

Grossmont Healthcare District



*Financial Statements and
Independent Auditors' Reports*

Years Ended June 30, 2014 and 2013

GROSSMONT HEALTHCARE DISTRICT

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Grossmont Healthcare District
La Mesa, California

We have audited the accompanying financial statements of the Grossmont Healthcare District (the District) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Grossmont Healthcare District as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the California State Controller's Office and California regulations governing Special Districts.

Emphasis of Matters

As discussed in Note A to the basic financial statements, the District has changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal years 2013 and 2014 due to the adoption of Governmental Accounting Standards Board's Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". The adoption of this standard required retrospective application resulting in a \$1,816,495 and \$1,904,784 reduction of previously reported net position as of July 1, 2013 and 2012, respectively. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and Schedule of Funding Progress for DPHP, 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.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Combining Schedule of Net Position/(Deficit), Combining Schedule of Revenues, Expenses and Changes in Net Position/(Deficit) and Combining Schedule of Cash Flows are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Schedule of Net Position/(Deficit), Combining Schedule of Revenues, Expenses and Changes in Net Position/(Deficit) and Combining Schedule of Cash Flows are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Schedule of Net Position/(Deficit), Combining Schedule of Revenues, Expenses and Changes in Net Position/(Deficit) and Combining Schedule of Cash Flows are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

White Nelson Dick Evans LLP

Carlsbad, California
September 11, 2014

GROSSMONT HEALTHCARE DISTRICT

Management's Discussion and Analysis

June 30, 2014 and 2013

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 licensed beds over a sprawling campus setting. Since May 1991, the District has leased Grossmont Hospital under a 30-year agreement to Sharp HealthCare. In June 2014 the voters of the District approved a new thirty (30) year lease of Grossmont Hospital to expire in 2051. 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, 2014 and 2013. 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 continued its improvements funded by Proposition G at Grossmont Hospital
- The District increased its Board Contingency Fund to \$7,350,000 from \$5,350,000
- A new thirty (30) year lease of Grossmont Hospital was approved by District voters to expire in 2051

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 Position/(Deficit)* provides information regarding the financial position of the District, including its assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position 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 2051, 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.

The *Statement of Revenues, Expenses, and Changes in Net Position/(Deficit)* provides information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as 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.

GROSSMONT HEALTHCARE DISTRICT

Management's Discussion and Analysis

June 30, 2014 and 2013

Financial Activities & Fiscal Year 2014 Highlights

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of the District, unrestricted net position is negative due to the long-term nature of Proposition G general obligation bonds recorded. The District's most significant assets are cash, cash equivalents, and investments. The District's cash and investments position decreased \$50,289,102 from FY 2014 to FY 2013. This decrease is due primarily to the spending down of restricted financing and bond money for authorized projects. 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 Investment in Capital Assets* represents its administrative and library campus and land holdings. *Net Investment in Capital Assets* includes two projects that are in progress:

1. The Dr. John W. Hardebeck Health Occupations Training Center is conceptualized as an approximately 21,000 gross square foot, two-story building for the training of allied health care workers, with classes to be held by Grossmont College. Current project estimates for the facility are \$9.5 million to \$11.5 million, with up to \$7.5 million budgeted in the Proposition G program.
2. The Cogeneration Project is for a 4.4 megawatt combustion turbine generator, heat recovery steam generator and other equipment required to build-out the new Central Energy Plant project at the Hospital. Current project estimates for the project are \$18 million to be paid for by tax-exempt bank financing.

It is important for the reader to note there is no outstanding debt associated with the administrative and library campus. The following table highlights the financial position and net position of the District:

Statements of Net Position

	FY14	FY13 (Restated)	FY12
Assets:			
Cash, cash equivalents and investments	\$ 118,079,514	\$ 168,368,616	\$ 202,222,802
Capital assets	21,952,837	15,543,543	10,713,339
All other assets	3,669,307	3,515,719	6,109,947
Total assets	143,701,658	187,427,878	219,046,088
Deferred Outflows of Resources	-	-	-
Liabilities:			
Long-term	244,990,761	246,509,225	247,837,790
Other	19,987,399	17,701,630	10,802,185
Total liabilities	264,978,160	264,210,855	258,639,975
Deferred Inflows of Resources	-	-	-
Net position/(deficit):			
Invested in capital assets	14,472,919	12,979,912	10,713,339
Restricted for debt service	7,135,983	10,064,541	12,997,701
Restricted for capital projects	92,437,208	131,407,094	157,778,080
Unrestricted	(235,322,612)	(231,234,524)	(221,083,007)
Total net position	\$ (121,276,502)	\$ (76,782,977)	\$ (39,593,887)

GROSSMONT HEALTHCARE DISTRICT

Management's Discussion and Analysis

June 30, 2014 and 2013

Financial Activities & Fiscal Year 2014 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 theater-style seating capacity for 65 and a technologically advanced audio/visual presentation system.

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

	FY14	FY13 (Restated)	FY12
Revenues:			
Property tax revenue	\$ 15,250,590	\$ 15,189,263	\$ 13,965,865
Investment income	431,681	422,801	1,420,501
Other income	674,741	333	83,949
Total revenues	<u>16,357,012</u>	<u>15,612,397</u>	<u>15,470,315</u>
Expenses:			
Administration, library, and facilities	1,900,944	2,097,575	1,853,237
Community healthcare	1,048,883	1,062,209	1,236,913
Interest expense	12,959,917	12,952,987	12,427,350
Other	267,474	397,770	320,258
Contributions to Grossmont Hospital	44,673,320	34,386,162	14,699,911
Total expenses	<u>60,850,538</u>	<u>50,896,703</u>	<u>30,537,669</u>
Change in net position	(44,493,525)	(35,284,306)	(15,067,354)
Beginning net position	(76,782,977)	(39,593,887)	(24,526,533)
Prior period adjustment	-	(1,904,784)	-
Ending net position	<u>\$ (121,276,502)</u>	<u>\$ (76,782,977)</u>	<u>\$ (39,593,887)</u>

GROSSMONT HEALTHCARE DISTRICT

Management's Discussion and Analysis

June 30, 2014 and 2013

Financial Activities & Fiscal Year 2014 Highlights, continued

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 increased \$61,327 from FY 2013 to FY 2014 and increased \$1,223,398 from FY 2012 to 2013. The local real estate market continues to experience some market volatility; however the District's taxable assessed valuations have stabilized and are beginning to increase.

