Grossmont Healthcare District

Financial Statements and Independent Auditors' Reports

Years Ended June 30, 2011 and 2010

GROSSMONT HEALTHCARE DISTRICT

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September 7, 2011

INDEPENDENT AUDITORS' REPORT

Board of Directors
Grossmont Healthcare District
La Mesa, California

We have audited the accompanying basic financial statements of Grossmont Healthcare District as of and for the year ended June 30, 2011, as listed in the table of contents. These basic financial statements are the responsibility of the Grossmont Healthcare District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The basic financial statements of Grossmont Healthcare District as of June 30, 2010 were audited by other auditors whose report dated September 8, 2010 expressed an unqualified opinion on those statements.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Grossmont Healthcare District as of June 30, 2011, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, PERS Defined Benefit Pension Plan – schedule of funding progress, and Other Post-Employment Benefit Plan – schedule of funding progress, as identified in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements of the District. Such information is the responsibility of management and was derived from and relates 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements of the District or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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In 1952, the residents of the area voted to form Grossmont Healthcare District (the District) and establish, build, and operate Grossmont Hospital. Grossmont Hospital has gone through numerous renovations over the years and currently has 536 beds over a sprawling campus setting. Since May 1991, the District has leased Grossmont Hospital under a 30-year agreement to Sharp HealthCare. Sharp HealthCare is a multi-facility health care system located in San Diego County. As the management of the District, we are providing the readers of the financial statements a narrative "snapshot" and analysis of our financial performance during the fiscal year ended June 30, 2011. 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 and should be read in connection with those statements.

Financial Highlights

- The District successfully issued $136,860,000 of general obligation bonds under voter approved Proposition G. This was the second of three bond sales anticipated under Proposition G and will be used to:
  - ✓ Upgrade and expand advanced, rapid response cardiac care facilities.
  - ✓ Provide the latest medical technology for patient diagnosis, treatment and recovery.
  - ✓ Rehabilitate deteriorated plumbing, electrical, ventilation, and inadequate medical facilities.
  - ✓ Add patient beds, operating rooms, and medical facilities to serve our growing community.
  - ✓ Make seismic upgrades for earthquake safety.
- The District had an increase in cash, cash equivalents, and investments at the close of its most recent fiscal year of $135,793,547.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements, which are comprised of the following:

The *Statement of Net Assets/(Deficit)* provides information regarding the financial position of the District, including its cash, investments, capital assets, liabilities, and debts, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or weakening. It is important for the reader to understand that the assets and liabilities of Grossmont Hospital are not reported in the accompanying basic financial statements due to the long-term nature of the District's lease with Sharp HealthCare set to expire in 2021, unless renewed by a majority vote of the District's voters. Additionally, the improvements and additions/enhancements to the leased property funded by Proposition G general obligation bonds' follows the same accounting treatment. However, the debt associated with Proposition G *is* recorded on the books of the District, and the corresponding property tax revenue to pay that debt off over time is also recorded on the books of the District.

Overview of the Financial Statements, continued

The *Statement of Revenues, Expenses, and Changes in Net Assets/(Deficit)* provides information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses in this statement are for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

The *Statement of Cash Flows* provides information on cash receipts and payments for the fiscal year.

The *Notes to the Basic Financial Statements* provide additional information that is essential to a full understanding of the data supplied in each of the specific financial statements listed above.

Financial Activities & Fiscal Year 2011 Highlights

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the District, unrestricted net assets are negative due to the long-term nature of Proposition G general obligation bonds recorded.

By far the District's most significant assets are cash, cash equivalents, and investments. The District's cash and investments position increased $135,793,547 from FY 2010 to FY 2011. This increase is due primarily to the cash proceeds received from the earlier noted bond sale. Accordingly, the District's most significant liability is long-term debt associated with Proposition G. It is important to understand that this long-term debt will be paid over time from the receipt of property tax assessments collected over the next thirty years.

The District's *Net Assets Invested in Capital Assets* represents its administrative and library campus and land holdings. This continues to be the District's most significant long-term asset. It is important for the reader to note there is no outstanding debt associated with the administrative and library campus.

Financial Activities & Fiscal Year 2011 Highlights, continued

The following table highlights the financial position and net assets of the District:

Statements of Net Assets

	FY11	FY10	FY09
Assets:			
Cash, cash equivalents and investments	$ 195,145,282	$ 59,351,735	$ 67,747,876
Capital assets	10,769,439	10,842,610	11,014,667
All other assets	5,836,666	4,213,928	3,299,003
Total assets	211,751,387	74,408,273	82,061,546
Liabilities:			
Long-term	230,997,584	91,121,880	90,139,974
Other	5,280,336	4,059,803	6,265,897
Total liabilities	236,277,920	95,181,683	96,405,871
Net assets/(deficit):			
Invested in capital assets	10,769,439	10,842,610	11,014,667
Restricted for debt service	15,997,541	14,778,303	11,648,349
Restricted for capital projects	168,213,667	36,996,408	49,378,012
Unrestricted	(219,507,180)	(83,390,731)	(86,385,353)
Total net assets	$ (24,526,533)	$ (20,773,410)	$ (14,344,325)

Financial Activities & Fiscal Year 2011 Highlights, continued

The District's business is comprised of four primary segments:

- Administration - This function consists of the general mission of the District as a steward of the public trust to preserve and protect those resources entrusted to our care and to maintain and improve the physical and mental health of its constituents. Additionally, monitoring the health care provided under contract at Grossmont Hospital to assure that patients' needs are met and that their reasonable expectations are exceeded.

- 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 Operating - The District operates the Dr. William C. Herrick Community library specializing in healthcare related media and specialized learning programs.

- Facility - This segment consists of all campus related buildings and covers operations, maintenance and security. It also includes the James G. Stieringer Conference Center which also serves as a community meeting place with theatre-style seating capacity for 65 and technologically advanced audio/visual presentation system.

