

Grossmont Healthcare District



***Financial Statements and
Independent Auditor's Reports***

***Year Ended June 30, 2010
(With comparable totals for 2009)***

GROSSMONT HEALTHCARE DISTRICT

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REPORT OF INDEPENDENT AUDITOR

Board of Directors
Grossmont Healthcare District

I have audited the accompanying statements of net assets of Grossmont Healthcare District as of June 30, 2010 and 2009, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits 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 I plan and perform the audits 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. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 8, 2010, on my consideration of the District's internal control over financial reporting and my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 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

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essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 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 I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Grossmont Healthcare District's financial statements as a whole. The combining fund financial statements on pages 33 through 36 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements are the representation of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare in the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

As discussed in Note M to the financial statements, management has elected to change its policy relating to the recognition of certain grant award liabilities.

A handwritten signature in black ink that reads "Ross S. Dark + Co., CPA". The signature is written in a cursive, flowing style.

El Cajon, California
September 8, 2010

GROSSMONT HEALTHCARE DISTRICT

Management's Discussion and Analysis

Year Ended June 30, 2010

Grossmont Healthcare District (the District) has issued its financial statements for the fiscal year ended June 30, 2010. This report, Management's Discussion and Analysis, is an overview of the financial activities for the fiscal year and is an integral part of the accompanying basic financial statements.

ACCOUNTING METHOD

The District's operations are accounted for as an Enterprise Fund. Enterprise Funds are used by government agencies to account for operations which are financed and managed similar to private business enterprises, where the costs and expenses (including depreciation) of providing services to the public on a continuing basis are recovered primarily through user charges; the District receives tax revenues. The District's revenues and expenses are recognized on a full accrual basis; revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. All assets and liabilities associated with the activity of the enterprise are included in the Statement of Net Assets/(Deficit).

THE BASIC FINANCIAL STATEMENTS

The basic financial statements reflect the activities of multiple funds. The basic financial statements include the Statement of Net Assets/(Deficit), Statement of Activities and Changes in Net Assets/(Deficit) and Statement of Cash Flows. Together with this report, the basic financial statements provide information about the significant events, assumptions, and decisions which resulted in the financial performance reflected in those statements.

The Statement of Net Assets/(Deficit) provides information regarding the financial position of the District, including its cash, investments, capital assets, liabilities, and debts.

The Statement of Activities and Changes in Net Assets/(Deficit) provides information regarding the revenues received by the District, and the expenses incurred in carrying out the District's programs. The ultimate focus of this statement is the measurement of profitability as reflected by the amount of net income generated for the fiscal year.

The Statement of Cash Flows provides information regarding the sources and uses of cash which flowed into and out of the District as a result of its operations and financing decisions.

FINANCIAL ACTIVITIES & FISCAL YEAR 2010 HIGHLIGHTS

The District is a government entity operating under the Local Health Care District Law. In 1952, the residents of the area voted to establish, build, and operate Grossmont Hospital. Grossmont Hospital has gone through numerous renovations over the years and currently has 536 beds. Since May 1991, Grossmont Hospital has been leased under a 30-year agreement to Sharp HealthCare. Sharp HealthCare is a multi-facility health care system located in San Diego County. A condensed version of the District's Statement of Net Assets/(Deficit) is presented in the following table with the changes that occurred between Fiscal Year 2010 and 2009.

GROSSMONT HEALTHCARE DISTRICT

Management's Discussion and Analysis, continued

Year Ended June 30, 2010

	<u>FY10</u>	<u>FY09</u>	<u>Change</u>
Assets:			
Cash, cash equivalents and investments	\$ 59,351,736	\$ 67,747,876	\$ (8,396,140)
All other assets	15,056,537	14,313,670	742,867
Total assets	<u>\$ 74,408,273</u>	<u>\$ 82,061,546</u>	<u>\$ (7,653,273)</u>
Liabilities:			
Liabilities	<u>\$ 95,181,683</u>	<u>\$ 96,405,871</u>	<u>\$ 1,224,188</u>
Total liabilities	<u>\$ 95,181,683</u>	<u>\$ 96,405,871</u>	<u>\$ 1,224,188</u>
Net assets/(deficit):			
Invested in capital assets, net of related debt	\$ 10,842,610	\$ 11,014,667	\$ (172,057)
Restricted for capital projects	35,793,299	45,608,432	(9,815,133)
Restricted for debt service	(75,229,572)	(77,098,025)	1,868,453
Unrestricted	7,820,253	6,130,601	1,689,652
Total net assets	<u>\$ (20,773,410)</u>	<u>\$ (14,344,325)</u>	<u>\$ (6,429,085)</u>

The \$6,429,085 decrease in total net assets reflects the \$1,517,595 change in net assets in the General Fund combined with the \$7,946,680 change in net assets of the Bond Funds. The decrease in cash and investments is due primarily to the spend-down of bond proceeds on approved capital projects authorized under Proposition G. The decrease in all other assets is primarily due to bond-related project costs that are likely not to be reimbursed from the Bond Funds to the General Fund combined with the reduction of the \$3,189,084 Retention Payable in the Bond Funds.

The District's business is comprised of two major segments:

- Community Healthcare Program - The District administers a grant program, allocating a portion of the District's annual property tax revenues to health-related programs serving residents of the District throughout Eastern San Diego County.
- Library/Facilities Operations - The District operates a Library specializing in healthcare related media and an Administrative Facility which also serves as a community meeting place with theatre-style seating capacity for 65 and technologically advanced presentation capacity.

A condensed version of the Statement of Activities and Changes in Net Assets/(Deficit) is presented in the table below with the changes that occurred between Fiscal Year 2010 and 2009.