Community healthcare expenses decreased \$13,326 from FY 2014 to FY 2013 which represents fairly consistent community healthcare outlay. The District's community healthcare expenses decreased \$174,704 from 2013 to 2012 resulting from the Board of Directors reducing its budgeted allocation for the year.

Contributions to Grossmont Hospital represent:

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

Contributions increased \$10,287,158 from FY2014 to FY2013 resulting primarily from the phasing and timing of Proposition G program expenses financed by Proposition G general obligation bonds. Contributions increased \$19,686,251 from FY 2013 to FY 2012 for the same reason as noted prior. See the *Notes to the Basic Financial Statements* for more information.

Capital Assets

At June 30, 2014 the District had \$23,905,658 in capital assets and \$1,952,821 in accumulated depreciation resulting in \$21,952,837 of net capital assets. A summary of the activity and balances in capital assets is presented below.

	FY14	FY13	FY12
Land	\$ 7,061,501	\$ 7,061,501	\$ 7,061,501
Construction in progress	11,618,437	5,080,611	130,883
Buildings	4,707,202	4,707,202	4,707,202
Furniture and equipment	518,518	518,518	510,203
Subtotal	23,905,658	17,367,832	12,409,789
Less:			
Accumulated depreciation	(1,952,821)	(1,824,289)	(1,696,450)
Total	\$ 21,952,837	\$ 15,543,543	\$ 10,713,342

The changes in the District's capital asset activity are primarily the result of increases to the District's two previously mentioned construction-in-progress projects.

GROSSMONT HEALTHCARE DISTRICT

Management's Discussion and Analysis

June 30, 2014 and 2013

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. All debt is Moody's Investors Service rated AA2.

One final bond sale estimated to be in the range of \$24,512,000 is tentatively scheduled for mid-2015, depending on construction progress and market conditions.

On June 29, 2012 the District entered into a tax-exempt lease arrangement (Lease) with a bank (the Lessor) to acquire cogeneration equipment for inclusion in the planned new central energy plant at the Hospital.

Changes in long-term liabilities for the period ended June 30, 2014, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
General Obligation Bonds					
2007 Series A - CAB's	\$ 23,597,076	\$ -	\$ -	\$ 23,597,076	\$ -
2007 Series A - CIB's	60,880,000	-	770,000	60,110,000	990,000
2007A unamortized premium	1,880,150	-	81,159	1,798,991	-
2007A CAB accrued interest	7,829,984	1,539,876	-	9,369,860	-
2011B CIB's	136,860,000	-	-	136,860,000	-
2011B unamortized premium	1,945,168	-	72,042	1,873,126	-
Total general obligation bonds, net	232,992,378	1,539,876	923,201	233,609,053	990,000
Other Long-term Debt					
Financing obligation	16,162,672	-	1,875,556	14,287,116	1,915,408
Total long-term liabilities	\$ 249,155,050	\$ 1,539,876	\$ 2,798,757	\$ 247,896,169	\$ 2,905,408

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 2015 budget reflects total revenues of \$16,055,988 and total expenses, net of noncash adjustments of \$4,660,480, of \$14,756,681.

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 FY17.

GROSSMONT HEALTHCARE DISTRICT

Management's Discussion and Analysis

June 30, 2014 and 2013

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 via the District's website or email address.

Grossmont Healthcare District

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Basic Financial Statements

GROSSMONT HEALTHCARE DISTRICT

Statements of Net Position/(Deficit)

June 30, 2014 and 2013

	2014	2013 Restated
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,998,604	\$ 5,546,866
Investments	7,340,479	5,144,392
Property taxes receivable	722,025	783,414
Other accounts receivable	518,869	142,636
Accrued investment interest	75,778	194,410
Prepaid expenses and deposits	18,263	53,149
Restricted cash and cash equivalents with fiscal agent	6,807,198	13,599,040
Restricted investments with fiscal agent	97,933,233	144,078,318
Total current assets	<u>119,414,449</u>	<u>169,542,225</u>
Noncurrent assets:		
Prepaid bond insurance, net	348,966	367,005
Net OPEB asset	1,985,406	1,975,105
Capital assets:		
Land	7,061,501	7,061,501
Construction in progress	11,618,437	5,080,611
Capital assets, net of depreciation	3,272,899	3,401,431
Total capital assets, net of depreciation	<u>21,952,837</u>	<u>15,543,543</u>
Total noncurrent assets	<u>24,287,209</u>	<u>17,885,653</u>
Total assets	<u>143,701,658</u>	<u>187,427,878</u>
DEFERRED OUTFLOWS OF RESOURCES		
	<u>-</u>	<u>-</u>

(continued)

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

GROSSMONT HEALTHCARE DISTRICT

Statements of Net Position/(Deficit)

June 30, 2014 and 2013

	2014	2013 Restated
LIABILITIES		
Current liabilities:		
Accounts and grants payable	\$ 7,221,660	\$ 7,628,795
Accrued compensated absences	51,632	60,698
Deposits	3,712,884	1,837,328
Unearned revenue	928,575	358,670
Current maturities of long-term debt	2,905,408	2,645,825
Liabilities payable from restricted assets:		
Restricted accrued interest	5,167,240	5,170,314
Total current liabilities	<u>19,987,399</u>	<u>17,701,630</u>
Long-term liabilities:		
General obligation bonds	223,249,193	224,392,394
Financing obligation	12,371,708	14,286,847
Capital appreciation bond accrued interest	9,369,860	7,829,984
Total long-term liabilities	<u>244,990,761</u>	<u>246,509,225</u>
Total liabilities	<u>264,978,160</u>	<u>264,210,855</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
NET POSITION/(DEFICIT)		
Net investment in capital assets	14,472,919	12,979,912
Restricted for debt service	7,135,983	10,064,541
Restricted for capital projects	92,437,208	131,407,094
Unrestricted	<u>(235,322,612)</u>	<u>(231,234,524)</u>
Total net position/(deficit)	<u>\$ (121,276,502)</u>	<u>\$ (76,782,977)</u>