Financial Activities & Fiscal Year 2011 Highlights, continued

A condensed version of the *Statement of Revenue, Expenses and Changes in Net Assets/(Deficit)* is presented in the following table and explanations for the more significant changes between fiscal years are explained below the table:

	FY11	FY10	FY09
Revenues:			
Property tax revenue	$ 11,908,948	$ 11,338,190	$ 12,054,371
Investment income	1,376,975	1,092,097	1,449,918
Other income	681,989	290,905	49,240
Total revenues	13,967,912	12,721,192	13,553,529
Expenses:			
Administration, library, and facilities	1,963,196	1,941,637	1,981,600
Community healthcare	1,165,742	1,460,411	2,296,061
Interest expense	6,852,828	4,259,339	4,200,177
Other	407,572	442,798	688,654
Contributions to Grossmont Hospital	7,331,697	11,046,092	31,448,359
Total expenses	17,721,035	19,150,277	40,614,851
Change in net assets	(3,753,123)	(6,429,085)	(27,061,322)
Beginning net assets	(20,773,410)	(14,344,325)	12,716,997
Ending net assets	$ (24,526,533)	$ (20,773,410)	$ (14,344,325)

Property taxes are the District's primary source of revenue and are also levied to pay the debt service on the outstanding Proposition G general obligation bonds. Property tax revenues decreased $716,181 from FY2009 to FY2010 and increased $570,758 from FY2010 to 2011. The local real estate market continues to experience market volatility; however the District's assessments have stabilized.

The District's community healthcare expenses decreased $835,650 from 2009 to 2010 resulting from the Board of Directors reducing its overall grants program and the non-recurrence of $470,000 in one-time "state budget crisis" working capital grants to community clinics made in FY09. Community healthcare expenses decreased $294,669 from FY2010 to FY 2011 primarily due to the Board of Directors staying closer to budgeted guidelines during FY2011.

Financial Activities & Fiscal Year 2011 Highlights, continued

Contributions to Grossmont Hospital represents:

- Payments made to Grossmont Hospital for general operating support or equipment; and,
- Payments made to Grossmont Hospital under the Proposition G program.

Transfers decreased $20,402,267 from FY2009 to FY2010 and decreased $3,714,395 from FY2010 to FY2011 resulting primarily from the phasing and timing of Proposition G program expenses financed by Proposition G general obligation bonds. See the *Notes to the Basic Financial Statements* for more information.

Capital Assets

At June 30, 2011 the District had $12,342,129 in capital assets and $1,572,693 in accumulated depreciation resulting in $10,769,439 of net capital assets.

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

	FY11	FY10	FY09
Land	$ 7,061,501	$ 7,061,501	$ 7,061,501
Construction in progress	70,422	42,955	97,332
Buildings	4,707,202	4,707,202	4,707,202
Furniture and equipment	503,004	485,962	485,962
Subtotal	12,342,129	12,297,620	12,351,997
Less:			
Accumulated depreciation	(1,572,693)	(1,455,011)	(1,337,330)
Total	$ 10,769,439	$ 10,842,610	$ 11,014,667

The changes in the District's capital asset activity is relatively minor, however, the $17,042 increase in furniture and equipment from FY2010 to FY2011 was due to the purchase of a new computer server and upgrades to the District's James G. Stieringer Conference Center audio/visual presentation system.

Debt Administration

Proposition G authorized the issuance of up to $247,000,000 in general obligation bonds. On August 2, 2007, the District issued $85,627,076 of general obligation bonds. On February 23, 2011, the District issued $136,860,000 of general obligation bonds.

One final bond sale estimated to be in the range of $24,512,000 is tentatively scheduled for first quarter 2014, depending on construction progress and market conditions.

Long-term liabilities for the year ended June 30, 2011, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
2007 Series A - CAB's	$ 23,597,076	$ -	$ -	$ 23,597,076	$ -
2007 Series A - CIB's	62,030,000	-	205,000	61,825,000	380,000
2007A unamortized premium	2,123,621	-	81,157	2,042,464	-
2007A CAB accrued interest	3,576,183	1,387,605	-	4,963,788	-
2011B CIB's	-	136,860,000	-	136,860,000	-
2011B unamortized premium	-	2,113,271	24,014	2,089,257	-
Total long-term debt, net	$ 91,326,880	$ 140,360,876	$ 310,171	$ 231,377,584	$ 380,000

The District's bonded debt is Moody's Investors Service rated AA2 and is considered to be investment grade.

Economic Outlook and Major Initiatives

The District is continuing to maximize and leverage its tax revenues to fund the increasing unmet healthcare needs in its service area. The Fiscal Year 2012 budget reflects revenues of $15,324,900 and expenses of $11,484,105.

The District is continuing to make significant improvements to Grossmont Hospital under the Proposition G program. It is anticipated all improvements will be completed by the end of FY15.

The District is also contemplating financing a cogeneration system in the range of $20,000,000 to provide a stable, environmentally clean and efficient energy source for Grossmont Hospital.

In August 2011, Standard & Poor's downgraded the AAA rating of the United States government and all federally backed agencies to AA+. Moody's Investors Service continues to hold its rating at AAA. All securities held by the District are affected by the downgrade, however the underlying value of the securities has not been affected and interest payments continue to be received as scheduled.

Contacting The District's Financial Management

The District believes in financial transparency and encourages any interested party to contact the District for clarification or additional information regarding this report. Inquiries may be forwarded to the address identified below or via the District's website or e-mail address.

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Basic Financial Statements

GROSSMONT HEALTHCARE DISTRICT

Statements of Net Assets/(Deficit)

June 30, 2011 and 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,868,543	$ 3,275,897
Investments	4,025,841	2,764,477
Restricted investments with fiscal agent	188,250,898	53,311,361
Property taxes receivable	781,589	88,204
Other accounts receivable	135,691	106,397
Accrued investment interest	182,028	225,592
Prepaid expenses and deposits	57,714	44,242
Purchased investment interest	57,183	63,473
Total current assets	196,359,487	59,879,643
Noncurrent assets:		
Due from State	564,290	609,844
Deferred bond costs, net	2,124,365	1,167,094
Net OPEB asset	1,933,806	1,909,082
Capital assets:		
Land	7,061,501	7,061,501
Construction in progress	70,422	42,955
Capital assets, net of depreciation	3,637,516	3,738,154
Total capital assets, net of depreciation	10,769,439	10,842,610
Total noncurrent assets	15,391,900	14,528,630
Total assets	$ 211,751,387	$ 74,408,273

(continued)

See accompanying independent auditors' report and notes to basic financial statements.