GROSSMONT HEALTHCARE DISTRICT

Management's Discussion and Analysis, continued
Year Ended June 30, 2010

	FY10	FY09	Change
Revenues:			
Property tax revenue	\$ 5,785,102	\$ 6,222,542	\$ (437,440)
Total revenues	5,785,102	6,222,542	(437,440)
Expenses:			
Library, administration and facility operations	1,941,637	1,981,600	(39,963)
Community healthcare	1,460,411	2,296,061	(835,650)
Total expenses	3,402,048	4,277,661	(875,613)
Operating income	2,383,054	1,944,881	438,173
Non-operating income (expenses):			
Property tax revenue - bond debt service	5,553,088	5,831,829	(278,741)
Investment income	1,092,097	1,449,918	(357,821)
Other income	290,905	49,240	241,665
Bond interest expense	(4,259,339)	(4,200,177)	(59,162)
Other expenses	(442,798)	(688,654)	245,856
Total non-operating income	2,233,953	2,442,156	(208,203)
Transfers to Grossmont Hospital	(11,046,092)	(31,448,359)	20,402,267
Change in net assets/ (deficit)	\$ (6,429,085)	\$ (27,061,322)	\$ 20,632,237

Property taxes fund the District's operations and are its primary source of revenue. The local real estate market continues to experience market volatility which is expected to affect property tax revenue in the coming year by estimates of 2.5% to 5.0%.

GROSSMONT HEALTHCARE DISTRICT

Management's Discussion and Analysis, continued

Year Ended June 30, 2010

CAPITAL ASSETS

At June 30, 2010 the District had \$12,297,620 in capital assets and \$1,455,011 in accumulated depreciation resulting in \$10,842,609 of net capital assets.

A summary of the activity and balances in capital assets is presented below.

	Balance			Balance	
	June 30, 2009	Additions	Deletions	June 30, 2010	
Land	\$ 7,061,501	\$ -	\$ -	\$ 7,061,501	
Buildings	4,707,202	-	-	4,707,202	
Furniture and equipment	485,962	-	-	485,962	
Construction in progress	97,332	45,859	(100,236)	42,955	
Subtotal	12,351,997	45,859	(100,236)	12,297,620	
Less:					
Accumulated depreciation	(1,337,330)	(117,681)	-	(1,455,011)	
Total	\$ 11,014,667	\$ (71,822)	\$ (100,236)	\$ 10,842,609	

DEBT ADMINISTRATION

On August 2, 2007, the District issued \$85,627,076 of general obligation bonds. Proposition G authorized the issuance of up to \$247,000,000 in general obligation bonds. Two additional bonds sales, not to exceed the maximum \$247 million as allowed under the ballot measure, are tentatively scheduled for first quarter 2011 and 2012, depending on construction progress and market conditions.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The Fiscal Year 2012 budget reflects revenues of \$11,157,180 and expenses of \$8,649,326.

The District is continuing to maximize and leverage its tax revenues to fund the increasing unmet healthcare needs in its service area.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

Grossmont Healthcare District

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BASIC FINANCIAL STATEMENTS

GROSSMONT HEALTHCARE DISTRICT

Statement of Net Assets/(Deficit)

June 30, 2010

(With comparable totals for 2009)

ASSETS	2010			2009
	General Fund	Bond Funds	Total	Total
Current assets:				
Cash and cash equivalents	\$ 4,025,898	\$ -	\$ 4,025,898	\$ 4,680,160
Investments	2,014,477	-	2,014,477	505,155
Property taxes receivable	45,725	42,479	88,204	114,568
Due from fund	-	-	-	31,008
Accrued investment interest	10,743	214,849	225,592	311,111
Other accounts receivable	106,397	-	106,397	-
Prepaid expenses	41,470	-	41,470	78,962
Purchased investment interest	1,422	62,052	63,474	19,764
Restricted retention with fiscal agent	-	-	-	3,189,084
Deposits	2,771	-	2,771	1,771
Total current assets	<u>6,248,903</u>	<u>319,380</u>	<u>6,568,283</u>	<u>8,931,583</u>
Noncurrent assets:				
Restricted cash and equivalents with fiscal agent	-	17,447,666	17,447,666	18,128,209
Restricted investments with fiscal agent	-	35,863,695	35,863,695	41,245,268
Due from State	609,844	-	609,844	-
OPEB asset	1,909,082	-	1,909,082	1,530,123
Deferred bond costs, net of accumulated amortization of \$126,373	-	1,167,094	1,167,094	1,211,696
Total noncurrent assets	<u>2,518,926</u>	<u>54,478,455</u>	<u>56,997,381</u>	<u>62,115,296</u>
Capital assets:				
Land	7,061,501	-	7,061,501	7,061,501
Buildings	4,707,202	-	4,707,202	4,707,202
Furniture and equipment	485,962	-	485,962	485,962
Construction in progress	42,955	-	42,955	97,332
Accumulated depreciation	(1,455,011)	-	(1,455,011)	(1,337,330)
Total capital assets, net	<u>10,842,609</u>	<u>-</u>	<u>10,842,609</u>	<u>11,014,667</u>
Total assets	<u>\$ 19,610,438</u>	<u>\$ 54,797,835</u>	<u>\$ 74,408,273</u>	<u>\$ 82,061,546</u>

GROSSMONT HEALTHCARE DISTRICT

Statement of Net Assets/(Deficit), continued

June 30, 2010

(With comparable totals for 2009)

	2010			2009
	General Fund	Bond Funds	Total	Total
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 130,345	\$ 1,370,996	\$ 1,501,341	\$ 858,236
Grants payable	780,345	-	780,345	624,083
Due to fund	-	-	-	31,008
Retentions payable	-	-	-	3,189,084
Accrued interest	-	1,536,232	1,536,232	1,536,200
Accrued compensated absences	36,885	-	36,885	27,286
Total current liabilities	<u>947,575</u>	<u>2,907,228</u>	<u>3,854,803</u>	<u>6,265,897</u>
Long-term liabilities:				
Bonds payable - capital appreciation bonds 2007A	-	23,597,076	23,597,076	23,597,076
Bonds payable - current interest bonds 2007A	-	62,030,000	62,030,000	62,030,000
Capital appreciation bond accrued interest	-	3,576,183	3,576,183	2,308,119
Bond premium, net of accumulated amortization of \$229,946	-	2,123,621	2,123,621	2,204,779
Total long-term liabilities	-	<u>91,326,880</u>	<u>91,326,880</u>	<u>90,139,974</u>
Total liabilities	<u>\$ 947,575</u>	<u>\$ 94,234,108</u>	<u>\$ 95,181,683</u>	<u>\$ 96,405,871</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 10,842,610	\$ -	\$ 10,842,610	\$ 11,014,667
Restricted for debt service	-	(75,229,572)	(75,229,572)	(77,098,025)
Restricted for capital projects	-	35,793,299	35,793,299	45,608,432
Unrestricted	7,820,253	-	7,820,253	6,130,601
Total net assets	<u>\$ 18,662,863</u>	<u>\$ (39,436,273)</u>	<u>\$ (20,773,410)</u>	<u>\$ (14,344,325)</u>

See accompanying notes to basic financial statements.