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

GROSSMONT HEALTHCARE DISTRICT

Statements of Revenues, Expenses, and Changes in Net Position/(Deficit)
Years Ended June 30, 2014 and 2013

	2014	2013 Restated
OPERATING REVENUES		
Property taxes	\$ 6,228,486	\$ 6,276,339
Total operating revenues	<u>6,228,486</u>	<u>6,276,339</u>
OPERATING EXPENSES		
Administrative expenses	1,219,687	1,458,761
Community healthcare	1,048,883	1,062,209
Library operating expenses	293,364	295,129
Facility expenses	387,893	343,685
Total operating expenses	<u>2,949,827</u>	<u>3,159,784</u>
Operating income	<u>3,278,659</u>	<u>3,116,555</u>
NON-OPERATING REVENUES (EXPENSES)		
Property taxes, general obligation bonds	9,022,104	8,912,924
Investment income	431,682	422,801
Grant and other income	674,741	333
Interest expense	(12,959,917)	(12,952,987)
Prepaid bond insurance amortization	(18,040)	(18,040)
Other expenses	(249,434)	(379,730)
Contributions to Grossmont Hospital	(44,673,320)	(34,386,162)
Total non-operating income (expense)	<u>(47,772,184)</u>	<u>(38,400,861)</u>
CHANGE IN NET POSITION:		
Total change in net position	(44,493,525)	(35,284,306)
Net position/(deficit), beginning of year	(76,782,977)	(39,593,887)
Prior period adjustment	-	(1,904,784)
Net position/(deficit), end of year	<u>\$ (121,276,502)</u>	<u>\$ (76,782,977)</u>

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

GROSSMONT HEALTHCARE DISTRICT

Statements of Cash Flows

Years Ended June 30, 2014 and 2013

	2014	2013 Restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from property taxes	\$ 6,242,674	\$ 6,307,692
Cash received from miscellaneous sources	153,932	636,805
Cash payments to employees	(981,476)	(1,048,728)
Cash payments to vendors for goods and services	(2,470,003)	(1,689,521)
Net cash provided by operating activities	<u>2,945,127</u>	<u>4,206,248</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash received from property taxes - general obligation bonds	9,067,306	8,813,355
Contributions to Grossmont Hospital	(44,964,918)	(30,357,123)
Other payments	343,659	(379,730)
Net cash provided/(used) by non-capital financing activities	<u>(35,553,953)</u>	<u>(21,923,498)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(6,537,826)	(4,958,044)
Principal payments on long-term debt	(770,000)	(565,000)
Interest payments and fees	(11,256,413)	(11,283,113)
Net cash provided/(used) by capital and related financing activities	<u>(18,564,239)</u>	<u>(16,806,157)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(91,300,307)	(164,999,440)
Maturities of investments	65,955,143	77,813,706
Sale of investments	72,530,933	115,296,400
Interest received	753,071	1,463,474
Net transfers to investments	(3,105,879)	1,582,527
Net cash provided/(used) by investing activities	<u>44,832,961</u>	<u>31,156,667</u>
Net increase (decrease) in cash and cash equivalents	<u>(6,340,104)</u>	<u>(3,366,740)</u>
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>19,145,906</u>	<u>22,512,646</u>
End of year	<u>\$ 12,805,802</u>	<u>\$ 19,145,906</u>

(continued)

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

GROSSMONT HEALTHCARE DISTRICT

Statements of Cash Flows, continued

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u> Restated
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES		
Operating income	\$ 3,278,659	\$ 3,116,555
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	128,532	127,839
Bad debt	-	13,722
Changes in operating assets and liabilities:		
(Increase)/decrease in property taxes receivable	14,187	31,353
(Increase)/decrease in prepaid expenses and deposits	34,886	5,921
(Increase)/decrease in accounts receivable	(376,233)	493,295
(Increase)/decrease in net OPEB asset	(10,301)	(19,404)
Increase/(decrease) in accounts and grants payable	(115,537)	445,976
Increase/(decrease) in accrued compensated absences	(9,066)	(9,009)
Net cash provided/(used) by operating activities	<u>\$ 2,945,127</u>	<u>\$ 4,206,248</u>
SCHEDULE OF CASH AND CASH EQUIVALENTS		
Current assets:		
Cash and cash equivalents	\$ 5,998,604	\$ 5,546,866
Restricted cash and cash equivalents with fiscal agent	6,807,198	13,599,040
Total cash and cash equivalents	<u>\$ 12,805,802</u>	<u>\$ 19,145,906</u>
SUPPLEMENTAL DISCLOSURES		
Non cash investing and financing activities:		
Change in fair value of investments	\$ (171,842)	\$ (352,451)
Amortization related to long-term debt	\$ 18,040	\$ 18,040
Interest expense recorded - paid by the Corporation (Note F)	\$ 319,904	\$ 358,670
Principal payments recorded - paid by the Corporation (Note F)	\$ 1,875,556	\$ 1,837,328

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

Notes To Basic Financial Statements

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

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 Agreement 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 Agreement's 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.

In June 2014, the voters of the District passed a measure extending the lease an additional 30 years. The Extended Lease Agreement will expire in May 2051.

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.

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

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

- Net Investment in Capital Assets

This component of net position 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. The District had \$6,807,198 unspent related financing proceeds with a corresponding outstanding balance of the related borrowing in the amount of \$14,287,116 attributable to its capital assets at June 30, 2014. The District had \$13,599,040 unspent related financing proceeds with a corresponding outstanding balance of the related borrowing in the amount of \$16,162,672 attributable to its capital assets at June 30, 2013.

- Restricted Net Position

This component of net position consists of constraints placed on net position 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 Position

This component of net position consists of net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

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.

See independent auditors’ report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

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

New Accounting Pronouncement

In fiscal year 2013-2014 the District implemented Governmental Accounting Standards Board (GASB) Statement No. 65, "*Items Previously Recognized as Assets and Liabilities*". This statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Due to implementation of this statement, the calculation of deferred amounts of debt issuance costs was revised to eliminate debt issuance costs which should be recognized as an expense in the period incurred and eliminated debt issuance costs that should be recognized as an expense in the period incurred. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this standard was to decrease the net position at July 1, 2013 and July 1, 2012 by \$1,816,495 and \$1,904,784, respectively, which is the amount of the unamortized debt issuance costs at July 1, 2013 and July 1, 2012, respectively.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District does not have any type of these items as of June 30, 2013 or June 30, 2014. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any type of these items as of June 30, 2013 or June 30, 2014.