		2011	2010
LIABILITIES			
Current liabilities:			
Accounts and grants payable		$ 804,526	$ 2,281,686
Accrued compensated absences		61,960	36,885
Current maturities of long-term debt		380,000	205,000
Liabilities payable from restricted assets:			
Restricted accrued interest		4,033,850	1,536,232
Total current liabilities		5,280,336	4,059,803
Long-term liabilities:			
General obligation bonds		226,033,796	87,545,697
Capital appreciation bond accrued interest		4,963,788	3,576,183
Total long-term liabilities		230,997,584	91,121,880
Total liabilities		236,277,920	95,181,683
NET ASSETS			
Invested in capital assets		10,769,439	10,842,610
Restricted for debt service		15,997,541	16,314,503
Restricted for capital projects		168,213,667	36,996,408
Unrestricted		(219,507,180)	(84,926,931)
Total net assets/(deficit)		$ (24,526,533)	$ (20,773,410)

See accompanying independent auditors' report and notes to basic financial statements.

GROSSMONT HEALTHCARE DISTRICT

Statements of Revenues, Expenses, and Changes in Net Assets/(Deficit)
Years Ended June 30, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Property taxes	$ 5,988,715	$ 5,785,102
Total operating revenues	5,988,715	5,785,102
OPERATING EXPENSES		
Administrative expenses	1,222,207	1,347,162
Community healthcare	1,165,742	1,460,411
Library operating expenses	297,622	271,470
Facility expenses	443,367	323,005
Total operating expenses	3,128,938	3,402,048
Operating income	2,859,777	2,383,054
NON-OPERATING REVENUES (EXPENSES)		
Property taxes, general obligation bonds	5,920,233	5,553,088
Investment income	1,376,975	1,092,097
Other income	681,989	290,905
Bond interest expense	(6,852,828)	(4,259,339)
Deferred bond cost amortization	(51,641)	(44,602)
Other expenses	(355,931)	(398,196)
Contributions to Grossmont Hospital	(7,331,697)	(11,046,092)
Total non-operating income (expense)	(6,612,900)	(8,812,139)
CHANGE IN NET ASSETS		
Total change in net assets	(3,753,123)	(6,429,085)
Net assets/(deficit), beginning of year	(20,773,410)	(14,344,325)
Net assets/(deficit), end of year	$ (24,526,533)	$ (20,773,410)

See accompanying independent auditors' report and notes to basic financial statements.

GROSSMONT HEALTHCARE DISTRICT

Statements of Cash Flows

Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from property taxes	$ 5,670,534	$ 5,800,087
Cash received from miscellaneous sources	205,028	125,402
Cash payments to employees	(1,080,346)	(990,944)
Cash payments to vendors for goods and services	(2,588,905)	(3,261,657)
Net cash provided by operating activities	2,206,311	1,672,888
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash received from property taxes - general obligation bonds	5,545,056	5,545,451
Contributions to Grossmont Hospital	(7,953,193)	(10,488,214)
Cash received from miscellaneous sources	270,000	-
Other payments	(344,588)	(300,293)
Net cash provided/(used) by non-capital financing activities	(2,482,725)	(5,243,056)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(44,509)	(54,379)
Proceeds from issuance of bonds	138,288,990	-
Principal payments on long-term debt	(205,000)	-
Interest payments and fees	(3,068,300)	(3,072,400)
Other payments	(323,268)	-
Net cash provided/(used) by capital and related financing activities	134,647,913	(3,126,779)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(138,967,776)	(24,061,375)
Maturities of investments	18,500,000	23,330,940
Interest received	949,744	1,307,576
Net transfers to investments	(15,260,821)	4,715,543
Net cash provided/(used) by investing activities	(134,778,853)	5,292,684
Net increase (decrease) in cash and cash equivalents	(407,354)	(1,404,263)
CASH AND CASH EQUIVALENTS		
Beginning of year	3,275,897	4,680,160
End of year	$ 2,868,543	$ 3,275,897

(continued)

See accompanying independent auditors' report and notes to basic financial statements.

GROSSMONT HEALTHCARE DISTRICT

Statements of Cash Flows, continued
Years Ended June 30, 2011 and 2010

		2011		2010
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES				
Operating income	$	2,859,777	$	2,383,054
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation		117,680		117,680
Changes in operating assets and liabilities:				
(Increase)/decrease in property taxes receivable		(318,181)		(18,741)
(Increase)/decrease in prepaid expenses and deposits		(13,472)		35,958
(Increase)/decrease in accounts receivable and due from State		16,262		(715,708)
(Increase)/decrease in net OPEB asset		(24,724)		(378,959)
Increase/(decrease) in accounts and grants payable		(456,106)		240,005
Increase/(decrease) in accrued compensated absences		25,075		9,599
Net cash provided/(used) by operating activities	$	2,206,311	$	1,672,888
SCHEDULE OF CASH AND CASH EQUIVALENTS				
Current assets:				
Cash and cash equivalents	$	2,868,543	$	3,275,897
Total cash and cash equivalents	$	2,868,543	$	3,275,897
SUPPLEMENTAL DISCLOSURES				
Non-cash investing and financing activities:				
Change in fair value of investments	$	866,444	$	(34,810)
Amortization related to long-term debt	$	51,640	$	44,602

See accompanying independent auditors' report and notes to basic financial statements.

Notes To Basic Financial Statements

Note A. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

Grossmont Healthcare District (the District) is a local healthcare 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.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting financial reporting purposes.

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Management of the District and the Board of Directors have elected to report the District's activity as an Enterprise Fund based on the payment received from the Affiliation Agreement with Sharp which runs through May, 2021.

Note A. Reporting Entity and Summary of Significant Accounting Policies, continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation-continued
Revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flow takes place.