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GROSSMONT HEALTHCARE DISTRICT

Statement of Activities and Changes in Net Assets/(Deficit)

Year Ended June 30, 2010

(With comparable totals for 2009)

	2010			2009
	General Fund	Bond Funds	Total	Total
REVENUES:				
Property taxes	\$ 5,785,102	\$ -	\$ 5,785,102	\$ 6,222,542
Total operating revenues	5,785,102	-	5,785,102	6,222,542
EXPENSES:				
Administrative expenses	1,347,162	-	1,347,162	1,345,233
Community healthcare	1,460,411	-	1,460,411	2,296,061
Library operating expenses	271,470	-	271,470	292,533
Facility expenses	323,005	-	323,005	343,834
Total expenses	3,402,048	-	3,402,048	4,277,661
Operating income	2,383,054	-	2,383,054	1,944,881
NON-OPERATING INCOME (EXPENSE):				
Property taxes, general obligation bond	-	5,553,088	5,553,088	5,831,829
Investment income	91,596	1,000,501	1,092,097	1,449,918
Other income	290,905	-	290,905	49,240
Bond interest expense	-	(4,259,339)	(4,259,339)	(4,200,177)
Deferred bond cost amortization	-	(44,602)	(44,602)	(44,602)
Other expenses	(297,960)	(100,236)	(398,196)	(644,052)
Total non-operating income	84,541	2,149,412	2,233,953	2,442,156
CHANGE IN NET ASSETS:				
Total operating and non-operating income	2,467,595	2,149,412	4,617,007	4,387,037
Transfers to Grossmont Hospital	(950,000)	(10,096,092)	(11,046,092)	(31,448,359)
Total change in net assets	1,517,595	(7,946,680)	(6,429,085)	(27,061,322)
Net assets/(deficit), beginning of year	17,145,268	(31,489,593)	(14,344,325)	12,716,997
Ending net assets/(deficit)	\$ 18,662,863	\$ (39,436,273)	\$ (20,773,410)	\$ (14,344,325)

See accompanying notes to basic financial statements.

GROSSMONT HEALTHCARE DISTRICT

Statement of Cash Flows

Year Ended June 30, 2010

(With comparable totals for 2009)

	2010			2009
	General Fund	Bond Funds	Total	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from property taxes	\$ 5,309,517	\$ -	\$ 5,309,517	\$ 6,203,801
Cash payments to vendors for goods and services	(3,224,050)	-	(3,224,050)	(4,794,841)
Net cash provided by operating activities	<u>2,085,467</u>	<u>-</u>	<u>2,085,467</u>	<u>1,408,960</u>
CASH FLOWS FROM NON-OPERATING ACTIVITIES				
Cash received/(used) from non-operating activity	<u>(338,150)</u>	<u>(3,172,636)</u>	<u>(3,510,786)</u>	<u>(7,577,706)</u>
Net cash provided/(used) by non-operating activities	<u>(338,150)</u>	<u>(3,172,636)</u>	<u>(3,510,786)</u>	<u>(7,577,706)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(54,379)	-	(54,379)	(149,843)
Other financing sources - bond proceeds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided/(used) by capital and related financing activities	<u>(54,379)</u>	<u>-</u>	<u>(54,379)</u>	<u>(149,843)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of investments	(1,982,128)	(21,654,046)	(23,636,174)	(19,039,080)
Maturities of investments	500,940	22,830,000	23,330,940	15,124,870
Reclass of investment to cash equivalent	-	4,035,000	4,035,000	137,948
Interest revenue	83,988	1,223,588	1,307,576	1,372,562
Net cash provided/(used) by investing activities	<u>(1,397,200)</u>	<u>6,434,542</u>	<u>5,037,342</u>	<u>(2,403,700)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Cash received from property taxes - general obligation bonds	-	5,595,765	5,595,765	5,848,604
Transfers to Grossmont Hospital	(950,000)	(9,538,214)	(10,488,214)	(31,448,359)
Fund transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,531</u>
Net cash provided/(used) by non-capital financing activities	<u>(950,000)</u>	<u>(3,942,449)</u>	<u>(4,892,449)</u>	<u>(25,584,224)</u>
Net change in cash and cash equivalents	<u>(654,262)</u>	<u>(680,543)</u>	<u>(1,334,805)</u>	<u>(34,306,513)</u>
CASH AND CASH EQUIVALENTS				
Beginning of year	<u>4,680,160</u>	<u>18,128,209</u>	<u>22,808,369</u>	<u>57,114,882</u>
End of year	<u>\$ 4,025,898</u>	<u>\$ 17,447,666</u>	<u>\$ 21,473,564</u>	<u>\$ 22,808,369</u>

See accompanying notes to basic financial statements.

GROSSMONT HEALTHCARE DISTRICT

Statement of Cash Flows, continued

Year Ended June 30, 2010

(With comparable totals for 2009)

