Grossmont Healthcare District

Financial Statements and Independent Auditor's Reports

Year Ended June 30, 2009
(With comparable totals for 2008)

GROSSMONT HEALTHCARE DISTRICT

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REPORT OF INDEPENDENT AUDITOR

Board of Directors
Grossmont Healthcare District

I have audited the accompanying statements of net assets of Grossmont Healthcare District as of June 30, 2009 and 2008, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 10, 2009, on my consideration of the District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis on pages 3 through 7, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and representation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Grossmont Healthcare District's basic financial statements. The combining fund financial statements on pages 33 through 36 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Roger S. Gordon & Co., CPA

El Cajon, California
September 10, 2009

Grossmont Healthcare District (the District) has issued its financial statements for the fiscal year ended June 30, 2009. This report, Management's Discussion and Analysis, is an overview of the financial activities for the fiscal year and is an integral part of the accompanying basic financial statements.

ACCOUNTING METHOD

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

THE BASIC FINANCIAL STATEMENTS

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

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

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

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

FINANCIAL ACTIVITIES & FISCAL YEAR 2009 HIGHLIGHTS

The District is a government entity operating under the Local Health Care District Law. In 1952, the residents of the area voted to establish, build, and operate Grossmont Hospital. Grossmont Hospital has gone through numerous renovations over the years and currently has 446 licensed beds and 11 pediatric beds operated and licensed by Rady Children's Hospital. Since May 1991, Grossmont Hospital has been leased under a 30-year agreement to Sharp HealthCare. Sharp HealthCare is a multi-facility health care system located in San Diego County. A condensed version of the District's Statement of Net Assets/ (Deficit) is presented in the table below with the changes that occurred between Fiscal Year 2009 and 2008.

	FY09	FY08	Change
Assets:			
Cash, cash equivalents and investments	$ 67,747,876	$ 95,551,393	$ (27,803,517)
All other assets	14,313,670	14,568,104	(254,434)
Total assets	$ 82,061,546	$110,119,497	$ (28,057,951)
Liabilities:			
Liabilities	$ 96,405,871	$ 97,402,500	$ 996,629
Total liabilities	$ 96,405,871	$ 97,402,500	$ 996,629
Net assets/ (deficit):			
Invested in capital assets, net of related debt	$ 11,014,667	$ 10,991,142	$ 23,525
Restricted for capital projects	45,608,432	74,641,793	(29,033,361)
Restricted for debt service	(77,098,025)	(78,738,401)	1,640,376
Unrestricted	6,130,601	5,822,463	308,138
Total net assets	$ (14,344,325)	$ 12,716,997	$ (27,061,322)

The $27,061,322 decrease in total net assets reflects $4,387,037 in operating and non-operating income and transfers of $31,448,359 to Grossmont Hospital for the year. The decrease in cash and investments is due primarily to the spend-down of bond proceeds on approved capital projects authorized under Proposition G. The decrease in all other assets is primarily due to bond-related project costs that are likely not to be reimbursed from bond proceeds and a payment of $1,000,000 to fund the actuarially determined liability for other postemployment benefits (see Note H).

A condensed version of the Statement of Activities and Changes in Net Assets/ (Deficit) is presented in the table below with the changes that occurred between Fiscal Year 2009 and 2008.

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

- Community Healthcare Program - The District administers a grant program, allocating a portion of the District's annual property tax revenues to health-related programs serving residents of the District throughout Eastern San Diego County.

- Library/Facilities Operations - The District operates a Library specializing in healthcare related media and an Administrative Facility which also serves as a community meeting place with theatre-style seating capacity for 65 and technologically advanced presentation capacity.

	FY09	FY08	Change
Revenues:			
Property tax revenue	$ 6,222,542	$ 6,123,542	$ 99,000
Total revenues	6,222,542	6,123,542	99,000
Expenses:			
Library, administration and facility operations	1,981,600	1,734,645	246,955
Community healthcare	2,296,061	2,024,532	271,529
Total expenses	4,277,661	3,759,177	518,484
Operating income	1,944,881	2,364,365	(419,484)
Non-operating income (expenses):			
Property tax revenue - bond debt service	5,831,829	5,707,616	124,213
Investment income	1,449,918	3,679,789	(2,229,871)
Other income	49,240	1,045,122	(995,882)
Bond interest expense	(4,200,177)	(3,958,869)	(241,308)
Other expenses	(688,654)	(291,073)	(397,581)
Total non-operating income	2,442,156	6,182,585	(3,740,429)
Transfers to Grossmont Hospital	(31,448,359)	(16,368,229)	(15,080,130)
Change in net assets/ (deficit)	$ (27,061,322)	$ (7,821,279)	$ (19,240,043)

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

Total non-operating income decreased $3,740,429 primarily due to a $2,229,871 decrease in investment earnings, a $241,308 increase in interest expense, and a $397,581 increase in other expenses.