Property Taxes - General Apportionments and Debt Service

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.

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

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

Property Taxes - General Apportionments and Debt Service, continued

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 current levy is at \$20.05 per \$100,000 of assessed valuation.

Property Taxes-Debt Service, continued

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.

Investments

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

Other Accounts Receivable

Other accounts receivable represents post employment benefit trust fund reimbursements from the Public Employees Retirement System (Note J).

Other Noncurrent Assets

Prepaid bond insurance of \$523,148 for the 2007A Bonds, net of accumulated amortization of \$174,182 and 156,143 at June 30, 2014 and 2013, respectively, is being amortized on the straight-line method based on the estimated term of the related bond debt.

Amortization expense of \$18,040 and \$18,040 for the years ended June 30, 2014 and 2013, respectively, is included in the *Statement of Revenues, Expenses, and Changes in Net Position/(Deficit)* as prepaid bond insurance 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. Repairs, maintenance, and minor replacements of property are charged to expense.

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

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

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.

Accrued 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.

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.

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:

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

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

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

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

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, cash equivalents, and investments are classified in the accompanying financial statements as follows:

Statement of Net Position/(Deficit):	2014	2013
Current assets		
Cash and cash equivalents	\$ 5,998,604	\$ 5,546,866
Restricted cash and cash equivalents with fiscal agent	6,807,198	13,599,040
Investments	7,340,479	5,144,392
Restricted investments with fiscal agent	97,933,233	144,078,318
Total cash, cash equivalents, and investments	<u>\$ 118,079,514</u>	<u>\$ 168,368,616</u>

Cash, cash equivalents, and investments consist of the following:

	2014	2013
Cash on hand	\$ 239	\$ 239
Deposits with financial institutions	7,625,883	15,624,765
Investments	110,453,392	152,743,612
Total cash, cash equivalents and investments	<u>\$ 118,079,514</u>	<u>\$ 168,368,616</u>

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum % of Portfolio</u>	<u>Max. Invest. Per Issuer</u>
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, Financing or Escrow Agreements

Investments of debt proceeds and certain construction retention accounts held by the bond, financing or escrow trustee are governed by provisions of the respective 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.

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

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, 2014 and 2013.

June 30, 2014

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	\$ 85,855,807	\$ 65,769,925	\$ 17,348,834	\$ 2,737,048	\$ -
Money Market Mutual Funds	18,787,814	18,787,814	-	-	-
Corporate Notes	630,092	-	-	630,092	-
State and County Pooled Funds	5,179,679	5,179,679	-	-	-
	\$ 110,453,392	\$ 89,737,418	\$ 17,348,834	\$ 3,367,140	\$ -

June 30, 2013

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	\$ 132,409,771	\$ 65,205,152	\$ 65,725,631	\$ 1,478,988	\$ -
Money Market Mutual Funds	15,812,939	15,812,939	-	-	-
State and County Pooled Funds	4,520,902	4,520,902	-	-	-
	\$ 152,743,612	\$ 85,538,993	\$ 65,725,631	\$ 1,478,988	\$ -

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

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, 2014 and 2013 for each investment type.

In August 2011, Standard & Poors downgraded the AAA rating of the United States Government and all federally backed agencies to AA+. The \$85,855,807 of U.S. Government Sponsored Entity securities at June 30, 2014 below are rated AA+ by Standard & Poors.

June 30, 2014

Investment Type		Minimum Legal Rating	Rating as of Year End		
			AAA	AA	Not Rated
U.S. Government Sponsored Entities	\$ 85,855,807	N/A	\$ 85,855,807	\$ -	\$ -
Money Market Mutual Funds	18,787,814	N/A	18,787,814	-	-
State and County Pooled Funds	5,179,679	N/A	1,000,000	-	4,179,679
Corporate Notes	630,092	N/A	-	630,092	-
	<u>\$ 110,453,392</u>		<u>\$ 105,643,621</u>	<u>\$ 630,092</u>	<u>\$ 4,179,679</u>

June 30, 2013

Investment Type		Minimum Legal Rating	Rating as of Year End		
			AAA	AA	Not Rated
U.S. Government Sponsored Entities	\$ 132,409,771	N/A	\$ 132,409,771	\$ -	\$ -
Money Market Mutual Funds	15,812,939	N/A	15,812,939	-	-
State and County Pooled Funds	4,520,902	N/A	-	-	4,520,902
	<u>\$ 152,743,612</u>		<u>\$ 148,222,710</u>	<u>\$ -</u>	<u>\$ 4,520,902</u>

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

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, 2014 and 2013 are as follows:

June 30, 2014

<u>Issuer Type</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Farm Credit Bank	U.S. Government Sponsored Entity	\$ 51,435,244
Federal National Mortgage Association	U.S. Government Sponsored Entity	\$ 18,968,506
Federal Home Loan Mortgage Corp.	U.S. Government Sponsored Entity	\$ 8,448,977
Federal Home Loan Bank	U.S. Government Sponsored Entity	\$ 7,003,080

June 30, 2013

<u>Issuer Type</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal National Mortgage Association	U.S. Government Sponsored Entity	\$ 53,201,130
Federal Farm Credit Bank	U.S. Government Sponsored Entity	\$ 41,833,278
Federal Home Loan Mortgage Corp.	U.S. Government Sponsored Entity	\$ 21,845,245
Federal Home Loan Bank	U.S. Government Sponsored Entity	\$ 15,530,062

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

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 governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2014 and 2013, \$7,125,883 and \$14,124,765, respectively, of the District's deposits with financial institutions in excess of the Federal insurance limits were held in collateralized accounts.