	2010			2009
	General Fund	Bond Funds	Total	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income	\$ 2,383,054	\$ -	\$ 2,383,054	\$ 1,944,881
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	117,678	-	117,678	126,318
Unrealized gain/(loss)	(26,556)	-	(26,556)	12,545
Cumulative effect of change in accounting policy	-	-	-	-
Re-classification of investments to cash equivalent	-	-	-	(137,948)
Changes in operating assets and liabilities:				
Property taxes receivable	14,701	-	14,701	(18,741)
Prepaid expenses	36,958	-	36,958	(78,962)
Deposits	(1,000)	-	(1,000)	1,000,000
Accounts receivable and due from state	(716,241)	-	(716,241)	-
Accounts payable and accrued liabilities	120,611	-	120,611	35,804
Grants payable	156,262	-	156,262	(1,474,937)
Net cash provided/(used) by operating activities	<u>\$ 2,085,467</u>	<u>\$ -</u>	<u>\$ 2,085,467</u>	<u>\$ 1,408,960</u>
SUMMARY OF CASH, CASH EQUIVALENTS AND INVESTMENTS				
Cash and cash equivalents	\$ 4,025,898	\$ -	\$ 4,025,898	\$ 4,680,160
Unrestricted investments	2,014,477	-	2,014,477	505,155
Restricted cash with fiscal agent	-	17,447,556	17,447,556	18,128,209
Restricted investments with fiscal agent	-	35,863,695	35,863,695	41,245,268
Restricted retention with fiscal agent	-	-	-	3,189,084
Total cash, cash equivalents and investments	<u>\$ 6,040,375</u>	<u>\$ 53,311,251</u>	<u>\$ 59,351,626</u>	<u>\$ 67,747,876</u>

Total cash paid for interest in bond funds was \$3,072,400 and \$3,072,400 for the years ended June 30, 2010 and 2009, respectively.

See accompanying notes to basic financial statements.

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NOTES TO FINANCIAL STATEMENTS

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2010

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Grossmont Healthcare District (the District) is a local health care district, formed in 1952, and organized pursuant to Division 23 of the Health and Safety Code of the State of California to provide and operate health care facilities for a specified geographic region of San Diego County. The District's boundaries encompass an area 750 square miles in eastern San Diego County. Included within the District boundaries are the cities of La Mesa, Lemon Grove, Santee, and El Cajon, the San Carlos/Del Cerro communities of the City of San Diego, and certain unincorporated areas within San Diego County. The District owns Grossmont Hospital, currently leased to Sharp HealthCare (SHARP), a multi-facility health care system located in San Diego County.

Effective May 29, 1991, the District entered into an Affiliation Agreement with SHARP. The affiliation was effected through the creation of a non-profit public benefit corporation, Grossmont Hospital Corporation (the Corporation), of which SHARP is the sole statutory member. In connection with the affiliation, the District entered into 30-year Transfer and Lease Agreements with the Corporation whereby the District's assets and liabilities, except land, investment funds, debt established pursuant to certain loan agreements and the deferred compensation program, were transferred to the Corporation in exchange for a receivable (the Transfer). In July 1992, the Corporation exercised its option to prepay the receivable. At the end of the Agreements' 30-year term, notwithstanding extensions, the Corporation will transfer back to the District all assets and liabilities pursuant to terms substantially identical to those of the Transfer Agreement.

The District is governed by a five member elected Board of Directors.

Financial Statement Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and *Audits of State and Local Governmental Units* issued by the American Institute of Certified Public Accountants.

Basis of accounting and measurement focus

The basic financial statements include a Statement of Net Assets/(Deficit), a Statement of Activities and Changes in Net Assets/(Deficit), and a Statement of Cash Flows.

These basic financial statements are presented on the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets, are included in the accompanying Statement of Net Assets/(Deficit). The Statement of Activities and Changes in Net Assets/(Deficit) presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The reported fund equity represents total net assets.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2010

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Property taxes-general fund

The County of San Diego (County) bills and collects property taxes on behalf of numerous special districts and incorporated cities, including the District. The District's collections of current year's taxes are received through periodic apportionments from the County. The County's tax calendar is from July 1 to June 30. Property taxes attach as a lien on property on March 1. Taxes are levied on July 1 and are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively. Since the passage of California's Proposition 13, beginning with fiscal 1978-79, general property taxes are based either on a flat 1% rate applied to the 1975-1976 full value of the property or on 1% of the sales price of any property sold or of the cost of any new construction after the 1975-1976 period. Taxable values on properties (exclusive of increases related to sales and new construction) can rise at a maximum of 2% per year. This Proposition 13 limitation on general property taxes does not apply to taxes levied to pay the debt service on any indebtedness approved by the voters prior to June 6, 1978 (the date of passage of Proposition 13). Property tax revenue is recognized in the fiscal year for which the taxes have been levied, provided the taxes are received within 60 days of the end of the fiscal year. Property taxes received after this date are not considered available as a resource that can be used to finance the current year operations of the District and, therefore, are not recorded as revenue until collected.

Property taxes-debt service fund

Each year the District is required to provide the County with its calculation of the required property tax levy to assess for the following year's scheduled bond debt service payments. The District's levy has maintained at \$13.15 per \$100,000 of assessed valuation since the 2006 election.

No allowance for doubtful accounts for related property tax receivables is considered necessary due to the fact the receivables are secured by the underlying real property.

Income taxes

The District is a political subdivision of the State of California and, as such, is exempt from federal and state income taxes.

Cash and cash equivalents

For purposes of the statement of cash flows, cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less.

Investments

Investments in debt securities with readily determinable fair values are measured at fair value in the balance sheet. The District's investment policy allows for investments in Certificates of Deposit, Local Agency Investment Fund, Treasury Bills and Notes, U.S. Governmental Agency Obligations, Repurchase Agreements, and Savings Accounts.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2010

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Due from State of California

Amounts due from the State of California are under various contracts and obligations. Amounts are expected to be received in subsequent fiscal years and are classified as long-term.

Deferred bond costs and bond premium

Deferred bond costs of \$1,211,696, represents cost of issuance expenditures and related bond premium of \$2,204,779. These items are being amortized over 29 years which represents the life of the bonds.

Retention payable

Retention payable represents amounts held from various construction contract progress payments until final completion of the respective project is approved by SHARP and the District.

Grants payable

Grants payable represents amounts committed to local nonprofit and local government agencies under the District's community healthcare grant program. Grants are recorded as an expense and a liability upon approval by the Board of Directors.

Capital assets

The District's office furniture and equipment and buildings are stated at cost. Depreciation has been provided over the estimated useful lives of five years for office furniture and equipment and forty years for buildings using the straight-line method.

Net assets/(deficit):

Invested in capital assets, net of related debt – This amount consists of capital assets net of accumulated depreciation, reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted net assets – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

Use of estimates

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

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2010

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Reclassifications

Certain prior year amounts may have been reclassified to conform to the current year financial statement presentation.