CAPITAL ASSETS

At June 30, 2009 the District had $12,351,997 in capital assets and $1,337,330 in accumulated depreciation resulting in $11,014,667of net capital assets.

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

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

DEBT ADMINISTRATION

On August 2, 2007, the District issued $85,627,076 of general obligation bonds. Proposition G authorized the issuance of up to $247,000,000 in general obligation bonds. Two additional bonds sales, not to exceed the maximum $247 million as allowed under the ballot measure, are tentatively scheduled for 2010 and 2012, depending on construction progress and market conditions.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The Fiscal Year 2010 budget reflects revenues of $12,813,000 and expenses of $8,888,999. Included in the budget is approximately $500,000 to be borrowed by the State of California under Proposition 1A to help balance the State's budget. The State will have three years to pay the borrowing back with interest.

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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BASIC FINANCIAL STATEMENTS

GROSSMONT HEALTHCARE DISTRICT

Statement of Net Assets/ (Deficit)
June 30, 2009
(With comparable totals for 2008)

	2009			2008
	General Fund	Bond Funds	Total	Restated
ASSETS				
Current assets:				
Cash and cash equivalents	$ 4,680,160	$ -	$ 4,680,160	$ 5,694,670
Cash with fiscal agent	-	-	-	15,461
Investments	505,155	-	505,155	515,000
Property taxes receivable	60,426	54,142	114,568	76,528
Interest receivable	-	-	-	5,736
Due from fund	-	31,008	31,008	82,667
Accrued investment interest	-	311,111	311,111	97,442
Prepaid expenses	78,962	-	78,962	-
Purchased investment interest	3,000	16,764	19,764	307,192
Restricted retention with fiscal agent	-	3,189,084	3,189,084	-
Deposits	1,771	-	1,771	1,001,771
Total current assets	5,329,474	3,602,109	8,931,583	7,796,467
Noncurrent assets:				
Restricted cash with fiscal agent	-	18,128,209	18,128,209	51,404,751
Restricted investments with fiscal agent	-	41,245,268	41,245,268	37,174,760
OPEB asset	1,530,123	-	1,530,123	749,328
Deferred bond costs, net of accumulated amortization of $81,771	-	1,211,696	1,211,696	1,256,298
Retention with fiscal agent	-	-	-	746,751
Total noncurrent assets	1,530,123	60,585,173	62,115,296	91,331,888
Capital assets:				
Land	7,061,501	-	7,061,501	6,989,230
Buildings	4,707,202	-	4,707,202	4,707,202
Furniture and equipment	485,962	-	485,962	485,962
Construction in progress	97,332	-	97,332	19,758
Accumulated depreciation	(1,337,330)	-	(1,337,330)	(1,211,010)
Total capital assets, net	11,014,667	-	11,014,667	10,991,142
Total assets	$ 17,874,264	$ 64,187,282	$ 82,061,546	$ 110,119,497

GROSSMONT HEALTHCARE DISTRICT

Statement of Net Assets/ (Deficit), continued
June 30, 2009
(With comparable totals for 2008)