Net assets of the District are classified into three components: (1) invested in capital assets, (2) restricted net assets, and (3) unrestricted net assets. These classifications are defined as follows:

- Invested in Capital Assets
  This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of notes or borrowing that are attributable to the acquisition of the asset, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. The District did not have any unspent related debt proceeds or outstanding balances of notes or borrowing attributable to its capital assets at June 30, 2011 or 2010.

- Restricted Net Assets
  This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted Net Assets
  This component of net assets consists of net assets that do not meet the definition of "invested in capital assets" or "restricted net assets".

The District distinguishes operating revenues and expenses from those revenues and expenses that are non-operating. Operating revenues are property tax revenues that are received for general operations and pertain directly to the mission of the District. Non-operating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal activities of the District.

Taxes and assessments are recognized as revenues based upon amounts reported to the District by the County of San Diego, net of allowance for delinquencies.

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

Note A. Reporting Entity and Summary of Significant Accounting Policies, continued

The District has elected under GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting, to apply all GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements.

Property Taxes

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 January 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.

Property Taxes-Debt Service

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 at acquisition.

Note A. Reporting Entity and Summary of Significant Accounting Policies, continued

Investments
Investments in debt securities with readily determinable fair values are measured at fair value in the *Statement of Net Assets/(Deficit).* Investments in government investment pools are reported on the fair value per share of the pool's underlying portfolio.

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.

Other Noncurrent Assets
Deferred bond costs of $1,293,467 and $1,013,389 for the 2007A Bonds and 2011B Bonds, respectively, net of accumulated amortization of $170,976 and $11,515, respectively, represents cost of issuance expenses and are being amortized on the straight-line method based on the estimated term of the related bond debt. Amortization expense of $51,641 and $44,602 for the years ended June 30, 2011 and 2010, respectively, is included in the *Statement of Revenues, Expenses, and Changes in Net Assets/(Deficit)* as deferred bond cost amortization.

Accounts and Grants Payable
Accounts and grants payable represents amounts committed to vendors for general services and local nonprofit and local government agencies under the District's community healthcare grant program.

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. The District has set the capitalization threshold for reporting capital assets at a cost greater than $5,000 with an expected life greater than one year.

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.

Compensated Absences
A liability is recorded for unused vacation and sick leave balances since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time-off or payment upon termination or retirement.

Note A. Reporting Entity and Summary of Significant Accounting Policies, continued

Restricted Assets and Liabilities
Certain current liabilities have been classified as current liabilities payable from restricted assets as they will be funded from restricted assets.

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

Note B. Financing Authorities

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

Note C. Proposition G Bond Sales

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

Fund	Amount
Cost of issuance	$ 426,272
Debt service	1,032,832
Building	85,627,076
	$ 87,086,180

Bond sale proceeds at the close of the transaction on February 23, 2011 from the Series 2011B Bonds resulted in the following deposits:

Fund	Amount
Cost of issuance	$ 332,690
Debt service	1,096,300
Building	136,860,000
	$ 138,288,990

Note D. Cash, Cash Equivalents, and Investments

The primary goals of the District's Investments Policy are to assure compliance with Federal, State, and Local laws governing the investment of funds under the control of the organization, protect the principal of investments entrusted, and generate income under the parameters of such policies.

Cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Assets:	2011	2010
Current assets		
Cash and cash equivalents	$ 2,868,543	$ 3,275,897
Investments	4,025,841	2,764,477
Restricted investments with fiscal agent	188,250,898	53,311,361
Total cash and investments	$ 195,145,282	$ 59,351,735

Cash and investments consist of the following:

	2011	2010
Cash on hand	$ 174	$ 149
Deposits with financial institutions	1,508,701	1,103,254
Investments	193,636,407	58,248,332
Total cash and investments	$ 195,145,282	$ 59,351,735

Note D. Cash, Cash Equivalents, and Investments, continued

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

Authorized Investment Type	Maximum Maturity	Maximum % of Portfolio	Max. Invest. Per Issuer
Certificates of Deposit	5 Years	None	None
Negotiable Certificates of Deposit	None	20%	$1,000,000
Local Agency Investment Fund	None	None	None
County Pooled Investment Fund	None	None	None
U.S. Treasury Obligations	5 Years	None	None
U.S. Government Sponsored Entities	5 Years	None	None
Money Market Mutual Funds	None	20%	None

Investments Authorized by Debt Agreements
Investments of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's Investment Policy.

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

Note D. Cash, Cash Equivalents, and Investments, continued

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations are provided by the following tables that show the distribution of the District's investments by maturity as of June 30, 2011 and 2010.

June 30, 2011

Investment Type		Twelve Months or Less	Thirteen to Twenty-four Months	Twenty-five to Sixty Months	More Than Sixty Months
U.S. Government Sponsored Entities	$ 160,823,252	$ 30,895,449	$ 69,282,885	$ 60,644,918	$ -
Money Market Mutual Funds	30,203,487	30,203,487	-	-	-
Local Agency Investment Fund (LAIF)	2,609,668	2,609,668	-	-	-
	$ 193,636,407	$ 63,708,604	$ 69,282,885	$ 60,644,918	$ -

June 30, 2010

Investment Type		Twelve Months or Less	Thirteen to Twenty-four Months	Twenty-five to Sixty Months	More Than Sixty Months
U.S. Government Sponsored Entities	$ 41,913,172	$ 13,462,955	$ 15,903,863	$ 12,546,354	$ -
Money Market Mutual Funds	13,412,666	13,412,666	-	-	-
Local Agency Investment Fund (LAIF)	2,922,494	2,922,494	-	-	-
	$ 58,248,332	$ 29,798,115	$ 15,903,863	$ 12,546,354	$ -

Note D. Cash, Cash Equivalents, and Investments, continued

Disclosures Relating to Credit Risk
Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or the District's Investment Policy, or debt agreements, and the actual rating by Moody's Investors Service as of June 30, 2011 and 2010 for each investment type.

