritan House (\$486,000). The purpose of this grant is to financially support Samaritan House Medical Clinic in Redwood City to provide clinical services for the medically underserved.
 3. Baccalaureate Nursing Program (\$825,000). The Nursing program is a ten-year grant program, in which the District will pay \$25,000 per student up to 40 students per year who attends the Bachelor of Science in Nursing Degree (BSN) program at Cañada College to offset the program's administrative costs in an effort to increase the number of nurses in this area since there is a nursing shortage in the healthcare industry.
 4. Sequoia Hospital Foundation (\$1.0 million). This contribution is a matching grant that supports capital expenditures as part of the District's mission in supporting Sequoia Hospital to ensure the highest quality of care is maintained.
 5. Redwood City School District (\$96,667). The purpose of this grant is to support the School Nursing Program in the School District for the three school years starting 2004 through 2007.

CAPITAL ASSETS

During fiscal 2005, capital asset additions were \$3,404 relating to Building costs. Additional information is included in Note 4.

ECONOMIC FACTORS AND FUTURE PLANS

It is a primary goal of the District to use its cash to expand healthcare services to the community. For that reason, all the grants in effect in fiscal 2004 have continued in fiscal 2005. One example of this goal is that in Fiscal 2004, the District founded and approved funding for the Sequoia Hospital/SFSU Bachelor of Science in Nursing Satellite Program at Cañada College, designed to create 300-400 new registered nurses over the next ten years.

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Based on the June 23, 2004 Resolution, the District, through membership of Sequoia Health Services, has resolved to help fund new construction of Sequoia Hospital ("Hospital Project") in the amount of \$25 million. As described in the Resolution, the Hospital Project is necessary based on needs to modernize the facility and comply with state laws regarding seismic upgrade standards. Based on an anticipated \$130 million cost to replace Sequoia Hospital, the District agreed to provide assistance in the form of a \$25 million grant ("District Project Funding"). It is expected that the District will pay 15 percent upon ground breaking, 25 percent upon completion of 40 percent of the construction, 25 percent upon completion of 65 percent of the construction, 25 percent upon receipt of certificate of substantial completion, and the balance (10 percent) upon receipt of all state and local approvals.

In addition, the District continues to discuss the possibility of selling its two medical office buildings.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances and demonstrate the District's accountability for the monies it receives. If you have any questions about this report or need additional information, please contact: the CEO, 170 Alameda de las Pulgas, Redwood City, CA 94602.

SEQUOIA HEALTHCARE DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2005

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current Assets			
Cash and Cash Equivalents	\$ 10,976,315	\$ -	\$ 10,976,315
Taxes Receivable	158,199	-	158,199
Total Current Assets	<u>11,134,514</u>	<u>-</u>	<u>11,134,514</u>
Other Assets			
Investments	51,201,143	-	51,201,143
Capital Assets - Net	-	7,747,526	7,747,526
Total Other Assets	<u>51,201,143</u>	<u>7,747,526</u>	<u>58,948,669</u>
Total Assets	<u>62,335,657</u>	<u>7,747,526</u>	<u>70,083,183</u>
Current Liabilities			
Accounts Payable	34,487	-	34,487
Escheat	644,965	-	644,965
Total Current Liabilities	<u>679,452</u>	<u>-</u>	<u>679,452</u>
Net Assets			
Invested in Capital Assets	-	7,747,526	7,747,526
Unrestricted	61,656,205	-	61,656,205
Total Net Assets	<u>\$ 61,656,205</u>	<u>\$ 7,747,526</u>	<u>\$ 69,403,731</u>

The accompanying notes are an integral part of these financial statements.

