Grossmont Healthcare District

Financial Statements and
Independent Auditors' Report

Year Ended June 30, 2017

GROSSMONT HEALTHCARE DISTRICT

Table of Contents

Auditor Opinion

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Grossmont Healthcare District
La Mesa, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Grossmont Healthcare District (the District) as of and for the year ended June 30, 2017, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

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Offices located in Orange and San Diego Counties

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Grossmont Healthcare District as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of Funding Progress for Defined Postemployment Healthcare Plan, Schedule of the District's Proportionate Share of Net Pension Liability, the Schedule of Contributions - Defined Benefit Plan and the Budgetary Comparison Schedule - General Fund, identified as Required Supplementary Information (RSI) 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 RSI 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Proposition G Bond Funds Data information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Budgetary Comparison Schedule - Debt Service Fund on page 67 is the responsibility of management and was 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 Budgetary Comparison - Debt Service Fund is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information (Continued)

The supplementary information on pages 68 to 70 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

White Nelson Diehl Evans LLP

Carlsbad, California
September 6, 2017

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, 2017. 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.

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 535 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. See Note A, Reporting Entity, for more information about the lease of Grossmont Hospital.

Financial Highlights

During the fiscal year that ended June 30, 2017, the District:

- Continued its improvements funded by Proposition G at Grossmont Hospital
- Maintained a Moody's AA2 rating on all outstanding general obligation debt
- Increased its Board Contingency Fund to $14,100,000 from $11,850,000

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:

<u>Government-Wide and Fund Financial Statements</u>
The government-wide financial statements (i.e., the *Statement of Net Position/(Deficit)* and the *Statement of Activities*) report information on all of the activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District has no business-type activities.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

<u>Fund Based Financial Statements</u>
The Fund Financial Statements provide detailed information about the most significant funds; not the District as a whole. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with accounting, grantor or related legal requirements; such as using funds for a specific purpose or to meet other statutory requirements. All funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. The District uses only governmental funds and has no proprietary or fiduciary funds.

Overview of the Financial Statements, continued

Fund Based Financial Statements, continued:
Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of governmental-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the governmental-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains three individual governmental funds. These funds report financial transactions using an accounting method called modified accrual accounting. The General Fund, Building Fund and Debt Service Fund are considered to be major funds. Information for these major funds is presented separately in the *Balance Sheet - Governmental Funds* and in the *Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds*. The District adopts an annual appropriated budget for the General and Debt Service funds. A budgetary comparison statement has been provided for each of the funds to demonstrate compliance with the budget. The basic governmental fund financial statements can be found on pages 16 and 18.

Notes to Basic Financial Statements – Notes provide additional information that is essential to a full understanding of the data in the government-wide and fund financial statements. *The Notes to Financial Statements* can be found from pages 21-60.

Required Supplementary Information – In addition to the basic financial statements and accompanying notes, this section presents certain required supplementary information and can be found from pages 62-65 of this report.

Supplementary Information – In addition to the *Required Supplementary Information*, this section also presents the Debt Service fund budgetary statement and information about the District's Independent Citizens' Bond Oversight Committee (ICBOC) and select data relating to the Debt Service fund cash and investments included at the request of the ICBOC. The *Supplementary Information* can be found from pages 67-70.

Overview of the Financial Statements, continued

Net position of the District is classified into three components – net investment in capital assets; restricted; and unrestricted. 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 is reduced by the outstanding balances of notes or borrowings 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 net investment in capital assets.

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".

In the government-wide *Statement of Net Position/(Deficit)* and the *Statement of Activities*, activities are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

All governmental funds are accounted for using the current financial resources measurement focus and the modified-accrual basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources at the end of the period. Their revenues are recognized when they become measurable and available. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter (within 60 days) to be available to finance the expenditures accrued for the reporting period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service payments (principal and interest) unpaid vacation, compensatory time and claims and judgments are recorded only when payment is due.

Major Fund Analysis

The general fund is the primary operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was $5,599,511, while total fund balance decreased to $19,826,055. The fund balance of the District's general fund decreased by $1,851,703 during the current fiscal year.