June 30, 2011

			Rating as of Year End		
Investment Type		Minimum Legal Rating	AAA	AA	Not Rated
U.S. Government Sposored Entities	$ 160,823,252	N/A	$ 160,823,252	$ -	$ -
Money Market Mutual Funds	30,203,487	N/A	-	-	30,203,487
Local Agency Investment Fund (LAIF)	2,609,668	N/A	-	-	2,609,668
	$ 193,636,407		$ 160,823,252	$ -	$ 32,813,155

June 30, 2010

			Rating as of Year End		
Investment Type		Minimum Legal Rating	AAA	AA	Not Rated
U.S. Government Sposored Entities	$ 41,913,172	N/A	$ 41,913,172	$ -	$ -
Money Market Mutual Funds	13,412,666	N/A	-	-	13,412,666
Local Agency Investment Fund (LAIF)	2,922,494	N/A	-	-	2,922,494
	$ 58,248,332		$ 41,913,172	$ -	$ 16,335,160

Note D. Cash, Cash Equivalents, and Investments, continued

Concentration of Credit Risk

The investment policy of the District contains various limitations on the amounts that can be invested in any one type or group of investments and in any issuer, beyond that stipulated, by the California Government Code, Sections 53600 through 53692. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments as of June 30, 2011 and 2010 are as follows:

June 30, 2011

Issuer Type	Investment Type	Reported Amount
Federal Home Loan Bank	U.S. Government Sponsored Entity	$ 81,548,397
Federal National Mortgage Assoc.	U.S. Government Sponsored Entity	$ 62,858,764

June 30, 2010

Issuer Type	Investment Type	Reported Amount
Federal Home Loan Bank	U.S. Government Sponsored Entity	$ 23,207,872
Federal National Mortgage Assoc.	U.S. Government Sponsored Entity	$ 7,843,769
Federal Farm Credit Bank	U.S. Government Sponsored Entity	$ 7,598,437

Note D. Cash, Cash Equivalents, and Investments, continued

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government 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 deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2011 and 2010, $0 of the District's deposits with financial institutions were in excess of federal depository insurance limits.

Local Agency Investment Fund (LAIF)

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost-basis.

Collateral for Deposits

All cash and certificates of deposit are entirely insured or collateralized.

Under the provisions of the California Government Code, California banks and savings and loan associations are required to secure the District's deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits.

Note D. Cash, Cash Equivalents, and Investments, continued

The District may waive the 110% collateral requirements for deposits which are insured up to $250,000 by the FDIC.

Note E. Capital Assets

The following two tables present a summary of the changes in property, plant, and equipment at June 30, 2011 and 2010:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Capital Assets Not Depreciated:				
Land	$ 7,061,501	$ -	$ -	$ 7,061,501
Construction in progress	42,955	27,467	-	70,422
Total capital assets not depreciated	7,104,456	27,467	-	7,131,923
Capital Assets Depreciated:				
Buildings	4,707,202	-	-	4,707,202
Furniture and equipment	485,962	17,042	-	503,004
Total capital assets being depreciated	5,193,164	17,042	-	5,210,206
Less Accumulated Depreciation:				
Furniture and equipment	485,962	-	-	485,962
Buildings	969,049	117,680	-	1,086,729
Total	1,455,011	117,680	-	1,572,691
Total Capital Assets Depreciated, net	3,738,153	100,638	-	3,637,515
Total Capital Assets, Net	$ 10,842,610	$ (73,171)	$ -	$ 10,769,439

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
Capital Assets Not Depreciated:				
Land	$ 7,061,501	$ -	$ -	$ 7,061,501
Construction in progress	97,332	45,859	100,236	42,955
Total capital assets not depreciated	7,158,833	45,859	100,236	7,104,456
Capital Assets Depreciated:				
Buildings	4,707,202	-	-	4,707,202
Furniture and equipment	485,962	-	-	485,962
Total capital assets being depreciated	5,193,164	-	-	5,193,164
Less Accumulated Depreciation:				
Furniture and equipment	485,962	-	-	485,962
Buildings	851,368	117,681	-	969,049
Total	1,337,329	117,681	-	1,455,011
Total Capital Assets Depreciated, net	3,855,834	117,681	-	3,738,153
Total Capital Assets, Net	$ 11,014,667	$ (71,822)	$ 100,236	$ 10,842,610

Note E. Capital Assets, continued

Depreciation expense of $117,680 and $117,681 is included in operating expenses on the Statement of Revenues, Expenses and Changes in Net Assets/(Deficit) for the fiscal years ended June 30, 2011 and 2010, respectively. 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.

Note F. Bonded Long-Term Debt

General Obligation Bonds
The District received authorization at an election held on June 6, 2006, 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 of $2,353,567. In February 2011, Series 2011B general obligation bonds (Series 2011B Bonds) in the amount of $136,860,000 were sold at a premium of $2,113,271. The Series 2007A Bonds were sold by the District to the North San Diego County Health Facilities Financing 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 were resold immediately to Goldman, Sachs & Co., the underwriter, under the terms of a negotiated sale agreement. The Series 2011B Bonds were sold by the District to the San Diego County Health Facilities Financing 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 B Bonds purchased were resold immediately to Goldman, Sachs & Co., the underwriter, under the terms of a negotiated sale agreement.

Security for the Bonds
The Series 2007A and 2011B 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 and 2011B Bonds. The 2007A and 2011B Bonds are not obligations of the County of San Diego, the Authorities, the State or any of its political subdivisions, other than the District.

Note F. Bonded Long-Term Debt, continued

<u>Insurance</u>
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 2011B Bonds are uninsured.

The outstanding Proposition G bonded debt is as follows:

On August 2, 2007, the District issued $85,627,076 of capital appreciation bonds (CAB) and current interest bonds (CIB). 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.