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.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note E. Capital Assets

The following two tables present a summary of the changes in capital assets at June 30, 2014 and 2013:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Capital Assets Not Depreciated:				
Land	\$ 7,061,501	\$ -	\$ -	\$ 7,061,501
Construction in progress	5,080,611	6,537,826	-	11,618,437
Total capital assets not depreciated	12,142,112	6,537,826	-	18,679,938
Capital Assets Being Depreciated:				
Buildings	4,707,202	-	-	4,707,202
Furniture and equipment	518,518	-	-	518,518
Total capital assets being depreciated	5,225,720	-	-	5,225,720
Less Accumulated Depreciation:				
Furniture and equipment	502,200	10,852	-	513,052
Buildings	1,322,089	117,680	-	1,439,769
Total	1,824,289	128,532	-	1,952,821
Total Capital Assets Being Depreciated, net	3,401,431	(128,532)	-	3,272,899
Total Capital Assets, Net	<u>\$ 15,543,543</u>	<u>\$ 6,409,294</u>	<u>\$ -</u>	<u>\$ 21,952,837</u>

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Capital Assets Not Depreciated:				
Land	\$ 7,061,501	\$ -	\$ -	\$ 7,061,501
Construction in progress	130,883	4,949,728	-	5,080,611
Total capital assets not depreciated	7,192,384	4,949,728	-	12,142,112
Capital Assets Being Depreciated:				
Buildings	4,707,202	-	-	4,707,202
Furniture and equipment	510,203	8,315	-	518,518
Total capital assets being depreciated	5,217,405	8,315	-	5,225,720
Less Accumulated Depreciation:				
Furniture and equipment	492,041	10,159	-	502,200
Buildings	1,204,409	117,680	-	1,322,089
Total	1,572,691	127,839	-	1,700,530
Total Capital Assets Being Depreciated, net	3,520,955	(19,524)	-	3,525,190
Total Capital Assets, Net	<u>\$ 10,713,340</u>	<u>\$ 4,830,204</u>	<u>\$ -</u>	<u>\$ 15,543,543</u>

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note E. Capital Assets, continued

Depreciation expense of \$128,532 and \$127,839 is included in facility expenses on the Statement of Revenues, Expenses and Changes in Net Position/(Deficit) for the fiscal years ended June 30, 2014 and 2013, respectively. Construction in progress represents costs for the District's Dr. John W. Hardebeck Health Occupations Training Center totaling \$174,552. Additionally in construction in progress is \$11,443,885 of costs for the District's cogeneration equipment project currently under construction (Note F).

Note F. Long-Term Liabilities

Long-term liabilities for the year ended June 30, 2014, are as follows:

	Balance			Balance	
	June 30, 2013	Increases	Decreases	June 30, 2014	Due Within One Year
General Obligation Bonds					
2007 Series A - CAB's	\$ 23,597,076	\$ -	\$ -	\$ 23,597,076	\$ -
2007 Series A - CIB's	60,880,000	-	770,000	60,110,000	990,000
2007A unamortized premium	1,880,150	-	81,159	1,798,991	-
2007A CAB accrued interest	7,829,984	1,539,876	-	9,369,860	-
2011B CIB's	136,860,000	-	-	136,860,000	-
2011B unamortized premium	1,945,168	-	72,042	1,873,126	-
Total general obligation bonds, net	232,992,378	1,539,876	923,201	233,609,053	990,000
Other Long-term Debt					
Financing obligation	16,162,672	-	1,875,556	14,287,116	1,915,408
Total long-term liabilities	\$ 249,155,050	\$ 1,539,876	\$ 2,798,757	\$ 247,896,169	\$ 2,905,408

Long-term liabilities for the year ended June 30, 2013, are as follows:

	Balance			Balance	
	June 30, 2012	Increases	Decreases	June 30, 2013	Due Within One Year
General Obligation Bonds					
2007 Series A - CAB's	\$ 23,597,076	\$ -	\$ -	\$ 23,597,076	\$ -
2007 Series A - CIB's	61,445,000	-	565,000	60,880,000	770,000
2007A unamortized premium	1,961,306	-	81,156	1,880,150	-
2007A CAB accrued interest	6,359,257	1,470,727	-	7,829,984	-
2011B CIB's	136,860,000	-	-	136,860,000	-
2011B unamortized premium	2,017,212	-	72,044	1,945,168	-
Total long-term debt, net	232,239,851	1,470,727	718,200	232,992,378	770,000
Other Long-term Debt					
Financing obligation	18,000,000	-	1,837,328	16,162,672	1,875,825
Total long-term liabilities	\$ 250,239,851	\$ 1,470,727	\$ 2,555,528	\$ 249,155,050	\$ 2,645,825

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note F. Long-Term Liabilities, continued

General Obligation Bonds

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.

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 2011B Bonds are uninsured.

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note F. Long-Term Liabilities, continued

General Obligation Bonds, continued

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 is compounded each January 15 and July 15, commencing on January 15, 2008, through and including the respective maturity dates. Accrued interest as of June 30, 2014 and 2013 is \$9,369,860 and \$7,829,984, respectively. Interest accrued during the fiscal year ending June 30, 2014 was \$1,539,876.

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

Capital Appreciation Bonds \$23,597,076		
Maturity Date	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
		<u>\$ 23,597,076</u>

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note F. Long-Term Liabilities, continued

General Obligation Bonds, continued

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

Current Interest Bonds \$60,110,000		
Maturity Date	Interest Rate	Principal Amount
July 15		
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>\$ 60,110,000</u>

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note F. Long-Term Liabilities, continued

General Obligation Bonds, continued

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

Current Interest Bonds \$136,860,000		
Maturity Date	Interest Rate	Principal Amount
July 15		
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
		<u>\$ 136,860,000</u>

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note F. Long-Term Liabilities, continued

General Obligation Bonds, continued

Debt Service Requirements

Debt service requirements on Proposition G bonded debt as of June 30, 2014, excluding unamortized premiums, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 990,000	\$ 11,221,212	\$ 12,211,212
2016	1,225,000	11,170,787	12,395,787
2017	1,500,000	11,102,712	12,602,712
2018	1,795,000	11,020,431	12,815,431
2019	2,115,000	10,922,763	13,037,763
2020-2024	14,233,792	54,801,302	69,035,094
2025-2029	14,673,104	66,322,821	80,995,925
2030-2034	30,340,180	72,521,696	102,861,876
2035-2039	96,550,000	32,711,518	129,261,518
2040-2041	57,145,000	3,597,366	60,742,366
Totals	<u>\$ 220,567,076</u>	<u>\$ 285,392,608</u>	<u>\$ 505,959,684</u>

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note F. Long-Term Liabilities, continued

Financing Obligation

On June 29, 2012 the District entered into a tax-exempt lease arrangement (Lease) with a bank (the Lessor) to acquire cogeneration equipment for inclusion in the planned new central energy plant at the Hospital. The amount borrowed under the Lease was \$18,000,000 with a term of nine (9) years at a fixed annual interest rate of 2.09%. Effective June 29, 2012, the District simultaneously entered into a Cogeneration and Energy Equipment Purchase Agreement with the Corporation, whereby the Corporation agrees to make all scheduled lease payments required under the Lease direct to the Lessor.