Overview of the Financial Statements, continued

Major Fund Analysis, continued

The general fund final expenditures at year-end were $4,172,621 more than the final budget. This budget to actual variance was primarily due to unbudgeted capital outlay of $592,950, an unbudgeted $1,000,000 healthcare grant, and $3,285,000 lease paydown. Actual revenues compared to the final budget were down $252,775, although property taxes increased by $624,102.

The building fund is used to account for financial resources that are restricted, committed, or assigned to expenditures used for the acquisition or construction of major capital facilities funded by Proposition G. The Board adopts a project length multi-year budget for the building fund; therefore no budgetary statement for this fund is included in the accompanying financial statements.

The debt service fund is used to account for the accumulation of resources and the payment of Proposition G general obligation bond principal and interest from District resources, and special assessment bond principal and interest from special assessment levies, when the District is obligated in some manner for the payment.

The debt service fund final expenditures at year end were the same as amounts budgeted. Actual revenues were $3,087,267 in excess of the final budget. This budget to actual variance was primarily due to property tax assessments received in excess of amounts budgeted.

The *Notes to 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 on the previous page.

Financial Activities & Fiscal Year 2017 Highlights

The District's operating activities are comprised of the following primary segments:

- General Government - 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 its 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 general 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.

Financial Activities & Fiscal Year 2017 Highlights, continued

- Debt Administration - This segment consists of all costs associated with issuing and servicing the long-term debt of the District.

- Contributions to Grossmont Hospital – The District contributes general operating support and Proposition G project support to Grossmont Hospital.

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 the Proposition G general obligation bonds recorded and the nature of the capital assets they finance. The District's most significant assets are cash, cash equivalents, and investments. The District's cash and investments position decreased $17,011,056 from FY 2016 to FY 2017. 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 to be collected through 2040. The District's *Net Investment in Capital Assets* represents its administrative and library campus and land holdings.

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/(Deficit)

	FY17	FY16
Assets:		
Cash, cash equivalents and investments	$ 55,655,794	$ 72,666,850
Capital assets	10,020,104	24,170,695
All other assets	8,920,250	3,017,471
Total assets	74,596,148	99,855,016
Deferred outflows of resources	31,333,368	32,965,582
Liabilities:		
Long-term	294,604,666	300,380,531
Other	11,384,696	24,566,440
Total liabilities	305,989,362	324,946,971
Deferred inflows of resources	39,641	94,210
Net position/(deficit):		
Invested in capital assets	10,020,104	17,838,954
Restricted for debt service	6,601,252	6,301,227
Restricted for capital projects	24,242,996	39,728,714
Unrestricted	(240,963,839)	(256,089,478)
Total net position	$ (200,099,487)	$ (192,220,583)

Financial Activities & Fiscal Year 2017 Highlights, continued

The following table highlights the changes in net position of the District:

	FY17	FY16
Revenues:		
Property tax revenue - general purposes	$ 7,389,149	$ 6,905,164
Property tax revenue - special assessment	13,020,236	12,099,518
Investment income	195,193	386,415
Operating grants and contributions	25,730	31,171
Other	78,067	-
Total revenues	20,708,375	19,422,268
Expenses:		
General government	1,722,093	1,596,428
Community healthcare	2,119,748	1,379,866
Library operating	318,552	293,005
Facility	249,324	271,380
Debt Administration	12,795,820	12,615,054
Contributions to Grossmont Hospital	11,381,743	30,248,598
Total expenses	28,587,280	46,404,331
Change in net position	(7,878,905)	(26,982,063)
Net Position - beginning of year	(192,220,582)	(165,238,519)
Prior period adjustment	-	-
Net Position - restated	(192,220,582)	(165,238,519)
Ending net position	$ (200,099,487)	$ (192,220,582)

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 for general purposes increased $483,985 from FY 2016 to FY 2017 and property tax revenues from special assessments increased $920,718 from FY 2016 to FY 2017. The local real estate market continues to improve and the District's taxable assessed valuations continue to increase.

Community healthcare expenses increased $739,882 from FY 2016 to FY 2017 which represents an increase in community healthcare outlay.

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 decreased $18,866,855 from FY 2016 to FY 2017 resulting primarily from the phasing and timing of Proposition G program expenses financed by Proposition G general obligation bonds.