Subsequent events

Management evaluates data and events for potential subsequent event disclosure through the date the financial statements were available to be issued.

NOTE B. FINANCING AUTHORITY

The District is a member of the North San Diego County Health Facilities Financing Authority (the Authority). The purpose of the Authority is to provide a financing mechanism for its members. See Note E for more information on the role of the Authority in the bond issuance process.

NOTE C. PROPOSITION G BOND SALE

Bond sale proceeds at the close of the transaction on August 2, 2007 from the Series 2007A Bonds resulted in the following deposits:

<u>Fund</u>	<u>Amount</u>
Cost of issuance	\$ 426,272
Debt service	1,032,832
Building fund	85,627,076
	<u>\$ 87,086,180</u>

NOTE D. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents, and investments consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Petty cash	\$ 149	\$ 845
Cash equivalents	4,035,000	137,948
Certificates of deposits	750,000	862,052
Contractor retention savings	-	3,189,084
Checking and money market	353,255	482,181
LAIF	2,922,494	3,197,134
Debt service fund mutual fund	1,967,451	2,206,341
Building fund mutual fund	11,445,215	15,921,868
Investments	37,878,172	41,750,424
Total cash and investments	<u>\$59,351,736</u>	<u>\$67,747,877</u>

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2010

NOTE D. CASH, CASH EQUIVALENTS AND INVESTMENTS, continued

Cash deposits

California Government Code, §16520 - §16522, requires California banks and savings and loan associations to secure the District's uninsured deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits and collateral is considered to be held in the name of the District. All unrestricted cash held by financial institutions is entirely insured or collateralized.

LAIF

The District invests in the State of California Local Agency Investment Fund (LAIF), a State of California external investment pool. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available. The District valued its investments in LAIF as of June 30, 2010 by multiplying its account balance with LAIF times a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants' total aggregate fair value by total aggregate amortized cost. Accordingly, as of June 30, 2010, the District's investments at fair value amount to \$2,922,494 of a LAIF balance total of \$23,263,615,099. LAIF has oversight by the local Investment Advisory Board. The LAIF board consists of five members as designated by statute. All securities are purchased under the authority of Government Code §16430 and §16480.4.

Cash equivalents

Cash equivalents include certificates of deposit and investments in highly liquid debt instruments with a maturity of three months or less. At June 30, 2010, \$4,035,000 in investments had maturity dates of less than three months and were reclassified as cash equivalents

Investments

Investments consisted of the following at June 30:

	2010	2009
Federal Home Loan Bank - building fund	\$ 11,898,218	\$ 17,171,350
Federal Home Loan Bank - debt service fund	8,032,387	5,868,058
Federal Home Loan Bank - general fund	1,265,232	-
Federal Farm Credit Bank - building fund	2,523,451	3,029,070
Federal Farm Credit Bank - debt service fund	5,074,987	5,110,150
Federal Farm Credit Bank - general fund	-	505,155
FNMA - building fund	7,094,525	10,066,640
FNMA - debt service fund	1,240,128	-
FNMA - general fund	749,244	-
Total investments	<u>\$ 37,878,172</u>	<u>\$ 41,750,423</u>

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2010

NOTE D. CASH, CASH EQUIVALENTS AND INVESTMENTS, continued

Issuer	CUSIP #	2010		2009	
		Fair Value	Maturity (Days)	Fair Value	Maturity (Days)
FFCB	31331SDJ9	\$ -	-	\$ 505,155	113
FFCB	31331YQ86	-	-	3,029,070	143
FHLB	3133XPY57	-	-	2,031,880	255
FHLB	3133XQU26	-	-	1,021,560	353
FHLB	3133XCQZ9	-	-	4,177,520	474
FHLB	3133XGEQ3	-	-	3,014,070	535
FHLB	3128X8GS5	-	-	6,035,280	589
FHLB	3128X8RT1	-	-	4,031,360	624
FHLB	3133XTRK4	-	-	3,807,250	1,266
FHLB	3133XNHZ5	3,045,931	170	3,119,070	535
FFCB	31331YWG1	3,815,625	216	3,870,713	581
FNMA	31398ARH7	2,566,400	323	-	-
FFCB	31331GN96	2,523,450	427	-	-
FHLB	3128X9Q37	2,500,225	432	-	-
FHLB	3128X9Z94	2,500,500	464	-	-
FNMA	31398AZN5	4,528,125	511	-	-
FHLB	3133XYVU6	3,851,563	608	-	-
FNMA	31398AYM8	749,244	771	-	-
FHLB	3137EACG2	757,732	923	-	-
FHLB	3133XES91	3,588,195	981	3,547,570	1,346
FHLB	3137EACJ6	507,500	1,019	-	-
FFCB	31331RP90	1,259,362	1,259	1,239,437	1,624
FHLB	3133XWE70	1,544,051	1,261	-	-
FHLB	3133XHW57	2,379,201	1,261	2,320,489	1,626
FNMA	31398AZV7	1,240,128	1,603	-	-
FHLB	3137EACH0	520,940	1,684	-	-
Total		<u>\$ 37,878,172</u>		<u>\$ 41,750,424</u>	

Portfolio Weighted Average Maturity (Days)

656

726

Credit risk

The District's investments are rated by the nationally recognized statistical rating organizations as follows:

	Moody's	Standard & Poor's
Federal Home Loan Banks	Aaa	AAA
Federal Farm Credit Bank	Aaa	AAA
FNMA	Aaa	AAA

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements
Year Ended June 30, 2010

NOTE E. BONDED LONG-TERM DEBT OF THE DISTRICT

General obligation bonds

The District received authorization at an election held on June 6, 2007, by more than two-third of the votes cast by eligible voters within the District, to issue general obligation bonds not to exceed \$247,000,000 under Proposition G. These bonds will be issued in multiple series as general obligations of the District. The proceeds from the sale of the bonds will be used by the District to (i) improve emergency care in eastern San Diego County, including the completion of Sharp Grossmont Hospital's Emergency and Critical Care Center, (ii) improve seismic safety, (iii) improve access to medical facilities in the event of earthquakes, wildfires or other disasters, (iv) expand cardiac care, (v) increase the number of patient beds and (vi) acquire, construct, repair, and improve certain medical facilities.