SEQUOIA HEALTHCARE DISTRICT

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
Grant Expenses				
Grants to Sequoia Hospital Foundation	\$ 1,005,350	\$ -	\$ -	\$ -
Grants to Community Non-Profit Organizations	2,100,417	-	-	-
Grant Administration	2,005	-	-	-
General Administration:				
Administrative Services	391,856	-	-	-
Hospital Replacement Project	15,748	-	-	-
Insurance	93,936	-	-	-
Investment and Banking Fees	115,372	-	-	-
Legal	137,519	-	-	-
Office Supplies and Maintenance	4,546	-	-	-
Pension Contribution	3,026,000	-	3,026,000	-
Travel and Meeting	10,104	-	-	-
Total Governmental Activities	6,902,853	-	3,026,000	-
Business Type Activities:				
Leasing	1,170,697	1,709,287	-	-
Total Business Activities	1,170,697	1,709,287	-	-
Total Primary Government	\$ 8,073,550	\$ 1,709,287	\$ 3,026,000	\$ -
General Revenues:				
Property Taxes				
Interest and Investment Earnings				
Transfers Between Funds				
Subtotal - General Revenue				
Change in Net Assets				
Net Assets - Beginning of Year				
Net Assets - End of Year				

The accompanying notes are an integral part of these financial statements.

**Net (Expenses) Revenues and
Changes in Net Assets**

Governmental Activities	Business Type Activities	Total
\$ (1,005,350)	\$ -	\$ (1,005,350)
(2,100,417)	-	(2,100,417)
(2,005)	-	(2,005)
(391,856)	-	(391,856)
(15,748)	-	(15,748)
(93,936)	-	(93,936)
(115,372)	-	(115,372)
(137,519)	-	(137,519)
(4,546)	-	(4,546)
-	-	-
(10,104)	-	(10,104)
<u>(3,876,853)</u>	<u>-</u>	<u>(3,876,853)</u>
-	538,590	538,590
-	538,590	538,590
<u>(3,876,853)</u>	<u>538,590</u>	<u>(3,338,263)</u>
5,582,704	-	5,582,704
2,408,720	-	2,408,720
1,344,050	(1,344,050)	-
<u>9,335,474</u>	<u>(1,344,050)</u>	<u>7,991,424</u>
5,458,621	(805,460)	4,653,161
<u>56,197,584</u>	<u>8,552,986</u>	<u>64,750,570</u>
<u>\$ 61,656,205</u>	<u>\$ 7,747,526</u>	<u>\$ 69,403,731</u>

SEQUOIA HEALTHCARE DISTRICT

GOVERNMENTAL FUND

BALANCE SHEET

JUNE 30, 2005

	<u>General Fund</u>
Current Assets	
Cash and Cash Equivalents	\$ 10,976,315
Taxes Receivable	158,199
Investments	51,201,143
Total Assets	<u>\$ 62,335,657</u>
Current Liabilities	
Accounts Payable	\$ 34,487
Escheat	644,965
Total Liabilities	<u>679,452</u>
Fund Balance	
Unreserved/Undesignated	16,873,821
Designated for Corpus	38,858,172
Designated for Depreciation	5,924,212
Total Fund Balance	<u>61,656,205</u>
Total Liabilities and Fund Balance	<u>\$ 62,335,657</u>

There were no reconciling items between the Governmental Fund Balance Sheet and the Statement of Net Assets

The accompanying notes are an integral part of these financial statements.

SEQUOIA HEALTHCARE DISTRICT

GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE YEAR ENDED JUNE 30, 2005

	<u>General Fund</u>
Revenues	
Tax Revenue	\$ 5,582,704
Investment Income	2,209,193
Interest Income	199,527
Pension Reimbursement	3,026,000
Total Revenues	<u>11,017,424</u>
Expenditures	
Administrative Services	391,856
Grant Expenses	3,107,772
Hospital Replacement Project	15,748
Insurance	93,936
Investment and Banking Fees	115,372
Legal	137,519
Office Supplies and Maintenance	4,546
Pension Contribution	3,026,000
Travel and Meetings	10,104
Total Expenditures	<u>6,902,853</u>
Excess of Revenue Over Expenditures	4,114,571
Transfers From Other Funds	<u>1,344,050</u>
Net Change in Fund Balance	5,458,621
Fund Balance - Beginning of Year	<u>56,197,584</u>
Fund Balance - End of Year	<u>\$ 61,656,205</u>

There were no reconciling items between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities

The accompanying notes are an integral part of these financial statements.