Capital Assets

At June 30, 2017 the District had $12,366,115 in capital assets and $2,346,011 in accumulated depreciation resulting in $10,020,104 of net capital assets. A summary of the activity and balances in capital assets is presented below.

	FY17	FY16
Land	$ 7,061,501	$ 7,061,501
Construction in progress	-	14,043,983
Buildings	4,707,202	4,707,202
Furniture and equipment	597,412	571,689
Subtotal	12,366,115	26,384,375
Less:		
Accumulated Depreciation	(2,346,011)	(2,213,680)
Total	$10,020,104	$24,170,695

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.

See Note E for additional information on Capital Assets.

Debt Administration

Proposition G authorized the issuance of up to $247,000,000 in general obligation bonds. On August 2, 2007, the District issued Series 2007A in the amount of $85,627,076. On February 23, 2011, the District issued Series 2011B in the amount of $136,860,000. On April 28, 2015, the District issued Series 2015C in the amount of $24,510,000 and Series 2015D (Refunding Bonds) in the amount of $200,490,000.

All outstanding District general obligation bond debt is Moody's Investors Service rated AA2.

On June 29, 2012 the District entered into an $18,000,000 tax-exempt lease arrangement (Lease) with a bank (the Lessor) to build Cogeneration equipment for inclusion in the new central energy plant at Grossmont Hospital.

Debt Administration, continued

Changes in long-term liabilities for the period ended June 30, 2017, are as follows:

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017	Due Within One Year
General Obligation Bonds					
2007 Series A - CAB's	$ 23,597,076	$ -	$ -	$ 23,597,076	$ -
2007 Series A - CIB's	5,395,000	-	1,495,000	3,900,000	1,790,000
2007A unamortized premium	124,303	-	59,665	64,638	-
2007A CAB accrued interest	12,601,970	1,771,983	-	14,373,953	-
2011B CIB's	14,475,000	-	5,000	14,470,000	5,000
2011B unamortized premium	180,200	-	9,965	170,235	-
2015 Series C - CIB's	24,510,000	-	-	24,510,000	-
2015C unamortized premium	4,788,717	-	439,852	4,348,865	-
2015D Series D - CIB's	200,490,000	-	775,000	199,715,000	790,000
2015D unamortized premium	8,033,637	-	336,317	7,697,320	-
Total general obligation bonds, net	294,195,903	1,771,983	3,120,799	292,847,087	2,585,000
Other Long-term Debt					
Financing obligation	10,415,883	-	4,739,107	5,676,776	1,375,055
Total long-term liabilities	$ 304,611,786	$ 1,771,983	$7,859,906	$ 298,523,863	$ 3,960,055

See Note F for additional information on long-term debt.

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 2017 budget reflects total revenues of $22,895,476 and total expenses, net of noncash adjustments of $2,388,001, of $19,800,545.

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 2018.

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.

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Basic Financial Statements

GROSSMONT HEALTHCARE DISTRICT
Statement of Net Position/(Deficit)
June 30, 2017

		Governmental Activities
ASSETS		
Current Assets:		
Cash and cash equivalents	$	8,111,685
Investments		11,938,335
Property taxes receivable		812,137
Other accounts receivable		197,746
Current portion of long term note - lease receivable		1,375,055
Accrued investment interest		62,029
Prepaid expenses and deposits		70,104
Restricted cash and cash equivalents with fiscal agent		22,696,494
Restricted investments with fiscal agent		12,909,280
Total Current Assets		58,172,865
Noncurrent Assets:		
Long term note - lease receivable		4,301,721
Prepaid bond insurance, net		103,852
Net OPEB asset		1,997,606
Capital assets:		
Land		7,061,501
Capital assets, net of depreciation		2,958,603
Total capital assets, net of depreciation		10,020,104
Total Noncurrent Assets		16,423,283
Total Assets		74,596,148
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pension contributions		363,606
Deferred charges on refunding of long-term debt		30,969,762
Total deferred outflow of resources		31,333,368

See accompanying notes to financial statements.