Authority for issuance of the bonds

In August 2007, Series 2007A general obligation bonds (Series 2007A Bonds) in the amount of \$85,627,076 were sold at a premium. The Series 2007A Bonds were sold by the District to the Authority pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 of Division 7 of Title 1(commencing with Section 6584) of the Government Code of the State. The Series A Bonds purchased by the Authority were resold immediately to Goldman, Sachs & Co., the underwriter, under the terms of a negotiated sale agreement.

Security for the bonds

The Series 2007A Bonds represent general obligations of the District payable from certain *ad valorem* taxes. The Board of Supervisors of the County shall levy and collect annually *ad valorem* taxes upon all property subject to taxation by the District for the payment of the principal or accreted value of and interest on the 2007A Bonds. The 2007A Bonds are not obligations of the County of San Diego, the Authority, the State or any of its political subdivisions, other than the District.

Insurance

Payment of the principal or accreted value of, and interest on, the 2007A Bonds are insured by a financial guaranty insurance policy issued by AMBAC Assurance Corporation.

The outstanding Proposition G bonded debt is as follows:

On August 2, 2007, the District issued \$85,627,076 of capital appreciation bonds and current interest bonds. Interest on the capital appreciation bonds will be compounded each January 15 and July 15, commencing on January 15, 2008, through and including the respective maturity dates.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2010

NOTE E. BONDED LONG-TERM DEBT OF THE DISTRICT, continued

The maturity schedules of the capital appreciation bonds and the current interest bonds are as follows:

Capital Appreciation Bonds \$23,597,076

Maturity Date	Yield to Maturity	Principal Amount
July 15		
2023	4.720%	\$ 1,978,792
2024	4.740%	2,022,431
2025	4.780%	2,055,552
2026	4.800%	2,091,877
2027	4.820%	2,126,355
2028	4.840%	2,156,889
2029	4.860%	2,184,970
2030	4.880%	2,210,462
2031	4.900%	2,233,046
2032	4.910%	2,257,956
2033	4.920%	2,278,746
		<u>\$ 23,597,076</u>

Current Interest Bonds \$62,030,000

Maturity Date	Interest Rate	Principal Amount
July 15		
2010	4.000%	\$ 205,000
2011	4.000%	380,000
2012	4.000%	565,000
2013	4.000%	770,000
2014	4.000%	990,000
2015	5.000%	1,225,000
2016	5.000%	1,495,000
2017	5.000%	1,790,000
2018	5.000%	2,110,000
2019	5.000%	2,460,000
2020	5.000%	2,835,000
2021	5.000%	3,245,000
2022	5.000%	3,690,000
2037	5.000%	40,270,000
		<u>\$ 62,030,000</u>

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2010

NOTE E. BONDED LONG-TERM DEBT OF THE DISTRICT, continued

Changes in bonded long-term debt for the period ended June 30, 2010, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balances	Due Within One Year
2007 Series A - CAB's	\$23,597,076	\$ -	\$ -	\$23,597,076	\$ -
2007 Series A - Serial	62,030,000	-	-	62,030,000	205,000
CAB accrued interest	2,308,119	1,268,064	-	3,576,183	-
Total bonded debt	<u>\$87,935,195</u>	<u>\$1,268,064</u>	<u>\$ -</u>	<u>\$89,203,259</u>	<u>\$ 205,000</u>

Debt Service Requirements

Debt service requirements on Proposition G debt as of June 30, 2010, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 205,000	\$ 3,068,300	\$ 3,273,300
2012	380,000	3,056,600	3,436,600
2013	565,000	3,037,700	3,602,700
2014	770,000	3,011,000	3,781,000
2015	990,000	2,975,800	3,965,800
2016-2020	9,080,000	13,799,250	22,879,250
2121-2025	13,771,223	15,481,777	29,253,000
2026-2030	10,615,643	27,036,857	37,652,500
2031-2035	17,535,210	30,298,415	47,833,625
2036-2037	31,715,000	2,485,625	34,200,625
Totals	<u>\$ 85,627,076</u>	<u>\$ 104,251,324</u>	<u>\$ 189,878,400</u>

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2010

NOTE F. PROPERTY PLANT AND EQUIPMENT

The following is a summary of the changes in property, plant, and equipment at June 30, 2010 and 2009:

	Balance			Balance
	June 30, 2009	Additions	Deletions	June 30, 2010
Land	\$ 7,061,501	\$ -	\$ -	\$ 7,061,501
Buildings	4,707,202	-	-	4,707,202
Furniture and equipment	485,962	-	-	485,962
Construction in progress	97,332	45,859	(100,236)	42,955
Subtotal	12,351,997	45,859	(100,236)	12,297,620
Less:				
Accumulated depreciation	(1,337,330)	(117,681)	-	(1,455,011)
Total	<u>\$ 11,014,667</u>	<u>\$ (71,822)</u>	<u>\$ (100,236)</u>	<u>\$ 10,842,609</u>

	Balance			Balance
	June 30, 2008	Additions	Deletions	June 30, 2009
Land	\$ 6,989,230	\$ 72,271	\$ -	\$ 7,061,501
Buildings	4,707,202	-	-	4,707,202
Furniture and equipment	485,962	-	-	485,962
Construction in progress	19,758	77,574	-	97,332
Subtotal	12,202,152	149,845	-	12,351,997
Less:				
Accumulated depreciation	(1,211,010)	(126,320)	-	(1,337,330)
Total	<u>\$ 10,991,142</u>	<u>\$ 23,525</u>	<u>\$ -</u>	<u>\$ 11,014,667</u>

Construction in progress represents costs for the District's Dr. John W. Hardebeck Health Occupation's Training Center. This project will be funded all, or in part, by Proposition G proceeds, however, is not a project on the Hospital campus. Proposition G allotted \$7,500,000 for the project with design concepts and drawings currently underway with project architects.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2010

NOTE G. DEFINED BENEFIT PENSION PLAN

Plan description and provisions

The District provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The District is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer pooled plan administered by CalPERS, which acts as a common investment and administrative agent for participating employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through District ordinance. CalPERS issue a separate comprehensive annual financial report with copies available from the CalPERS Executive Office – 400 P Street, Sacramento, CA 95814.