SEQUOIA HEALTHCARE DISTRICT

STATEMENT OF NET ASSETS PROPRIETARY FUND JUNE 30, 2005

	<u>Business-Type Activities</u> <u>Enterprise Fund</u> <u>Leasing</u>
Current Assets	
Noncurrent Assets:	
Capital Assets	
Building and Improvements	\$ 14,087,343
Land	2,758,434
Equipment	6,212
Less Accumulated Depreciation	<u>(9,104,463)</u>
Capital Assets - Net	<u>7,747,526</u>
Total Assets	<u>7,747,526</u>
 Net Assets	
Invested in Capital Assets - Net of Related Debt	<u>7,747,526</u>
Total Net Assets	<u><u>\$ 7,747,526</u></u>

The accompanying notes are an integral part of these financial statements.

SEQUOIA HEALTHCARE DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005**

	<u>Business-Type Activities</u>
	<u>Enterprise Fund</u>
	<u>Leasing</u>
Operating Revenues	
Rental Income	\$ 1,709,287
Total Operating Revenues	<u>1,709,287</u>
Operating Expenses	
Administrative Services	25,104
Depreciation	808,864
Insurance	14,097
Maintenance and Supplies	155,226
Utilities	167,406
Total Operating Expenses	<u>1,170,697</u>
Operating Income Before Transfers	538,590
Transfers Out	<u>(1,344,050)</u>
Change in Net Assets	(805,460)
Total Net Assets - Beginning	<u>8,552,986</u>
Total Net Assets - Ending	<u>\$ 7,747,526</u>

The accompanying notes are an integral part of these financial statements.

SEQUOIA HEALTHCARE DISTRICT

STATEMENT CASH FLOWS PROPRIETARY FUND YEAR ENDED JUNE 30, 2005

	<u>Business-Type Activities</u> <u>Proprietary Fund</u>
Cash Flows from Operating Activities:	
Cash Received from Tenants	\$ 1,709,287
Cash Paid to Suppliers	(361,833)
Net Cash Provided by Operating Activities	<u>1,347,454</u>
Cash Flows from Noncapital Financing Activities	
Transfers to the General Fund	(1,344,050)
Net Cash Used in Noncapital Financing Activities	<u>(1,344,050)</u>
Cash Flows From Investing Activities	
Purchase of Property ,Plant and Equipment	(3,404)
Net Cash Used in Investing Activities	<u>(3,404)</u>
Net Increase in Cash and Cash Equivalents	-
Cash and Cash Equivalents - Beginning of Year	<u>-</u>
Cash and Cash Equivalents - End of Year	<u>\$ -</u>
Reconciliation of Net Income to Net Cash Provided by Operating Activities	
Income form Operations	\$ 538,590
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities	
Depreciation	808,864
Net Cash Provided by Operating Activities	<u>\$ 1,347,454</u>

The accompanying notes are an integral part of these financial statements.

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Sequoia Healthcare District (the District), formerly known as Sequoia Hospital District (the Hospital), was established in 1947 in accordance with the provisions of the Health and Safety Code of the State of California. The District is a governmental entity legally constituted as a special district under California law, and is located in Redwood City, California.

On September 30, 1996 the District transferred to Sequoia Health Services (SHS), a California nonprofit public benefit corporation, whose members are the District and Catholic Healthcare West (CHW), all of the Hospital's assets including property, plant and equipment, except for two medical office buildings, certain other properties, and \$10,000,000 in cash, cash equivalents and other assets that could not be assigned to SHS under applicable law. The total consideration for the Hospital's transfer of the assets to SHS was \$20,000,000, plus the adoption of amended and restated articles of incorporation and amended and restated bylaws, and SHS's assumption of liabilities and obligations of the Hospital.

The principal hospital operations were assumed by Sequoia Health Services on October 1, 1996. On that same day SHS entered into a management services agreement with CHW, a California nonprofit public benefit corporation. The parties entered into the agreement for the provision of management and administrative services by CHW to SHS. SHS is to be operated, along with other hospitals, within the CHW health care system.

The District's primary mission as adopted by the board is to be the catalyst to insure there is a health care delivery system available to the District's residents and to improve the health and quality of life for all District residents by supporting and encouraging effective and innovative programs and activities that are designed to achieve health, wellness, and disease prevention. This is to include oversight and support of Sequoia Health Services through active participation in the hospital's health care delivery system.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into two broad fund categories: governmental and proprietary.