Proceeds, net of costs of issuance, from the financing were deposited into an escrow account that will be used to pay for the costs of acquiring the equipment and related construction installation costs.

The acquisition and installation of the cogeneration equipment is estimated to be completed in January 2015 at which time the classification of the Lease will be recorded as a capital lease with the related asset and receivable from the Corporation being recorded at that time.

Required monthly payments beginning July 29, 2012 will be paid direct to the Lessor by the Corporation for the full term of the Lease.

Debt Service Requirements

Minimum lease payments as of June 30, 2014, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,915,408	\$ 280,322	\$ 2,195,730
2016	1,955,825	239,904	2,195,729
2017	1,997,096	198,634	2,195,730
2018	2,039,237	156,492	2,195,729
2019	2,082,268	113,461	2,195,729
2020-2022	4,297,282	94,179	4,391,461
Totals	<u>\$ 14,287,116</u>	<u>\$ 1,082,992</u>	<u>\$ 15,370,108</u>

Liquidity Ratio

The Lessor requires the District to maintain a liquidity ratio (as described in the agreement) calculated on its general operations segment at not less than 1.00 to 1.00 of the difference between the District's annual tax revenues less administrative, library and facilities expenses to the annual lease payment. The liquidity ratio will be calculated as of June 30 of each year under the Lease. The District was in compliance with the liquidity ratio at June 30, 2014.

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note G. Segment Information

The District entered into a tax-exempt financing arrangement with a bank to finance cogeneration equipment at the Hospital (Note F). The District's financial transactions are accounted for in a single enterprise fund. However, the District's general operating segment is the only segment responsible for repayment. A summary of the condensed financial information as of and for the year ended June 30, 2014 for general operations is presented below:

CONDENSED STATEMENT OF NET POSITION

Assets:	
Current assets	\$ 20,939,706
Other assets	1,985,406
Capital assets, net	21,952,837
Total assets	44,877,949
Deferred outflows of resources	-
Liabilities:	
Current liabilities	7,524,772
Non-current liabilities	12,371,708
Total liabilities	19,896,480
Deferred inflows of resources	-
Net position:	
Invested in capital assets	21,952,837
Unrestricted	3,028,632
Total net position/(deficit)	\$ 24,981,469

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Operating revenues	\$ 6,228,486
Operating expenses	(2,821,295)
Depreciation	(128,532)
Operating income	3,278,659
Nonoperating revenues (expenses):	
Investment earnings	66,412
Contributions to Grossmont Hospital	(1,000,000)
Other	(183,936)
Total nonoperating revenues (expenses)	(1,117,524)
Change in net position	2,161,135
Beginning net position (restated)	22,820,334
Ending net position	\$ 24,981,469

CONDENSED STATEMENT OF CASH FLOWS

Net cash provided (used) by:	
Operating activities	\$ 2,945,127
Noncapital financing activities	(1,249,434)
Capital and related financing activities	(6,546,141)
Investing activities	(1,489,656)
Net increase (decrease)	(6,340,104)
Beginning cash and cash equivalents	19,145,906
Ending cash and cash equivalents	\$ 12,805,802

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note H. Net Position

Designated Net Position

In addition to the restricted net position, a portion of the unrestricted net position has been designated by the Board of Directors for the following purposes at June 30, 2013 and 2012:

<u>Purpose</u>	<u>2014</u>	<u>2013</u>
Contingency reserve	<u>\$ 7,350,000</u>	<u>\$ 5,350,000</u>

Note I. 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 its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for June 30, 2014 and 2013 was 17.787% and 17.322%, respectively. The employer contribution rate is established and may be amended by CalPERS.

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note I. Defined Benefit Pension Plan, continued

Annual Pension Cost

The District's annual pension cost and actual required contribution was \$139,295 for June 30, 2014 and \$132,419 for June 30, 2013. The required contribution for the fiscal year was determined as part of the June 30, 2011 actuarial valuation using the entry age normal cost method with the contributions determined as a level percent of payroll. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses); (b) projected salary increases from 3.30% to 14.20% depending on age, service, and type of employment; (c) 3.00% payroll growth adjustment; (d) 2.75% inflation adjustment; and (e) a merit scale varying by duration of employment coupled with an assumed annual inflation component of 2.75% 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, 2011 was 19 years for the District.

Three-Year Trend Information

Fiscal year ended June 30:	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2014	\$ 139,295	100.0%	\$ -
2013	132,419	100.0%	-
2012	90,717	100.0%	-

Funding Status

The District's miscellaneous plan is part of a CalPERS Risk Pool for employers with less than 100 active plan members. As part of a cost-sharing multiple-employer defined benefit plan, disclosure of the schedule of funding progress is not required as information is not specific to the District.

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note J. 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. Effective January 2014, the Board of Directors amended the policy and implemented an out-of-pocket cap of \$2,500 for current employees and Board members to reduce current and future costs. 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.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note J. 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 was 0.7% and 6.7% of the annual covered payroll as of June 30, 2014 and June 30, 2013, respectively.

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.