	2009			2008
	General Fund	Bond Funds	Total	Restated
LIABILITIES				
Current liabilities:				
Accounts payable	$ 46,619	$ 811,617	$ 858,236	$ 3,916,091
Grants payable	624,083	-	624,083	2,099,020
Due to fund	31,008	-	31,008	82,667
Retentions payable	-	3,189,084	3,189,084	746,751
Accrued interest	-	1,536,200	1,536,200	1,536,200
Accrued compensated absences	27,286	-	27,286	9,573
Total current liabilities	728,996	5,536,901	6,265,897	8,390,302
Long-term liabilities:				
Bonds payable - capital appreciation bonds 2007A	-	23,597,076	23,597,076	23,597,076
Bonds payable - current interest bonds 2007A	-	62,030,000	62,030,000	62,030,000
Capital appreciation bond accrued interest	-	2,308,119	2,308,119	1,099,186
Bond premium, net of accumulated amortization of $148,789	-	2,204,779	2,204,779	2,285,936
Total long-term liabilities	-	90,139,974	90,139,974	89,012,198
Total liabilities	$ 728,996	$ 95,676,875	$ 96,405,871	$ 97,402,500
NET ASSETS				
Invested in capital assets, net of related debt	$ 11,014,667	$ -	$ 11,014,667	$ 10,991,142
Restricted for debt service	-	(77,098,025)	(77,098,025)	(78,738,401)
Restricted for capital projects	-	45,608,432	45,608,432	74,641,793
Unrestricted	6,130,601	-	6,130,601	5,822,463
Total net assets	$ 17,145,268	$ (31,489,593)	$ (14,344,325)	$ 12,716,997

See accompanying notes to basic financial statements.

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GROSSMONT HEALTHCARE DISTRICT

Statement of Activities and Changes in Net Assets/ (Deficit)
Year Ended June 30, 2009
(With comparable totals for 2008)

	2009			2008
	General Fund	Bond Funds	Total	Restated
REVENUES:				
Property taxes	$ 6,222,542	$ -	$ 6,222,542	$ 6,123,542
Total operating revenues	6,222,542	-	6,222,542	6,123,542
EXPENSES:				
Administrative expenses	1,345,233	-	1,345,233	1,157,076
Community healthcare	2,296,061	-	2,296,061	2,024,532
Library operating expenses	292,533	-	292,533	269,157
Facility expenses	343,834	-	343,834	308,412
Total expenses	4,277,661	-	4,277,661	3,759,177
Operating income	1,944,881	-	1,944,881	2,364,365
NON-OPERATING INCOME (EXPENSE):				
Property taxes, general obligation bond	-	5,831,829	5,831,829	5,707,616
Investment income	94,225	1,355,693	1,449,918	3,679,789
Other income	49,240	-	49,240	1,045,122
Bond interest expense	-	(4,200,177)	(4,200,177)	(3,958,869)
Deferred bond cost amortization	-	(44,602)	(44,602)	(37,169)
Other expenses	(628,452)	(15,600)	(644,052)	(253,904)
Total non-operating income	(484,987)	2,927,143	2,442,156	6,182,585
CHANGE IN NET ASSETS:				
Total operating and non-operating income	1,459,894	2,927,143	4,387,037	8,546,950
Transfers to Grossmont Hospital	(1,097,170)	(30,351,189)	(31,448,359)	(16,368,229)
Total change in net assets	362,724	(27,424,046)	(27,061,322)	(7,821,279)
Net assets/ (deficit), beginning of year	16,782,544	(4,065,547)	12,716,997	21,575,673
Net asset adjustments (Note M)	-	-	-	(1,037,397)
Ending net assets/ (deficit)	$ 17,145,268	$ (31,489,593)	$ (14,344,325)	$ 12,716,997

See accompanying notes to basic financial statements.

GROSSMONT HEALTHCARE DISTRICT

Statement of Cash Flows
Year Ended June 30, 2009
(With comparable totals for 2008)