There are no differences between the government-wide financial statements and fund financial statements that would require a reconciliation.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the District's major governmental fund:

SEQUOIA HEALTHCARE DISTRICT

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General Fund The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of California.

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary fund:

Enterprise Fund Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The only enterprise fund of the District accounts for the financial transactions related to the leasing operations of the District.

Basis of Accounting/Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the District and for each governmental function. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. There were no restrictions placed on net assets at June 30, 2005.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

Governmental Funds All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

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prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Proprietary Funds Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net assets. The statement of changes in fund net assets presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments held at June 30, 2005 with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$2,500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net assets. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is the same as those used for the capital assets of governmental funds.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

	<u>Lives of Assets</u>
Land and Building Improvements	15-20
Equipment and Furniture	3-5
Leasehold Improvements	Life of Lease
Improvements to Common Areas	3-5

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

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Property Tax Revenue

The District has the authority to collect taxes on property within its political subdivision. Taxes are received from the County of San Mateo, which has responsibility for their collection. The district received approximately 58% in 2005 and 79% in 2004 of its financial support from property taxes. Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments due November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of San Mateo bills and collects the taxes for the District. Tax revenues are recognized by the District when received.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Changes in Accounting Principles

In March 2003, the Governmental Accounting Standards Board (GASB) issued GASBS No. 40, *Deposit and Investment Risk Disclosures an amendment of GASB Statement No. 3*. This Statement addressed common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in the Statement also should be disclosed. As such, the District has made the applicable required disclosures.

New Accounting Pronouncements

In November 2003, GASB issued GASBS No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes guidance for accounting and reporting for impairment of capital assets and for insurance recoveries, whether associated with an impaired capital asset or not. This Statement is effective for periods beginning after December 31, 2004, or during the 2005-06 fiscal year. Implementation of this pronouncement will not impact future financial statements nor require restatement of prior periods.

In July 2004, GASB issued GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement will require local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the government-wide financial statements of net assets and activities. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employers.

Current financial reporting practices for OPEB generally are based on pay-as-you-go financing approaches. They fail to measure or recognize the cost of OPEB during the periods when employees render the services or to provide relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations.

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

This Statement generally provides for prospective implementation - that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2009. The District is in the process of determining the impact the implementation of this Statement will have on the government-wide statement of net assets and activities.

In December 2004, GASB issued GASBS No. 46, Net Assets Restricted by Enabling Legislation. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. Although the determination that a particular restriction is not legally enforceable may cause a government to review the enforceability of other restrictions, it should not necessarily lead a government to the same conclusion for all enabling legislation restrictions.

This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2005. The District has adopted this Statement, and it had no impact on the financial statements.

Risk Management

The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruptions; errors and omissions; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Coverage is provided as follows:

<u>Company Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
BETA Healthcare Group	Comprehensive Liability	\$ 5,000,000
BETA Healthcare Group	D & O Liability	\$ 10,000,000
Driver Alliant Insurance Services, Inc.	Property	\$ 1,000,000,000
State Compensation Insurance Fund	Workers' Compensation	\$ 1,000,000

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2005 are classified in the accompanying financial statements as follows:

Governmental Activities	\$ 62,177,458
Business-Type Activities	-
Total Deposits and Investments	<u>\$ 62,177,458</u>

Deposits and investments as of June 30, 2005, consist of the following:

Cash on Hand and in Banks	\$ 10,976,315
Investments	51,201,143
Total Deposits and Investments	<u>\$ 62,177,458</u>

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by 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.