GROSSMONT HEALTHCARE DISTRICT
Statement of Net Position/(Deficit)
June 30, 2017

	Governmental Activities
LIABILITIES	
Current Liabilities:	
Accounts and grants payable	$ 2,540,000
Current accrued compensated absences	13,619
Net pension liability	155,113
Current maturities of long-term debt	3,960,055
Liabilities payable from restricted assets:	
Restricted accrued interest	4,715,909
Total Current Liabilities	11,384,696
Noncurrent Liabilities:	
Long-term accrued compensated absences	40,858
General obligation bonds	275,888,134
Financing obligation	4,301,721
Capital appreciation bond accrued interest	14,373,953
Total Noncurrent Liabilities	294,604,666
Total Liabilities	305,989,362
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows from pension	39,641
NET POSITION/(DEFICIT)	
Investment in capital assets	10,020,104
Restricted for debt service	6,601,252
Restricted for capital projects	24,242,996
Unrestricted	(240,963,839)
Total Net Position/(Deficit)	$ (200,099,487)

GROSSMONT HEALTHCARE DISTRICT

Statement of Activities
For the year ended June 30, 2017

Functions/programs	Expenses	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position — Governmental Activities
Governmental activities:				
General government	$ 1,722,093	$ 25,730	$ 13,020,236	$ 11,323,873
Community healthcare	2,119,748	-	-	(2,119,748)
Library operating expenses	318,552	-	-	(318,552)
Facility expenses	249,324	-	-	(249,324)
Interest on long-term debt	12,795,820	-	-	(12,795,820)
Contributions to Grossmont Hospital	11,381,743	-	-	(11,381,743)
Total Governmental Activities	$ 28,587,280	$ 25,730	$ 13,020,236	(15,541,314)

General Revenues:	
Property taxes, levied for general purposes	7,389,149
Investment earnings	195,193
Other	78,067
Total General Revenues	7,662,409
Change in Net Position	(7,878,905)
Net Position/(Deficit) - Beginning of Year	(192,220,582)
Net Position/(Deficit) - End of Year	$ (200,099,487)

See accompanying notes to financial statements.

GROSSMONT HEALTHCARE DISTRICT

Balance Sheet - Governmental Funds
June 30, 2017

	General Fund	Proposition G Building Fund	Proposition G Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 8,111,685	$ -	$ -	$ 8,111,685
Investments	11,938,335	-	-	11,938,335
Property taxes receivable	268,822	-	543,315	812,137
Other accounts receivable	168,725	29,021	-	197,746
Accrued investment interest	51,206	2,063	8,760	62,029
Prepaid expense and deposits	70,104	-	-	70,104
Restricted cash and cash equivalents with fiscal agent	56,440	14,251,833	8,388,221	22,696,494
Restricted investments with fiscal agent	-	9,989,100	2,920,180	12,909,280
TOTAL ASSETS	$ 20,665,317	$ 24,272,017	$ 11,860,476	$ 56,797,810
LIABILITIES				
Accounts and grants payable	$ 633,209	$ 1,906,791	$ -	$ 2,540,000
TOTAL LIABILITIES	633,209	1,906,791	-	2,540,000
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenues	206,053	-	406,094	612,147
TOTAL DEFERRED INFLOWS OF RESOURCES	206,053	-	406,094	612,147
FUND BALANCES				
Nonspendable:				
Prepaid items	70,104	-	-	70,104
Restricted for:				
Capital projects	56,440	22,365,226	-	22,421,666
Debt service	-	-	11,454,382	11,454,382
Assigned to:				
Board contingency fund	14,100,000	-	-	14,100,000
Unassigned	5,599,511	-	-	5,599,511
Total Fund Balances	19,826,055	22,365,226	11,454,382	53,645,663
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 20,665,317	$ 24,272,017	$ 11,860,476	$ 56,797,810

See accompanying notes to financial statements.