The maturity schedule of the 2007A capital appreciation bonds are as follows:

Capital Appreciation Bonds $23,597,076

Maturity Date July 15	Yield to Maturity	Principal Amount
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
		$ 23,597,076

Note F. Bonded Long-Term Debt, continued

The maturity schedule of the 2007A current interest bonds are as follows:

Current Interest Bonds $61,825,000		
Maturity Date July 15	Interest Rate	Principal Amount
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
		$ 61,825,000

Note F. Bonded Long-Term Debt, continued

In February 2011, the District issued $136,860,000 of current interest bonds. The maturity schedule of the 2011B current interest bonds are as follows:

Current Interest Bonds $136,860,000		
Maturity Date July 15	Interest Rate	Principal Amount
2016	3.000%	$ 5,000
2017	3.250%	5,000
2018	3.500%	5,000
2019	3.750%	5,000
2020	4.000%	5,000
2021	4.250%	5,000
2022	4.500%	5,000
2023	4.750%	5,000
2024	5.000%	5,000
2025	5.000%	340,000
2026	5.000%	785,000
2027	5.000%	1,275,000
2028	5.125%	1,815,000
2029	5.250%	2,400,000
2030	5.375%	3,050,000
2031	5.000%	3,755,000
2032	5.500%	4,540,000
2033	5.500%	5,430,000
2034	5.800%	6,380,000
2035	6.125%	7,425,000
2036	6.125%	8,580,000
2037	6.125%	9,835,000
2038	6.125%	24,060,000
2039	6.125%	26,985,000
2040	6.125%	30,160,000
		$ 136,860,000

Note F. Bonded Long-Term Debt, continued

Long-term liabilities for the year ended June 30, 2011, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
2007 Series A - CAB's	$ 23,597,076	$ -	$ -	$ 23,597,076	$ -
2007 Series A - CIB's	62,030,000	-	205,000	61,825,000	380,000
2007A unamortized premium	2,123,621	-	81,157	2,042,464	-
2007A CAB accrued interest	3,576,183	1,387,605	-	4,963,788	-
2011B CIB's	-	136,860,000	-	136,860,000	-
2011B unamortized premium	-	2,113,271	24,014	2,089,257	-
Total long-term debt, net	$ 91,326,880	$ 140,360,876	$ 310,172	$ 231,377,584	$ 380,000

Long-term liabilities for the year ended June 30, 2010, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
2007 Series A - CAB's	$ 23,597,076	$ -	$ -	$ 23,597,076	$ -
2007 Series A - CIB's	62,030,000	-	-	62,030,000	205,000
2007A unamortized premium	2,204,778	-	81,157	2,123,621	-
2007A CAB accrued interest	2,308,119	1,268,064	-	3,576,183	-
Total long-term debt, net	$ 90,139,973	$ 1,268,064	$ 81,157	$ 91,326,880	$ 205,000

Note F. Bonded Long-Term Debt, continued

Debt Service Requirements
Debt service requirements on Proposition G bonded debt as of June 30, 2011, net of unamortized premiums, are as follows:

Year Ending June 30	Principal	Interest	Total
2012	$ 380,000	$ 5,919,590	$ 6,299,590
2013	565,000	11,283,113	11,848,113
2014	770,000	11,256,413	12,026,413
2015	990,000	11,221,213	12,211,213
2016	1,225,000	8,246,891	9,471,891
2017-2021	10,715,000	54,797,689	65,512,689
2122-2026	13,351,775	59,202,414	72,554,189
2027-2031	20,095,553	69,239,724	89,335,277
2032-2036	52,369,748	61,638,957	114,008,705
2037-2040	121,820,000	23,691,912	145,511,912
Totals	$ 222,282,076	$ 316,497,917	$ 538,779,993

Note G. Net Assets

Designated net assets
In addition to the restricted net assets, a portion of the unrestricted net assets have been designated by the Board of Directors for the following purposes at June 30, 2011 and 2010:

Purpose	2011	2010
Contingency reserve	$ 3,100,000	$ 2,600,000

Note H. Defined Benefit Pension Plan

Plan Description and Provisions
The District's defined benefit plan (Plan) 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 Plan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through District ordinance. CalPERS issues 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 the Plan. 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 provides death and survivor's benefits. These benefit provisions and all other requirements are established by State statute and District ordinance. Active members in the Plan are required to contribute 8% of their annual covered salary. The District has elected to contribute the 8% on behalf of its employees. The District is required to contribute the actuarially determined amounts necessary to fund the benefits for it members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for Fiscal Year 2011 was 15.738%. The employer contribution rate is established and may be amended by CalPERS.

Note H. Defined Benefit Pension Plan, continued

Annual Pension Cost

For fiscal year June 30, 2011, the District's annual required contribution was $56,337 and the District actually contributed $111,593, which does not include the District paid 8% employee share. The required contribution for the fiscal year was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method with the contributions determined as a level percent of payroll. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases from 3.55% 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. Asset valuation methods are amortized as a 15 year smoothed market basis. 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, 2009 was 16 years for the District.

Three-Year Trend Information

Fiscal year ended June 30:	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011	$ 56,337	100.0%	$ -
2010	54,784	100.0%	-
2009	45,645	100.0%	-

The Schedule of Funding Progress, presented as *required supplementary information* following the *Notes to the Basic Financial Statements* presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over the time relative to the actuarial accrued liability for the benefits.

Note I. Other Post Employment 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. The District's defined benefit postemployment healthcare plan, (DPHP), provides medical benefits to eligible retired District employees and beneficiaries. DPHP is part of the Public Agency portion of the California Employers' Retiree Benefit Trust Fund (CERBT), an agent multiple-employer plan administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statute within the Public Employees' Retirement Law. DPHP selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through District resolution. CalPERS issues a separate Comprehensive Annual Financial Report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

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.

Coverage benefits are established by District policy and may be amended by the Board of Directors.

Note I. Other Post Employment Benefits, continued

Annual OPEB Cost and Net OPEB Obligation/(Asset)
The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover the normal annual cost. Any unfunded actuarial liability (or funding excess) is amortized over a period not to exceed thirty years. The current ARC rate is 20.84% of the annual covered payroll.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation/asset.