	2009			2008
	General Fund	Bond Funds	Total	Restated
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from property taxes	$ 6,203,801	$ -	$ 6,203,801	$ 6,204,001
Cash payments to vendors for goods and services	(4,794,841)	-	(4,794,841)	(3,575,981)
Net cash provided by operating activities	1,408,960	-	1,408,960	2,628,020
CASH FLOWS FROM NON-OPERATING ACTIVITIES				
Cash received from non-operating activity	(1,413,834)	(6,163,872)	(7,577,706)	3,816,359
Net cash provided (used) by non-operating activities	(1,413,834)	(6,163,872)	(7,577,706)	3,816,359
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(149,843)	-	(149,843)	(1,909,044)
Other financing sources - bond proceeds	-	-	-	85,627,076
Net cash provided (used) by capital and related financing activities	(149,843)	-	(149,843)	83,718,032
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of investments	-	(19,039,080)	(19,039,080)	(125,656,470)
Maturities of investments	-	15,124,870	15,124,870	88,449,007
Reclass of investment to cash equivalent	137,948	-	137,948	-
Interest revenue	99,429	1,273,133	1,372,562	3,629,848
Net cash provided (used) by investing activities	237,377	(2,641,077)	(2,403,700)	(33,577,615)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Cash received from property taxes - general obligation bonds	-	5,848,604	5,848,604	5,672,773
Transfers to Grossmont Hospital	(1,097,170)	(30,351,189)	(31,448,359)	(15,451,929)
Fund transfers	-	15,531	15,531	-
Net cash provided (used) by non-capital financing activities	(1,097,170)	(24,487,054)	(25,584,224)	(9,779,156)
Net change in cash and cash equivalents	(1,014,510)	(33,292,003)	(34,306,513)	46,805,640
CASH AND CASH EQUIVALENTS				
Beginning of year	5,694,670	51,420,212	57,114,882	10,309,242
End of year	$ 4,680,160	$ 18,128,209	$ 22,808,369	$ 57,114,882

See accompanying notes to basic financial statements.

GROSSMONT HEALTHCARE DISTRICT

Statement of Cash Flows, continued
Year Ended June 30, 2009
(With comparable totals for 2008)

	2009			2008
	General Fund	Bond Funds	Total	Restated
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income	$ 1,944,881	$ -	$ 1,944,881	$ 2,364,365
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	126,318	-	126,318	109,040
Unrealized gain/(loss)	12,545	-	12,545	(16,160)
Cumulative effect of change in accounting policy	-	-	-	(2,001,198)
Re-classification of investments to cash equivalent	(137,948)		(137,948)	
Changes in operating assets and liabilities:				
Property taxes receivable	(18,741)	-	(18,741)	80,459
Prepaid expenses	(78,962)	-	(78,962)	7,315
Deposits	1,000,000	-	1,000,000	2,549
Accounts receivable	-	-	-	47,501
Accounts payable and accrued liabilities	35,804	-	35,804	(64,871)
Grants payable	(1,474,937)	-	(1,474,937)	2,099,020
Net cash provided by operating activities	$ 1,408,960	$ -	$ 1,408,960	$ 2,628,020
SUMMARY OF CASH, CASH EQUIVALENTS AND INVESTMENTS				
Cash and cash equivalents	$ 4,680,160	$ -	$ 4,680,160	$ 5,694,670
Unrestricted investments	505,155	-	505,155	515,000
Restricted cash with fiscal agent	-	18,128,209	18,128,209	51,420,212
Restricted investments with fiscal agent	-	41,245,268	41,245,268	37,174,760
Restricted retention with fiscal agent	-	3,189,084	3,189,084	746,751
Total cash, cash equivalents and investments	$ 5,185,315	$ 62,562,561	$ 67,747,876	95,551,393

Total cash paid for interest in bond funds was $3,072,400 and $1,391,114 for the years ended June 30, 2009 and 2008, respectively.

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NOTES TO FINANCIAL STATEMENTS

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

Financial Statement Presentation

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

Basis of accounting and measurement focus

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

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

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

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

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

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

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

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Deferred bond costs and bond premium

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

Retention payable

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

Grants payable

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

Other income

Represents the payment of an investment contract early termination fee paid to the District.

Capital assets

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

Net assets/ (deficit):

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

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

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

Use of estimates

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

Reclassifications

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

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

NOTE B. FINANCING AUTHORITY

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

NOTE C. PROPOSITION G BOND SALE

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

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

NOTE D. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

	2009	2008
Petty cash	$ 845	$ 902
Cost of issuance fund mutual fund	-	15,461
Cash equivalents	137,948	317,068
Certificates of deposits	862,052	-
Contractor retention savings	3,189,084	746,751
Checking and money market	482,181	3,293,272
LAIF	3,197,134	2,083,428
Debt service fund mutual fund	2,206,341	10,451,789
Building fund mutual fund	15,921,868	40,952,962
Investments	41,750,423	37,689,760
Total cash and investments	$ 67,747,876	$ 95,551,393

NOTE D. CASH, CASH EQUIVALENTS AND INVESTMENTS, continued

Cash deposits

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

LAIF

The District invests in the State of California Local Agency Investment Fund (LAIF), a State of California external investment pool. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available. The District valued its investments in LAIF as of June 30, 2009 by multiplying its account balance with LAIF times a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants' total aggregate fair value by total aggregate amortized cost. Accordingly, as of June 30, 2009, the District's investments at fair value amount to $3,197,134 of a LAIF balance total of $25,156,667,108. LAIF has oversight by the local Investment Advisory Board. The LAIF board consists of five members as designated by statute. All securities are purchased under the authority of Government Code §16430 and §16480.4.