Segmented Time Distribution

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

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

<u>Investment Type</u>	<u>Fair Value</u>	<u>12 Months or Less</u>	<u>13 - 24 Months</u>	<u>25 - 60 Months</u>	<u>More Than 60 Months</u>
U.S Treasuries	\$ 14,869,558	\$ 2,386,088	\$ 2,026,640	\$ 2,779,975	\$ 7,676,855
U.S Agencies	16,035,025	-	2,993,125	4,377,844	8,664,056
Municipal Bonds	1,834,167	-	1,001,400	-	832,767
Medium-Term Notes	18,462,393	120,469	5,879,982	10,352,894	2,109,048
Total	<u>\$ 51,201,143</u>	<u>\$ 2,506,557</u>	<u>\$ 11,901,147</u>	<u>\$ 17,510,713</u>	<u>\$ 19,282,726</u>

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the Districts' investment policy, or debt agreements, and the actual rating as of the year-end for each investment type. At June 30, 2005 \$383,459 of minimum-term notes were rated below the minimum "A" rating.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Not Required To Be Rated</u>	<u>Rating as of Year End</u>	
				<u>AAA</u>	<u>AA</u>
U.S Treasuries	\$ 14,869,558	N/A	\$ 14,869,558	\$ -	\$ -
U.S Agencies	16,035,025	N/A	16,035,025	-	-
Municipal Bonds	1,834,167	N/A	-	1,834,167	-
Medium-Term Notes	18,462,393	A	-	5,504,899	695,342
Total	<u>\$ 51,201,143</u>		<u>\$ 30,904,583</u>	<u>\$ 7,339,066</u>	<u>\$ 695,342</u>

<u>Investment Type</u>	<u>Rating as of Year End</u>			
	<u>AA-</u>	<u>A+</u>	<u>A</u>	<u>A-</u>
U.S Treasuries	\$ -	\$ -	\$ -	\$ -
U.S Agencies	-	-	-	-
Municipal Bonds	-	-	-	-
Medium-Term Notes	737,625	5,964,059	5,177,009	383,459
Total	<u>\$ 737,625</u>	<u>\$ 5,964,059</u>	<u>\$ 5,177,009</u>	<u>\$ 383,459</u>

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2005 the total carrying amount was \$10,976,315 with a corresponding bank balance of \$10,989,266. In addition to cash deposits which are federally insured, \$4,958,015 is secured by a bond held by the bank in the District's name. The District's bank balance of \$5,958,015 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Custodial Credit Risk – Investments

The custodial 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 District manages custodial risk by investing its assets in County and State investment pools. The California government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial risk for investments.

NOTE 3 - COMMITMENTS

The District has approved conditional grants, not yet paid, for various projects. Conditional grants are only recognized when the conditions on which they depend are substantially met. The following grants have been approved but not yet recognized.

The District, through membership of Sequoia Health Services, has approved funding \$25 million of the \$130 million needed for construction of Sequoia Hospital. The payments are to be made over the course of the construction.

The San Mateo County Children's Health Initiative is to receive a maximum of \$1,350,000 annually. The annual payments will be made through the fiscal year 2006-2007.

The Redwood City School District Nursing Program is to receive \$96,666 in June 2006 as the third of three payments committed in May 2004.

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

The District has approved a contract with San Francisco State University to pay a maximum of \$1,000,000 each year based on the enrollment of students in the Sequoia Hospital/SFSU Baccalaureate Nursing Program at Cañada College. The District will pay \$25,000 per enrollee for up to forty enrollees per year. The payments shall be made in July of each year for the students admitted for class beginning in August of the same year. The last payment of this commitment shall occur in July 2013.

NOTE 4 – CAPITAL ASSETS

Activity in capital assets for the year ended June 30, 2005 was as follows:

	Beginning Balance July 1, 2004	Current Year Additions	Current Year Deletions	Ending Balance July 1, 2005
Land	\$ 2,638,927	\$ -	\$ -	\$ 2,638,927
Land Improvements	119,507	-	-	119,507
Buildings	14,087,343	-	-	14,087,343
Equipment	2,808	3,404	-	6,212
Total	16,848,585	3,404	-	16,851,989
Less Accumulated Depreciation	8,295,599	808,864	-	9,104,463
Capital Assets - Net	\$ 8,552,986	\$ (805,460)	\$ -	\$ 7,747,526

NOTE 5 – LONG-TERM LIABILITIES

Escheat Liability

The Escheat liability of \$644,965 represents stale-dated checks or unclaimed refunds held by the Sequoia Hospital District prior to the 1996 transfer of assets and liabilities to Sequoia Health Services discussed in Note 1. The District has begun the process, under Government Code section 50050 and following, that will result in the elimination of the liability for any funds unclaimed. The District expects that the process will be completed prior to June 30, 2006.