	2011	2010
Annual required contribution	$ 89,477	$ 82,754
Interest on net OPEB asset	(147,954)	(133,854)
Adjustment to annual required contribution (ARC)	123,229	111,486
Annual OPEB cost	64,753	60,386
Contributions made	(89,477)	(242,321)
(Increase) in net OPEB asset	(24,724)	(181,935)
Net OPEB (asset), beginning of year	(1,909,082)	(1,727,147)
Net OPEB (asset), end of year	$ (1,933,806)	$ (1,909,082)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation/(asset) for the fiscal years ended June 30, 2011, 2010, and 2009 were as follows:

Three Year Trend Information

Fiscal year ended June 30:	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
2011	$ 64,753	100.0%	$ (1,933,806)
2010	60,386	100.0%	(1,909,082)
2009	208,452	100.0%	(1,530,123)

Note I. Other Post Employment Benefits, continued

Funded Status and Funding Progress
The funded status of the plan as of June 30, 2009, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	$	1,705,217
Actuarial value of plan assets	$	(1,811,846)
Unfunded actuarial accrued liability (UAAL)	$	(106,629)
Funded ratio		106%
Covered payroll	$	397,000
UAAL as a percentage of covered payroll		-27%

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

Note I. Other Post Employment Benefits, continued

Actuarial Methods and Assumptions

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

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2009
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll
Remaining amortization period	28
Asset valuation method	Expected market
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increase	3.25%
Inflation	3.00%
Individual salary growth	N/A

Note J. Contributions To Grossmont Hospital Corporation

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 2011 and 2010, contributions, including amounts accrued, to the Corporation were $7,331,697 and $11,046,092, respectively, consisting of:

	2011	2010
General support	$ 1,030,000	$ 950,000
Proposition G support	6,301,697	10,096,092
	$ 7,331,697	$ 11,046,092

Note K. Commitments and Contingencies

Construction Commitments

The District had outstanding contracts and commitments under capital projects of $5,944,971 and $8,737,815, respectively, at June 30, 2011 and 2010.

Litigation

Certain claims, suits and complaints arising in the ordinary course of operation have been filed or are pending against the District. In the opinion of the staff and counsel, all such matters are adequately covered by insurance, or if not so covered, are without merit or are of such kind, or involved such amounts, as would not have significant effect on the financial position or results of operations of the District if disposed of unfavorably.

Note L. Risk Management

General Liability

The District is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, and natural disasters. The District participates in an insurance pool through the Special District Risk Management Authority (SDRMA). SDRMA is a not-for-profit public agency formed under California Government Code Sections 6500 et. Seq. SDRMA is governed by a board composed of members from participating agencies. The mission of SDRMA is to provide renewable, efficiently priced risk financing and risk management services through a financially sound pool. The District pays an annual premium for commercial insurance covering general liability, excess liability, property, automobile, public employee dishonesty, and various other claims. Coverage limits range up to $1 billion for all entities. Accordingly, the District retains no risk of loss. Separate financial statements of SDRMA may be obtained by contacting the Special District Risk Management Authority direct via mail at 1112 "I" Street, Suite 300, Sacramento, California 95814.

Sharp provides and pays the following insurance for the District:

- Property for hospital assets transferred under the lease and subsequently acquired.
- Directors' and Officers' liability insurance. The limit of liability for the current policy is $1,000,000, inclusive of defense expenses.

Workers' Compensation

The District is insured through the State Compensation Insurance Fund to $100,000,000 for all entities in the Statutory Worker's Compensation.

Health Insurance

The District provides health insurance through PERS covering all of its eligible employees, retirees, and other dependents.

Note L. Risk Management, continued

Adequacy of Protection
During the past three fiscal (claims) years none of the above programs of protection have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

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, 2030, 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. The cost of meeting these requirements cannot be estimated at June 30, 2011 or 2010.

Grant Commitments
The District had grants payable to various nonprofit and government agencies under its grant program in the amount of $311,199 and $780,345, respectively for the years ended June 30, 2011 and 2010.

Note M. Interest Expense

Interest expense for the years ended June 30, 2011 and 2010, is as follows:

	2011	2010
Interest expense on bonded debt	$ 6,852,828	$ 4,259,339
	$ 6,852,828	$ 4,259,339

Note N. Subsequent Event

In August 2011, Standard & Poor's downgraded the AAA rating of the United States government and all federally backed agencies to AA+. Moody's Investors Service continues to hold its rating at AAA. All securities held by the District are affected by the downgrade, however the underlying value of the securities has not been affected and interest payments continue to be received as scheduled.

Required Supplementary Information

Funded Status for PERS Pension Plan[1]

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded / (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL As a % of Payroll
06/30/09	$ 883,394	$ 694,385	$ 189,009	78.6%	$ 161,972	116.7%
06/30/08	776,167	641,168	134,999	82.6%	155,115	87.0%
06/30/07	699,664	576,070	123,594	82.3%	139,335	88.7%

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

Funded Status for DPHP Plan[1]

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded / (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL As a % of Payroll
06/30/09	$ 1,705	$ 1,812	$ (107)	106.3%	$ 397	-27.0%
06/30/08	1,913	948	965	49.6%	302	319.5%
06/30/07	1,723	-	1,723	0.0%	302	570.5%

[1] Represents totals expressed in thousands and is the most current data available

Supplemental Information

GROSSMONT HEALTHCARE DISTRICT
Combining Schedule Net Assets/(Deficit)
June 30, 2011

	General	Debt Service	Building	Cost of Issuance	Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ 2,868,543	$ -	$ -	$ -	$ 2,868,543
Investments	4,025,841	-	-	-	4,025,841
Restricted investments with fiscal agent	-	20,027,808	168,213,668	9,422	188,250,898
Property taxes receivable	363,907	417,682	-	-	781,589
Other accounts receivable	135,691	-	-	-	135,691
Accrued investment interest	8,897	65,757	107,374	-	182,028
Prepaid expenses and deposits	57,714	-	-	-	57,714
Purchased investment interest	-	9,263	47,920	-	57,183
Total current assets	7,460,593	20,520,509	168,368,963	9,422	196,359,487
Noncurrent assets:					
Due from State	564,290	-	-	-	564,290
Deferred bond costs, net	-	2,124,365	-	-	2,124,365
Net OPEB asset	1,933,806	-	-	-	1,933,806
Capital assets:					
Land	7,061,501	-	-	-	7,061,501
Construction in progress	70,422	-	-	-	70,422
Capital assets, net of depreciation	3,637,516	-	-	-	3,637,516
Total capital assets, net of depreciation	10,769,439	-	-	-	10,769,439
Total noncurrent assets	13,267,535	2,124,365	-	-	15,391,900
Total assets	$ 20,728,128	$ 22,644,874	$ 168,368,963	$ 9,422	$ 211,751,387