Cash equivalents

Cash equivalents include certificates of deposit and investments in highly liquid debt instruments with a maturity of three months or less. At June 30, 2009, $137,948 in investments had maturity dates of less than three months and were reclassified as cash equivalents

Investments

Investments consisted of the following at June 30:

	2009	2008
Federal Home Loan Bank - building fund	$ 17,171,350	$ 34,180,370
Federal Home Loan Bank - debt service fund	5,868,058	-
Federal Farm Credit Bank - building fund	3,029,070	2,994,390
Federal Farm Credit Bank - debt service fund	5,110,150	-
Federal Farm Credit Bank - general fund	505,155	515,000
Freddy Mac - building fund	10,066,640	-
Total investments	$ 41,750,423	$ 37,689,760

NOTE D. CASH, CASH EQUIVALENTS AND INVESTMENTS, continued

		2009		2008	
Issuer	CUSIP #	Fair Value	Maturity (Days)	Fair Value	Maturity (Days)
FHLB	3133XLM59	$ -	-	$ 7,083,160	182
FHLB	3133XRA75	-	-	6,971,580	317
FHLB	3133XQKR2	-	-	6,967,170	277
FHLB	3133XQU26	-	-	990,940	718
FFCB	31331SDJ9	505,155	113	515,000	478
FFCB	31331YQ86	3,029,070	143	2,994,390	508
FHLB	3133XPY57	2,031,880	255	1,988,760	620
FHLB	3133XQU26	1,021,560	353	-	-
FHLB	3133XCQZ9	4,177,520	474	4,088,760	809
FHLB	3133XGEQ3	3,014,070	535	3,075,000	401
FHLB	3133XNHZ5	3,119,070	535	3,015,000	900
FFCB	31331YWG1	3,870,713	581	-	-
FHLB	3128X8GS5	6,035,280	589	-	-
FHLB	3128X8RT1	4,031,360	624	-	-
FHLB	3133XTRK4	3,807,250	1,266	-	-
FHLB	3133XES91	3,547,570	1,346	-	-
FFCB	31331RP90	1,239,437	1,624	-	-
FHLB	3133XHW57	2,320,489	1,626	-	-
Total		$ 41,750,424		$ 37,689,760	
Portfolio Weighted Average Maturity (Days)			726		435

Credit risk

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

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

NOTE E. BONDED LONG-TERM DEBT OF THE DISTRICT

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

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

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

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

The outstanding Proposition G bonded debt is as follows:

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

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

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

Capital Appreciation Bonds $23,597,076

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

Current Interest Bonds $62,030,000

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

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

Changes in bonded long-term debt for the period ended June 30, 2009, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balances	Due Within One Year
2007 Series A - CAB's	$23,597,076	$ -	$ -	$ 23,597,076	$ -
2007 Series A - Serial	62,030,000	-	-	62,030,000	-
CAB accrued interest	2,536,200	771,919	-	3,308,119	-
Total bonded debt	$88,163,276	$771,919	$ -	$ 88,935,195	$ -

Debt Service Requirements
Debt service requirements on Proposition G debt as of June 30, 2009, are as follows:

Year Ending June 30	Principal	Interest	Total
2010	$ -	$ 3,072,400	$ 3,072,400
2011	205,000	3,072,400	3,277,400
2012	380,000	2,056,600	2,436,600
2013	565,000	3,037,700	3,602,700
2014	770,000	3,011,000	3,781,000
2014-2018	7,610,000	14,251,150	21,861,150
2019-2023	14,208,792	13,579,209	27,788,001
2024-2028	10,453,104	25,404,395	35,857,499
2029-2033	11,165,180	34,597,320	45,762,500
2034-2038	40,270,000	4,285,250	44,555,250
Totals	$ 85,627,076	$ 106,367,424	$ 191,994,500

NOTE F. PROPERTY PLANT AND EQUIPMENT

The following is a summary of the changes in property, plant, and equipment at June 30, 2009 and 2008:

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

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Land	$ 5,099,944	$ 1,889,286	$ -	$ 6,989,230
Buildings	4,707,202	-	-	4,707,202
Furniture and equipment	485,962	-	-	485,962
Construction in progress	-	19,758	-	19,758
Subtotal	10,293,108	1,909,044	-	12,202,152
Less:				
Accumulated depreciation	(1,101,970)	(109,040)	-	(1,211,010)
Total	$ 9,191,138	$ 1,800,004	$ -	$ 10,991,142

Construction in progress represents costs for the District's Dr. John W. Hardebeck Health Occupation's Training Center. This project will be funded all, or in part, by Proposition G proceeds, however, is not a project on the Hospital campus. Proposition G allotted $7,500,000 for the project, however, a final project budget has not been finalized.

DEFINED BENEFIT PENSION PLAN

Plan description and provisions

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

Funding policy

All full-time District employees and certain Board Members are eligible to participate in CalPERS. Employees become vested after five years of service. District employees who retire at or after age sixty, with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 3.00% of their single highest year's salary for each year of credited service. CalPERS also provide death and survivor's benefits. These benefit provisions and all other requirements are established by State statute and District ordinance. The District is required to contribute the actuarially determined amounts necessary to fund the benefits for it members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for Fiscal Year 2009 was 17.964%. The employer contribution rate is established and may be amended by CalPERS.

Annual pension cost

For fiscal year 2008 – 2009, the District's annual pension cost was $45,690 and the District actually contributed $128,145. The required contribution for fiscal year 2008 – 2009 was determined as part of the June 30, 2006 actuarial valuation using the entry age actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases from 3.25% to 14.45% depending on age, service, and type of employment; (c) 3.25% payroll growth adjustment; (d) 3.00% inflation adjustment; and (e) a merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of .25%. The actuarial value of the assets of the plan was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two- to five-year period depending on the size of investment gains and/or losses. The District's unfunded liabilities are amortized over a closed period equal to the average amortization period at the Plan's date of entry into the CalPERS Risk Pool. Subsequent plan amendments are amortized as a level percentage of pay over a closed 15-year period. Gains and losses that occur in the operation of the risk pool are amortized over a rolling 30 year period. The remaining amortization period at June 30, 2006 was 17 years for the District.

NOTE G. DEFINED BENEFIT PENSION PLAN, continued

Three-Year Trend Information

Fiscal year ended June 30:	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2007	$ 55,388	120.0%	-
2008	54,173	126.2%	-
2009	45,690	280.5%	-

Required Supplementary Information - Funded Status of Plan[1]

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded / (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL As a % of Payroll
06/30/05	$ 499,323	$ 405,481	$ 93,842	81.2%	$ 108,618	86.4%
06/30/06	620,492	501,707	118,785	80.9%	126,050	94.2%
06/30/07	699,664	576,070	123,594	82.3%	139,335	88.7%

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

NOTE H. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

Plan description and provisions
The District has established a policy to participate in the California Employer Retirement Benefit Trust, a multiple-employer, defined benefit OPEB plan. In connection with joining the trust, the District has had an actuarial valuation performed and determined its unfunded liability for postemployment benefits to be approximately $2,410,000. The District has deposited $2,000,000 to begin funding the actuarially determined liability and anticipates having the liability fully funded by 2015.

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

NOTE H. OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

Annual OPEB cost

For 2009, the District's annual OPEB cost of $323,549 consisted of $219,205 in actuarially required contributions and payments made direct to providers not reimbursed by the plan, respectively.

Fiscal year ended June 30:	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
2007	$ 250,672	399.0%	$ 749,328
2008	219,205	456.0%	1,530,123

Required Supplementary Information - Funded Status of Plan

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

NOTE I. TRANSFERS TO/FROM GROSSMONT DISTRICT HOSPITAL

Subsequent to June 30, 1995, the District's Board of Directors rescinded the standing resolution that directed the automatic transfer of cash and investments to the Corporation. Under the new resolution, all property tax revenues, as they are incrementally collected and paid to the District, will remain with the District and will not be shared, except as allocated by separate resolution. During the fiscal years ending 2009 and 2008, transfers to the Corporation were $32,276,189 and $16,368,229, respectively, consisting of:

	2009	2008
General support	$ 1,097,170	$ 1,076,300
Proposition G support	30,351,189	15,291,929
	$ 31,448,359	$ 16,368,229

NOTE J. INSURANCE

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District also purchases commercial insurance to cover the risk of loss for property, business liability, and medical payments. In addition, the District carries primary

NOTE J. INSURANCE, continued

liability and property insurance with coverage limits of $5,000,000 and excess property coverage up to $1,000,000,000. Sharp provides and pays the following insurance for the District: property for hospital assets transferred under the lease and subsequently acquired, and directors' and officers' liability insurance. The limit of liability for the current directors' and officers' liability is $500,000, inclusive of defense expenses.

NOTE K. COMMITMENTS AND CONTINGENCIES

Earthquake retrofit
Senate Bill 1953 imposes certain requirements that acute care hospitals would be required to meet within a specified time. These requirements include conducting seismic evaluations. Hospitals determined to pose certain risks shall only be used for nonacute care purposes after January 1, 2008. Grossmont Hospital has obtained an extension on meeting the January 1, 2008 deadline until January 1, 2013. After January 1, 2030, all hospitals must be determined to be in compliance. The District may be liable for compliance with Senate Bill 1953 in the event that Sharp defaults on its lease and transfer obligation.

Proposition G expenditures
Pursuant to the passage of Proposition G, the District has approximately $7,587,517 in construction contract commitments at June 30, 2009.

NOTE L. FUND DEFICIT

The debt service fund net asset deficit in the amount of $(77,098,025) will be reduced over the life of the bonds as property taxes are collected to meet scheduled debt service.

NOTE M. PRIOR PERIOD ADJUSTMENT

The June 30, 2008 General Fund net assets have been adjusted to reflect the change in an accounting policy relating to the recognition of certain grant award liabilities. Management has made the change to present a more conservative matching of revenues and expenses and to facilitate the reconciliation between budgeted and actual expenses. The effect of the change in accounting policy was to adjust the June 30, 2008, General Fund financial statements as follows: General Fund net assets, originally reported at $18,881,564 were reduced by $1,037,397 to $16,782,544; grants payable originally reported at $0 was increased to $2,099,020; community healthcare expenses originally reported at $1,879,209 were increased to $2,024,532; transfers to Grossmont Hospital originally reported at $160,000 were increased to $1,076,300, and a cash flow adjustment to operating income was included in the amount of $2,001,198.

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

Board of Directors
Grossmont Healthcare District

I have audited the financial statements of Grossmont Healthcare District as of and for the year ended June 30, 2009, and have issued my report thereon dated September 10, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

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

Compliance and Other Matters

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

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

[illegible] + Co., CPA

El Cajon, California
September 10, 2009

GROSSMONT HEALTHCARE DISTRICT
Bond Fund's Combining Schedule of Net Assets/ (Deficit)
June 30, 2009

	Cost of Issuance	Debt Service	Building	Total
ASSETS				
Current assets:				
Property taxes receivable	$ -	$ 54,142	$ -	$ 54,142
Due from fund	-	31,008	-	31,008
Accrued investment interest	-	96,754	214,357	311,111
Purchased investment interest	-	-	16,764	16,764
Restricted retention with fiscal agent	-	-	3,189,084	3,189,084
Total current assets	-	181,904	3,420,205	3,602,109
Non-current assets:				
Restricted cash with fiscal agent	-	2,206,341	15,921,868	18,128,209
Restricted investments with building fund	-	10,978,208	30,267,060	41,245,268
Deferred bond costs, net of accumulated amortization of $81,771	-	1,211,696	-	1,211,696
Total non-current assets	-	14,396,245	46,188,928	60,585,173
Total assets	$ -	$ 14,578,149	$ 49,609,133	$ 64,187,282

GROSSMONT HEALTHCARE DISTRICT
Bond Fund's Combining Schedule of Net Assets/ (Deficit), continued
June 30, 2009