	2014	2013
Annual required contribution	\$ 3,837	\$ 34,912
Interest on net OPEB asset	(150,306)	(148,828)
Adjustment to annual required contribution (ARC)	140,005	129,424
Annual OPEB cost	(6,464)	15,508
Contributions made	(3,837)	(34,912)
(Increase) in net OPEB asset	(10,301)	(19,404)
Net OPEB (asset), beginning of year	(1,975,105)	(1,955,701)
Net OPEB (asset), end of year	<u>\$ (1,985,406)</u>	<u>\$ (1,975,105)</u>

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, 2014, 2013, and 2012 were as follows:

Three Year Trend Information

Fiscal year ended June 30:	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Asset
2014	\$ (6,464)	100.0%	\$ (1,985,406)
2013	15,508	100.0%	(1,975,105)
2012	9,049	100.0%	(1,955,701)

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note J. Other Post Employment Benefits, continued

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2013, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$	1,697,492
Actuarial value of plan assets	\$	(2,280,542)
Unfunded actuarial accrued liability/(surplus) or (UAAL)	\$	(583,050)
Funded ratio		134%
Covered payroll	\$	528,000
UAAL as a percentage of covered payroll		110%

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.

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note J. 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:

Amortization method	Level percent of pay basis
Remaining amortization period	24
Asset valuation method	Expected market
Actuarial assumptions:	
Investment rate of return	7.61%
Projected salary increase	3.00%
Inflation	2.80%
Individual salary growth	N/A
Healthcare cost trend rate	7.50%

The 7.50% healthcare cost trend rate is reduced by .5% per year to an ultimate rate of 5%

Note K. 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 2014 and 2013, contributions, including amounts accrued, to the Corporation were \$44,673,320 and \$34,386,162, respectively, consisting of:

	2014	2013
General support	\$ 1,000,000	\$ 1,000,000
Proposition G support	43,673,320	33,386,162
	<u>\$ 44,673,320</u>	<u>\$ 34,386,162</u>

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note L. Commitments and Contingencies

Construction Commitments

The District had outstanding contracts and commitments under capital projects of \$50,255,916 and \$68,591,167, respectively, at June 30, 2014 and 2013.

Grant Commitments

The District had grants payable to various agencies under its grant program in the amount of \$542,127 and \$348,342, respectively for the years ended June 30, 2014 and 2013.

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 M. 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 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.

General, Auto and Public Officials Coverage Under SDRMA Policy

Includes Errors and Omissions with coverage limits of \$5,000,000 with variable deductibles depending of type of claim ranging from \$500 to \$50,000 per occurrence.

Property Loss Coverage Under SDRMA Policy

Replacement cost for property on file with coverage limits of \$1,000,000,000 per occurrence with a \$1,000 deductible.

Employee Dishonesty Under SDRMA Policy

Total coverage limits of \$400,000 per occurrence with a \$0 deductible.

Workers' Compensation

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

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note M. Risk Management, continued

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.

Property Loss Coverage Under Sharp Policy

Replacement cost for property on file with coverage limits of \$1,000,000,000 per occurrence with a \$100,000 deductible.

Boiler and Machinery Coverage Under Sharp Policy

Replacement cost up to \$100,000,000 per occurrence with a \$100,000 deductible.

Earthquake, Flood and Terrorism Coverage Under Sharp Policy

Up to \$60,000,000 for flood loss, \$100,000,000 for terrorism, and \$10,000,000 for earthquake per occurrence with a \$100,000 deductible for each.

Seismic Update

Senate Bill 1953 established requirements for earthquake safety for all acute care hospital buildings. Grossmont Hospital is in compliance with the current deadlines and reporting requirements of SB1953. The oldest acute care buildings on the campus (Pediatrics, South Wing and West Wing) are classified as "life safe" (or SPC-2). All other buildings are classified SPC-3 or SPC-5, and as such face no additional regulatory deadlines.

The SPC-2 buildings cannot be used for acute care after January 1, 2030. This will require rebuilding the 126 beds, food services, and other support services in these buildings. In order to address this need, an updated Master Plan and cost estimate will be developed.

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.

Note N. Interest Expense

Interest expense for the years ended June 30, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Interest expense	<u>\$ 12,959,917</u>	<u>\$ 12,952,987</u>
	<u>\$ 12,959,917</u>	<u>\$ 12,952,987</u>

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

Note O. Prior Period Adjustment and Restatement of 2013 Balances

During fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards (GASB) Statement No. 65, "*Items Previously Recognized as Assets and Liabilities*". Due to the implementation of this statement, bond issuance costs and certain amounts classified as deferred amounts for debt issuance costs, which had previously been capitalized on the statement of net position and written off over the life of the corresponding debt issuance have been restated as expenses in the periods incurred. The amount previously capitalized as of July 1, 2013, \$1,904,784, is reflected as a prior period adjustment. On the statement of net position, fiscal year 2013 balances have been restated for the removal of debt issuance costs. On the statement of revenues, expenses and changes in net position, 2013 columns have been restated to remove \$88,289 previously shown as amortization expense.

Note P. Subsequent Event

Due to the nature of the Extended Lease Agreement which will be finalized in FY2014-2015, the District will change its financial statement presentation from a full-accrual single enterprise fund to a modified-accrual general government presentation. The reporting change will be effective for the general-purpose financial statements for the fiscal year ending June 30, 2015.

Required Supplementary Information

GROSSMONT HEALTHCARE DISTRICT

Required Supplementary Information

Years Ended June 30, 2014 and 2013

Schedule of Funding Progress for DPHP ¹

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded / (Overfunded) Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	UAAL As a % of Payroll
06/30/13	\$ 1,698	\$ 2,281	\$ (583)	134.3%	\$ 528	-110.4%
06/30/11	\$ 1,711	\$ 2,270	\$ (559)	132.7%	\$ 488	-114.5%
06/30/09	\$ 1,705	\$ 1,812	\$ (107)	106.3%	\$ 397	-27.0%

¹ Represents totals expressed in thousands and is the most current data available. Bi-annual valuations began for the June 30, 2011 fiscal year.

See independent auditors' report.