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT
Combining Schedule of Net Assets/(Deficit), continued
June 30, 2011

	General	Debt Service	Building	Cost of Issuance	Total
LIABILITIES AND EQUITY					
Current liabilities:					
Accounts and grants payable	$ 448,772	$ -	$ 349,915	$ 5,839	$ 804,526
Accrued compensated absences	61,960	-	-	-	61,960
Current maturities of long-term debt	-	380,000	-	-	380,000
Liabilities payable from restricted assets:					
Restricted accrued interest	-	4,033,850	-	-	4,033,850
Total current liabilities	510,732	4,413,850	349,915	5,839	5,280,336
Long-term liabilities:					
General obligation bonds	-	226,033,796	-	-	226,033,796
Capital appreciation bond accrued interest	-	4,963,788	-	-	4,963,788
Total-long term liabilities	-	230,997,584	-	-	230,997,584
Total liabilities	510,732	235,411,434	349,915	5,839	236,277,920
NET ASSETS					
Net assets/(deficit):					
Invested in capital assets	10,769,439	-	-	-	10,769,439
Restricted for debt service	-	15,993,958	-	3,583	15,997,541
Restricted for capital projects	-	-	168,213,667	-	168,213,667
Unrestricted	9,447,957	(228,760,518)	(194,619)	-	(219,507,180)
Total net assets/(deficit)	$ 20,217,396	$ (212,766,560)	$ 168,019,048	$ 3,583	$ (24,526,533)

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT
Combining Schedule of Revenues, Expenses and Changes in Net Assets/(Deficit)
Year Ended June 30, 2011

	General	Debt Service	Building	Cost of Issuance	Total
OPERATING REVENUES					
Property taxes	$ 5,988,715	$ -	$ -	$ -	$ 5,988,715
Total operating revenues	5,988,715	-	-	-	5,988,715
OPERATING EXPENSES:					
Administrative expenses	1,222,207	-	-	-	1,222,207
Community healthcare	1,165,742	-	-	-	1,165,742
Library operating expenses	297,622	-	-	-	297,622
Facility expenses	443,366	-	-	-	443,367
Total operating expenses	3,128,938	-	-	-	3,128,938
Operating income	2,859,777	-	-	-	2,859,777
NON-OPERATING REVENUES (EXPENSES)					
Property taxes, general obligation bonds	-	5,920,233	-	-	5,920,233
Investment income	68,283	310,831	997,861	-	1,376,975
Other income	12,404	-	669,585	-	681,989
Bond interest expense	-	(6,852,828)	-	-	(6,852,828)
Deferred bond cost amortization	-	(51,641)	-	-	(51,641)
Other expenses	(355,931)	-	-	-	(355,931)
Contributions to Grossmont Hospital	(1,030,000)	-	(6,301,697)	-	(7,331,697)
Total non-operating income (loss)	(1,305,244)	(673,405)	(4,634,251)	-	(6,612,900)
CHANGE IN NET ASSETS					
Income (loss)	1,554,533	(673,405)	(4,634,251)	-	(3,753,123)
Other financing sources/(uses)	-	(136,863,582)	136,860,000	3,583	-
Total change in net assets	1,554,533	(137,536,988)	132,225,749	3,583	(3,753,123)
Total net assets/(deficit), beginning of year	18,662,863	(75,229,572)	35,793,299	-	(20,773,410)
Total net assets/(deficit), end of year	$ 20,217,396	$ (212,766,560)	$ 168,019,048	$ 3,583	$ (24,526,533)

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT
Combining Schedule of Cash Flows
Year Ended June 30, 2011

	General	Debt Service	Building	Cost of Issuance	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from property taxes	$5,670,534	$ -	$ -	$ -	$ 5,670,534
Cash received from miscellaneous sources	205,028	-	-	-	205,028
Cash payments to employees	(1,080,346)	-	-	-	(1,080,346)
Cash payments to vendors for goods and services	(2,588,905)	-	-	-	(2,588,905)
Net cash provided by operating activities	2,206,311	-	-	-	2,206,311
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Cash received from property taxes - general obligation bonds	-	5,545,056	-	-	5,545,056
Contributions to Grossmont Hospital	(1,030,000)	-	(6,923,193)	-	(7,953,193)
Cash received from miscellaneous sources	-	-	270,000	-	270,000
Other payments	(344,588)	-	-	-	(344,588)
Net cash provided/(used) by noncapital financing activities	(1,374,588)	5,545,056	(6,653,193)	-	(2,482,725)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(44,509)	-	-	-	(44,509)
Proceeds from issuance of bonds	-	1,096,300	136,860,000	332,690	138,288,990
Principal payments on long-term debt	-	(205,000)	-	-	(205,000)
Interest payments and fees	-	(3,068,300)	-	-	(3,068,300)
Other payments	-	-	-	(323,268)	(323,268)
Net cash provided/(used) by capital and related financing activities	(44,509)	(2,177,000)	136,860,000	9,422	134,647,913
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of investments	(1,500,000)	(2,627,040)	(134,840,736)	-	(138,967,776)
Maturities of investments	250,000	3,750,000	14,500,000	-	18,500,000
Interest received	55,432	516,274	378,038	-	949,744
Net transfers to investments	-	(5,007,290)	(10,244,109)	(9,422)	(15,260,821)
Net cash provided/(used) by investing activities	(1,194,568)	(3,368,056)	(130,206,807)	(9,422)	(134,778,853)
Net increase (decrease) in cash and cash equivalents	(407,354)	-	-	-	(407,354)
CASH AND CASH EQUIVALENTS					
Beginning of year	3,275,897	-	-	-	$ 3,275,897
End of year	$2,868,543	$ -	$ -	$ -	$ 2,868,543

See independent auditors' report.