	Cost of Issuance	Debt Service	Building	Total
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable	$ -	$ -	$ 811,617	$ 811,617
Retentions payable	-	-	3,189,084	3,189,084
Accrued interest	-	1,536,200	-	1,536,200
Total other current liabilities	-	1,536,200	4,000,701	5,536,901
Long-term liabilities:				
Bonds payable - capital appreciation bonds 2007A	-	23,597,076	-	23,597,076
Bonds payable - current interest bonds 2007A	-	62,030,000	-	62,030,000
Capital appreciation bond accrued interest	-	2,308,119	-	2,308,119
Bond premium, net of accumulated amortization of $148,789	-	2,204,779	-	2,204,779
Total-long term liabilities	-	90,139,974	-	90,139,974
Total liabilities	$ -	$ 91,676,174	$ 4,000,701	$ 95,676,875
Net assets/ (deficit):				
Restricted for debt service	$ -	$ (77,098,025)	$ -	$ (77,098,025)
Restricted for capital projects	-	-	45,608,432	45,608,432
Unrestricted	-	-	-	-
Total net assets	$ -	$ (77,098,025)	$ 45,608,432	$ (31,489,593)

GROSSMONT HEALTHCARE DISTRICT
Bond Fund's Combining Schedule of Activities and Changes in Net Assets/ (Deficit)
Year Ended June 30, 2009

	Cost of Issuance	Debt Service	Building	Total
REVENUES				
Non-operating revenue:				
Investment earnings	$ 72	$ 37,793	$ 1,317,828	$ 1,355,693
Property taxes	-	5,831,829	-	5,831,829
Other income	(15,600)	-	-	(15,600)
Total non-operating revenues	(15,528)	5,869,622	1,317,828	7,171,922
EXPENSES				
Non-operating expenses:				
Interest expense	-	4,200,177	-	4,200,177
Deferred bond cost amortization	-	44,602	-	44,602
Other expense	-	-	-	-
Total non-operating expenses	-	4,244,779	-	4,244,779
Change in net assets	(15,528)	1,624,843	1,317,828	2,927,143
Net assets/ deficit), beginning of year	31,061	(78,738,401)	74,641,793	(4,065,547)
Other financing sources (uses)	-	-	-	-
Transfers	(15,533)	15,533	-	-
Transfers to Grossmont Hospital	-	-	(30,351,189)	(30,351,189)
Net assets/ (deficit), end of year	-	$ (77,098,025)	$ 45,608,432	$ (31,489,593)

GROSSMONT HEALTHCARE DISTRICT

Bond Fund's Combining Schedule of Cash Flows

Year Ended June 30, 2009

	Cost of Issuance	Debt Service	Building	Total
CASH FLOWS FROM NON-OPERATING ACTIVITIES				
Cash received from non-operating activity	$ (15,533)	$ (3,072,391)	$ (3,075,948)	$ (6,163,872)
Net cash provided (used) by non-operating activities	(15,533)	(3,072,391)	(3,075,948)	(6,163,872)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Other financing sources - bond proceeds	-	-	-	-
Net cash provided by capital and related financing activities	-	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of investments	-	(11,160,080)	(7,879,000)	(19,039,080)
Maturities of investments	-	-	15,124,870	15,124,870
Interest revenue	72	122,888	1,150,173	1,273,133
Net cash provided (used) by investing activities	72	(11,037,192)	8,396,043	(2,641,077)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Cash received from property taxes - general obligation bonds	-	5,848,602	-	5,848,602
Transfers to Grossmont Hospital	-	-	(30,351,189)	(30,351,189)
Fund transfers	-	15,533	-	15,533
Net cash provided (used) by non-capital financing activities	-	5,864,135	(30,351,189)	(24,487,054)
Net change in cash and cash equivalents	(15,461)	(8,245,448)	(25,031,094)	(33,292,003)
CASH AND CASH EQUIVALENTS				
Beginning of year	15,461	10,451,789	40,952,962	51,420,212
End of year	$ -	$ 2,206,341	$ 15,921,868	$ 18,128,209
RECONCILIATION OF CASH AND INVESTMENTS TO CASH AND CASH EQUIVALENTS:				
Cash with fiscal agent	$ -	$ -	$ 3,189,084	$ 3,189,084
Cash restricted for bond debt service	-	2,206,341	-	2,206,341
Cash restricted for building fund	-	-	15,921,868	15,921,868
Investments restricted for debt service		10,978,208	30,267,060	41,245,268
Investments restricted for building fund	-	-	-	-
Total cash, cash equivalents and investments	$ -	$ 13,184,549	$ 49,378,012	$ 62,562,561