Supplemental Information

GROSSMONT HEALTHCARE DISTRICT
 Combining Schedule of Net Position/(Deficit)
 June 30, 2014

	General Operating	Debt Service	Building	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 5,998,604	\$ -	\$ -	\$ 5,998,604
Investments	7,340,479	-	-	7,340,479
Property taxes receivable	245,035	476,990	-	722,025
Other accounts receivable	518,869	-	-	518,869
Accrued investment interest	11,258	5,630	58,890	75,778
Prepaid expenses and deposits	18,263	-	-	18,263
Restricted cash and cash equivalents with fiscal agent	6,807,198	-	-	6,807,198
Restricted investments with fiscal agent	-	12,303,223	85,630,010	97,933,233
Total current assets	20,939,706	12,785,843	85,688,900	119,414,449
Non-current assets:				
Prepaid bond insurance, net	-	348,966	-	348,966
Net OPEB asset	1,985,406	-	-	1,985,406
Capital assets:				
Land	7,061,501	-	-	7,061,501
Construction in progress	11,618,437	-	-	11,618,437
Capital assets, net of depreciation	3,272,899	-	-	3,272,899
Total capital assets, net of depreciation	21,952,837	-	-	21,952,837
Total non-current assets	23,938,243	348,966	-	24,287,209
Total assets	44,877,949	13,134,809	85,688,900	143,701,658
DEFERRED OUTFLOWS OF RESOURCES				
	-	-	-	-

See independent auditors' report.

GROSSMONT HEALTHCARE DISTRICT
 Combining Schedule of Net Position/(Deficit)
 June 30, 2014

	General Operating	Debt Service	Building	Total
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts and grants payable	\$ 916,273	\$ -	\$ 6,305,387	\$ 7,221,660
Accrued compensated absences	51,632	-	-	51,632
Deposits	3,712,884	-	-	3,712,884
Unearned revenue	928,575	-	-	928,575
Current maturities of long-term debt	1,915,408	990,000	-	2,905,408
Liabilities payable from restricted assets:				
Restricted accrued interest	-	5,167,240	-	5,167,240
Total other current liabilities	7,524,772	6,157,240	6,305,387	19,987,399
Long-term liabilities:				
General obligation bonds	-	223,249,193	-	223,249,193
Financing obligation	12,371,708	-	-	12,371,708
Capital appreciation bond accrued interest	-	9,369,860	-	9,369,860
Total long term liabilities	12,371,708	232,619,053	-	244,990,761
Total liabilities	19,896,480	238,776,293	6,305,387	264,978,160
DEFERRED INFLOWS OF RESOURCES				
NET POSITION				
Net position/(deficit):				
Net investment in capital assets	14,472,919	-	-	14,472,919
Restricted for debt service	-	7,135,983	-	7,135,983
Restricted for capital projects	6,807,198	-	85,630,010	92,437,208
Unrestricted	3,701,352	(232,777,467)	(6,246,497)	(235,322,612)
Total net position	\$ 24,981,469	\$ (225,641,484)	\$ 79,383,513	\$ (121,276,502)

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GROSSMONT HEALTHCARE DISTRICT

Combining Schedule of Revenues, Expenses and Changes in Net Position/(Deficit)
Year Ended June 30, 2014

	General Operating	Debt Service	Building	Total
OPERATING REVENUES:				
Property taxes	\$ 6,228,486	\$ -	\$ -	\$ 6,228,486
Total operating revenues	6,228,486	-	-	6,228,486
OPERATING EXPENSES:				
Administrative expenses	1,219,687	-	-	1,219,687
Community healthcare	1,048,883	-	-	1,048,883
Library operating expenses	293,364	-	-	293,364
Facility expenses	387,893	-	-	387,893
Total operating expenses	2,949,827	-	-	2,949,827
Operating income	3,278,659	-	-	3,278,659
NON-OPERATING INCOME (EXPENSE):				
Property taxes, general obligation bonds	-	9,022,104	-	9,022,104
Investment income	66,412	10,523	354,747	431,682
Grant and other income	385,402	-	289,339	674,741
Interest expense	(319,904)	(12,640,013)	-	(12,959,917)
Prepaid bond insurance amortization	-	(18,040)	-	(18,040)
Other expenses	(249,434)	-	-	(249,434)
Contributions to Grossmont Hospital	(1,000,000)	-	(43,673,320)	(44,673,320)
Total non-operating income	(1,117,524)	(3,625,426)	(43,029,234)	(47,772,184)
CHANGE IN NET POSITION	2,161,135	(3,625,426)	(43,029,234)	(44,493,525)
Total net position/(deficit), beginning of year (restated)	22,820,334	(222,016,058)	122,412,747	(76,782,977)
Total net position/(deficit), end of year	\$ 24,981,469	\$ (225,641,484)	\$ 79,383,513	\$ (121,276,502)

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GROSSMONT HEALTHCARE DISTRICT
Combining Schedule of Cash Flows
Year Ended June 30, 2014

	General Operating	Debt Service	Building	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from property taxes	\$ 6,242,674	\$ -	\$ -	\$ 6,242,674
Cash received from miscellaneous sources	153,932	-	-	153,932
Cash payments to employees	(981,476)	-	-	(981,476)
Cash payments to vendors for goods and services	(2,470,003)	-	-	(2,470,003)
Net cash provided by operating activities	2,945,127	-	-	2,945,127
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash received from property taxes - general obligation bonds	-	9,067,306	-	9,067,306
Contributions to Grossmont Hospital	(1,000,000)	-	(43,964,918)	(44,964,918)
Other payments	(249,434)	-	593,093	343,659
Net cash provided/(used) by non-capital financing activities	(1,249,434)	9,067,306	(43,371,825)	(35,553,953)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(6,537,826)	-	-	(6,537,826)
Principal payments on long-term debt	-	(770,000)	-	(770,000)
Interest payments and fees	-	(11,256,413)	-	(11,256,413)
Net cash provided/(used) by capital and related financing activities	(6,537,826)	(12,026,413)	-	(18,564,239)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of investments	(4,792,025)	(12,629,544)	(73,878,738)	(91,300,307)
Maturities/redemptions of investments	1,750,143	5,205,000	59,000,000	65,955,143
Sales of investments	1,200,000	10,270,338	61,060,595	72,530,933
Interest revenue	70,655	111,248	571,168	753,071
Net transfers from investments	273,256	2,065	(3,381,200)	(3,105,879)
Net cash provided/(used) by investing activities	(1,497,971)	2,959,107	43,371,825	44,832,961
Net increase (decrease) in cash and cash equivalents	(6,340,104)	-	-	(6,340,104)
CASH AND CASH EQUIVALENTS				
Beginning of year	19,145,906	-	-	\$ 19,145,906
End of year	\$ 12,805,802	\$ -	\$ -	\$ 12,805,802

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