Funding policy

All full-time District employees and certain Board Members are eligible to participate in CalPERS. Employees become vested after five years of service. District employees who retire at or after age sixty, with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 3.00% of their single highest year's salary for each year of credited service. CalPERS also provide death and survivor's benefits. These benefit provisions and all other requirements are established by State statute and District ordinance. The District is required to contribute the actuarially determined amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for Fiscal Year 2010 was 16.445%. The employer contribution rate is established and may be amended by CalPERS.

Annual pension cost

For fiscal year 2009 – 2010, the District's annual required contribution was \$54,784 and the District actually contributed \$110,983, which includes the District paid 8% employee share. The required contribution for fiscal year 2009 – 2010 was determined as part of the June 30, 2008 actuarial valuation using the entry age actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases from 3.25% to 14.45% depending on age, service, and type of employment; (c) 3.25% payroll growth adjustment; (d) 3.00% inflation adjustment; and (e) a merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of .25%. The actuarial value of the assets of the plan was determined using a technique that smoothes the effect of volatility in the market value of investments over a fifteen year period depending on the size of investment gains and/or losses. The District's unfunded liabilities are amortized over a closed period equal to the average amortization period at the Plan's date of entry into the CalPERS Risk Pool. Subsequent plan amendments are amortized as a level percentage of pay over a closed 15-year period. Gains and losses that occur in the operation of the risk pool are amortized over a rolling 30 year period. The remaining amortization period at June 30, 2008 was 16 years for the District.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2010

NOTE G. DEFINED BENEFIT PENSION PLAN, continued

Fiscal year ended June 30:	Three-Year Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2008	\$ 54,173	126.2%	\$ -
2009	45,690	280.5%	-
2010	54,784	202.9%	-

Required Supplementary Information - Funded Status of Plan¹

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded / (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL As a % of Payroll
06/30/06	\$ 620,492	\$ 501,707	\$ 118,785	80.9%	\$ 126,050	94.2%
06/30/07	699,664	576,070	123,594	82.3%	139,335	88.7%
06/30/08	776,167	641,167	134,999	82.6%	155,115	87.0%

¹ Represents multi-employer pool totals expressed in thousands and is the most current data available

NOTE H. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Effective July 1, 2007, the District early implemented Governmental Accounting Standards Board Statement 43, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Under these statements, the District will measure its liability for the postemployment benefits in regard to unfunded liabilities for retiree health and long-term care benefits.

Plan description and provisions

The District has established a policy to participate in the California Employer Retirement Benefit Trust, a multiple-employer, defined benefit OPEB plan. In connection with joining the trust, the District has fully funded it's actuarially determined liability.

Funding policy

The District offers lifetime health and long-term care benefits to certain eligible retirees and former Board Members and their eligible dependents. In addition to paying the full premium for the cost of health and long-term care insurance, the District also reimburses the eligible retirees for any out-of-pocket costs associated with covered benefits under its health insurance. Currently, there are five eligible retired participants and beneficiaries and seven active eligible employees and beneficiaries receiving benefits. The plan is 100% District funded.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2010

NOTE H. OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

Annual OPEB cost

The District's annual OPEB cost consisted of the following actuarially required contributions, excluding payments made direct to providers that may be reimbursed by the plan, respectively:

Fiscal year ended June 30:	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
2008	\$ 250,672	399.0%	\$ 749,328
2009	219,205	456.0%	1,530,123
2010	82,754	479.0%	1,909,082

Required Supplementary Information - Funded Status of Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded / (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
06/30/07	\$ 1,722,587	\$ -	\$ 1,722,587	0.0%	\$ 302,314	569.8%
06/30/08	1,912,808	948,075	964,733	49.6%	302,314	319.1%
06/30/09	1,705,217	1,811,846	(106,629)	106.0%	302,314	-35.3%

NOTE I. TRANSFERS TO/FROM GROSSMONT DISTRICT HOSPITAL

Subsequent to June 30, 1995, the District's Board of Directors rescinded the standing resolution that directed the automatic transfer of cash and investments to the Corporation. Under the new resolution, all property tax revenues, as they are incrementally collected and paid to the District, will remain with the District and will not be shared, except as allocated by separate resolution. During the fiscal years ending 2010 and 2009, transfers, including amounts accrued, to the Corporation were \$10,488,214 and \$31,448,359, respectively, consisting of:

	2010	2009
General support	\$ 950,000	\$ 1,097,170
Proposition G support	10,096,092	30,351,189
	<u>\$ 11,046,092</u>	<u>\$ 31,448,359</u>

NOTE J. INSURANCE

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. The District also purchases commercial insurance to cover the risk of loss for property, business liability, and medical payments. In addition, the District carries primary liability and property insurance with coverage limits of \$5,000,000 and excess property coverage

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2010

NOTE J. INSURANCE, continued

up to \$1,000,000,000. Sharp provides and pays the following insurance for the District: property for hospital assets transferred under the lease and subsequently acquired, and directors' and officers' liability insurance. The limit of liability for the current directors' and officers' liability is \$500,000, inclusive of defense expenses.

NOTE K. COMMITMENTS AND CONTINGENCIES

Earthquake retrofit

Senate Bill 1953 imposes certain requirements that acute care hospitals would be required to meet within a specified time. These requirements include conducting seismic evaluations. Hospitals determined to pose certain risks shall only be used for nonacute care purposes after January 1, 2008. Grossmont Hospital has obtained an extension on meeting the January 1, 2008 deadline until January 1, 2013. After January 1, 2013, all hospitals must be determined to be in compliance. The District may be liable for compliance with Senate Bill 1953 in the event that Sharp defaults on its lease and transfer obligation.

Proposition G expenditures

Pursuant to the passage of Proposition G, the District has approximately \$8,737,815 in construction contract commitments at June 30, 2010.

NOTE L. FUND DEFICIT

The debt service fund net asset deficit in the amount of \$(75,229,572) will be reduced over the life of the bonds as property taxes are accumulated to meet scheduled debt service.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Grossmont Healthcare District

I have audited the financial statements of Grossmont Healthcare District as of and for the year ended June 30, 2010, and have issued my report thereon dated September 8, 2010. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I considered to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, the Board of Directors, and management and is not intended to be or should be used by anyone other than these specified parties.