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 6 – UNRESTRICTED FUND BALANCE, DESIGNATED BY THE BOARD

Designated for Preservation of Corpus

In October, 1996, the District Board of Directors designated \$30,000,000 for preservation of corpus, arising from the transfer of assets to SHS, with the understanding that the entire amount will remain intact. In addition, the board designated that each year a factor of 3% will be added to the corpus to keep pace with inflation. For the year ended June 30, 2005, \$1,131,791 was added to the corpus for inflation. The ending balances on June 30, 2005 were \$38,858,172.

Designated for Depreciation

In October 1997, the District Board authorized the Depreciation Fund. Monthly additions will be made in an amount equal to depreciation expense. The reserve is set aside for repairs and replacement of capital assets.

NOTE 7 – RELATED PARTY TRANSACTIONS

During 2005, the District made payments to Sequoia Health Services which is a related party. The payments, totaling \$53,537, were reimbursements for office facilities, administrative assistance, and insurance.

NOTE 8 – LEASES (RENTAL INCOME)

The District leases office building space to physicians and medical groups under noncancelable operating lease agreements. The income from these leases is reported as rental income in the statement of revenue, expenses and changes in net assets. The District owns and leases space at two properties: 2900 Whipple Avenue which has 13 tenants and 525 Veterans Boulevard which has one tenant. The cost and net book value of the two properties is included in land, land improvements and buildings in Note 4 above. Lease agreement expirations range through December 31, 2007, and most have options to renew with adjustments indexed for inflation.

The future minimum lease payments to be received for the years ended June 30 are as follows:

2006	\$ 1,422,875
2007	914,852
2008	<u>58,950</u>
Total	<u>\$ 2,396,677</u>

SEQUOIA HEALTHCARE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 9 – PENSION PLAN

Prior to October 1, 1996, the District maintained two pension plans, a defined contribution plan and a defined benefit plan. The defined contribution plan was formed under Internal Revenue Service code section 457(b) and is titled the Master Deferred Compensation Plan. The defined benefit plan is titled the Sequoia Healthcare District Employee Pension Plan.

The Master Deferred Compensation Plan allowed covered employees to contribute a portion of their pre-tax earnings to the plan. These contributions, called deferrals, and the earnings on them that remain in the plan, are not taxable to the participants until they are withdrawn. Deferrals ceased as of September 30, 1996. The assets of the plan are invested in group annuity contracts held by and in the name of a trust established for this purpose and mutual funds, which are subject to stock market risks associated with price changes.

The Sequoia Healthcare District Employee Pension Plan, adopted on January 1, 1959, as amended is a defined benefit plan. The plan was last amended on August 19, 1998. The employer made contributions to the plan for the benefit of covered employees, the participants. Effective October 1, 1996 all benefit accruals under the plan were suspended indefinitely, provided however that vesting services credit will continue to accrue for participants who continue to be employed. Benefits are distributed to participants when they retire in accordance with the terms of the plan, based on certain actuarial computations. As stated in Note 1, the liability for this plan was assumed by Sequoia Health Services. The Plan cannot be transferred to Sequoia Health Services. The District remains contingently liable for funding of the plan in the event of default by Sequoia Health Services. Based on the advice of the plan actuary, the Pension Plan Committee determined that the plan should be funded in the amount of \$3,026,000 for calendar year 2004. The District has funded the \$3,026,000 additional contribution to the plan and Sequoia Health Services has reimbursed this amount to the District.

NOTE 10 – EMPLOYEE RETIREMENT SYSTEM

As established by Federal law, all public sector employees who are not members of a retirement system such as the state Public Employee Retirement System must be covered by social security or an alternate plan. The District has elected to use Social Security to cover its one employee. Statutory rates are paid by the employee and the District.

NOTE 11 – SUBSEQUENT EVENTS

Based on the advice of the plan actuary, the Pension Plan Committee determined that the plan should be funded in the amount of \$3,026,000 for calendar year 2005. The District has agreed to fund the \$3,026,000 additional contribution to the plan and Sequoia Health Services has agreed to reimburse this amount to the District.