El Cajon, California
September 8, 2010

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GROSSMONT HEALTHCARE DISTRICT
 Bond Fund's Combining Schedule of Net Assets/(Deficit)
 June 30, 2010

	Debt Service	Building	Total
ASSETS			
Current assets:			
Property taxes receivable	\$ 42,479	\$ -	\$ 42,479
Accrued investment interest	102,665	112,184	214,849
Purchased investment interest	6,349	55,703	62,052
Total current assets	<u>151,493</u>	<u>167,887</u>	<u>319,380</u>
Non-current assets:			
Restricted cash and cash equivalents with fiscal agent	1,967,451	15,480,215	17,447,666
Restricted investments with fiscal agent	14,347,502	21,516,193	35,863,695
Deferred bond costs, net of accumulated amortization of \$126,373	1,167,094	-	1,167,094
Total non-current assets	<u>17,482,047</u>	<u>36,996,408</u>	<u>54,478,455</u>
Total assets	<u>\$ 17,633,540</u>	<u>\$ 37,164,295</u>	<u>\$ 54,797,835</u>

GROSSMONT HEALTHCARE DISTRICT
 Bond Fund's Combining Schedule of Net Assets/(Deficit), continued
 June 30, 2010

	Debt Service	Building	Total
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable	-	\$ 1,370,996	\$ 1,370,996
Accrued interest	1,536,232	-	1,536,232
Total other current liabilities	<u>1,536,232</u>	<u>1,370,996</u>	<u>2,907,228</u>
Long-term liabilities:			
Bonds payable - capital appreciation bonds 2007A	23,597,076	-	23,597,076
Bonds payable - current interest bonds 2007A	62,030,000	-	62,030,000
Capital appreciation bond accrued interest	3,576,183	-	3,576,183
Bond premium, net of accumulated amortization of \$229,946	2,123,621	-	2,123,621
Total long term liabilities	<u>91,326,880</u>	<u>-</u>	<u>91,326,880</u>
Total liabilities	<u>\$ 92,863,112</u>	<u>\$ 1,370,996</u>	<u>\$ 94,234,108</u>
Net assets/(deficit):			
Restricted for debt service	\$ (75,229,572)	-	\$ (75,229,572)
Restricted for capital projects	-	35,793,299	35,793,299
Total net assets	<u>\$ (75,229,572)</u>	<u>\$ 35,793,299</u>	<u>\$ (39,436,273)</u>

GROSSMONT HEALTHCARE DISTRICT

Bond Fund's Combining Schedule of Activities and Changes in Net Assets/(Deficit)
Year Ended June 30, 2010

	Debt Service	Building	Total
REVENUES			
Non-operating revenue:			
Investment earnings	\$ 619,306	\$ 381,195	\$ 1,000,501
Property taxes	5,553,088	-	5,553,088
Total non-operating revenues	<u>6,172,394</u>	<u>381,195</u>	<u>6,553,589</u>
EXPENSES			
Non-operating expenses:			
Interest expense	4,259,339	-	4,259,339
Deferred bond cost amortization	44,602	-	44,602
Other expense	-	100,236	100,236
Total non-operating expenses	<u>4,303,941</u>	<u>100,236</u>	<u>4,404,177</u>
Change in net assets	1,868,453	280,959	2,149,412
Net assets/(deficit), beginning of year	(77,098,025)	45,608,432	(31,489,593)
Other financing sources/(uses)	-	-	-
Transfers	-	-	-
Transfers to Grossmont Hospital	-	(10,096,092)	(10,096,092)
Net assets/(deficit), end of year	<u>\$ (75,229,572)</u>	<u>\$ 35,793,299</u>	<u>\$ (39,436,273)</u>

GROSSMONT HEALTHCARE DISTRICT

Bond Fund's Combining Schedule of Cash Flows
Year Ended June 30, 2010

	Debt Service	Building	Total
CASH FLOWS FROM NON-OPERATING ACTIVITIES			
Cash received from non-operating activity	\$ (3,072,400)	\$ (100,236)	\$ (3,172,636)
Net cash provided (used) by non-operating activities	<u>(3,072,400)</u>	<u>(100,236)</u>	<u>(3,172,636)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Other financing sources - bond proceeds	-	-	-
Net cash provided by capital and related financing activities	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investments	(3,218,196)	(18,435,850)	(21,654,046)
Maturities of investments	-	22,830,000	22,830,000
Reclass of investment to cash equivalent	-	4,035,000	4,035,000
Interest revenue	455,941	767,647	1,223,588
Net cash provided (used) by investing activities	<u>(2,762,255)</u>	<u>9,196,797</u>	<u>6,434,542</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Cash received from property taxes - general obligation bonds	5,595,765	-	5,595,765
Transfers to Grossmont Hospital	-	(9,538,214)	(9,538,214)
Fund transfers	-	-	-
Net cash provided (used) by non-capital financing activities	<u>5,595,765</u>	<u>(9,538,214)</u>	<u>(3,942,449)</u>
Net change in cash and cash equivalents	<u>(238,890)</u>	<u>(441,653)</u>	<u>(680,543)</u>
CASH AND CASH EQUIVALENTS			
Beginning of year	2,206,341	15,921,868	18,128,209
End of year	<u>\$ 1,967,451</u>	<u>\$ 15,480,215</u>	<u>\$ 17,447,666</u>
RECONCILIATION OF CASH AND INVESTMENTS TO CASH AND CASH EQUIVALENTS:			
Cash with fiscal agent restricted for bond debt service	\$ 1,967,451	\$ -	\$ 1,967,451
Cash with fiscal agent restricted for building fund	-	15,480,215	15,480,215
Investments with fiscal agent restricted for debt service	14,347,502	-	14,347,502
Investments with fiscal agent restricted for building fund	-	21,516,193	21,516,193
Total cash, cash equivalents and investments	<u>\$ 16,314,953</u>	<u>\$ 36,996,408</u>	<u>\$ 53,311,361</u>