GROSSMONT HEALTHCARE DISTRICT

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position/(Deficit)
June 30, 2017

		Amount
Total fund balances for governmental funds		$ 53,645,663
Amounts reported for governmental activities in the statement of net position/(deficit) are different because:		
Capital assets used in governmental funds are not current financial resources; and, therefore, are not reported in governmental funds (net of accumulated depreciation).		10,020,104
Deposits with insurance providers to pay for long-term liabilities are not current financial resources; and, therefore, are not recorded on the governmental fund balance sheet.		103,852
Long term note receivables are not available to finance current financial resources, and, therefore, are not reported in governmental funds.		5,676,776
Interest payable for the general obligation bonds has not been reported in the governmental funds.		(4,715,909)
GASB 68 net pension liability is not due in the current period and is not reported as a fund liability.		(155,113)
Deferred inflows from GASB 68 pension contribution are not reported in governmental funds.		(39,641)
Long-term liabilities applicable to the governmental activities are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position:		
General obligation bonds	$ (278,473,134)	
Financing obligation	(5,676,776)	
Capital appreciation bond accrued interest	(14,373,953)	
Accrued compensated absences	(54,477)	(298,578,340)
The net OPEB asset is not receivable in the current period, and, therefore, is not reported in the governmental funds balance sheet.		1,997,606
Revenues reported as unavailable revenue in the governmental funds and recognized in the Statement of Activities.		612,147
Deferred outflows from GASB 68 pension contributions are not reported in governmental funds.		363,606
Net deferred outflows resulting from the advance refunding of debt are not current financial resournces and, therefore, not reported the governmental funds balance sheet.		30,969,762
Net position/(deficit) of governmental activities.		$ (200,099,487)

See accompanying notes to financial statements.

GROSSMONT HEALTHCARE DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2017

	General Fund	Proposition G Building Fund	Proposition G Debt Service Fund	Total Governmental Funds
REVENUES:				
Property taxes, levied for general purposes	$ 7,332,222	$ -	$ -	$ 7,332,222
Property taxes, levied for special assessments	-	-	12,973,401	12,973,401
Investment income	68,360	112,967	13,866	195,193
Grant and other income	25,730	-	-	25,730
Contribution from Sharp - cogeneration revenue	1,599,769	-	-	1,599,769
Total Revenues	9,026,081	112,967	12,987,267	22,126,315
EXPENDITURES:				
General government	1,636,718	-	-	1,636,718
Community healthcare	2,119,748	-	-	2,119,748
Library operating expense	318,552	-	-	318,552
Facility expense	275,047	-	-	275,047
Capital outlay	592,950	-	-	592,950
Contributions to Grossmont Hospital	1,050,000	11,676,206	-	12,726,206
Debt Service:				
Principal	4,739,107	-	2,275,000	7,014,107
Interest and fiscal charges	145,662	-	10,414,519	10,560,181
Total Expenditures	10,877,784	11,676,206	12,689,519	35,243,509
NET CHANGES IN FUND BALANCES	(1,851,703)	(11,563,239)	297,748	(13,117,194)
FUND BALANCES, BEGINNING OF YEAR, AS RESTATED	21,677,758	33,928,465	11,156,634	66,762,857
FUND BALANCES, END OF YEAR	$ 19,826,055	$ 22,365,226	$ 11,454,382	$ 53,645,663

See accompanying notes to financial statements.

GROSSMONT HEALTHCARE DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2017

		Amount
Net change in fund balances - total governmental funds		$ (13,117,194)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital assets acquisitions as expenditures; however, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense:		
Capital assets acquired:		
Capital Outlay	$ 618,673	
Gain on transfer of Cogeneration Project to the Corporation	78,067	
Depreciation expense	(132,331)	564,409
Interest expense is recognized when paid on the statement of revenue, expenditures and changes in fund balances and is recognized when incurred on the statement of activites.		41,112
Interest accrued on the capital appreciation bonds is expensed when incurred in the statement of activities.		(1,771,983)
The revenue for the Cogeneration lease agreement between the District and the Corporation is being deferred on the statement of activities and is recognized as a current financial resource on the statement of revenues, expenditures and changes in fund balances.		(255,306)
Revenues reported as unavailable in the governmental funds and recognized in the Statement of Activities.		103,762
OPEB expense is recognized when paid in the statement of revenues, expenditures and changes in fund balances and recognized when incurred in the statement of activities.		923
Pension expense reported in the governmental funds includes the annual required contributions. In the Statement of Activities, pension expense includes the change in the net pension liability, and related change in pension amounts for deferred outflows of resources and deferred inflows of resources.		46,057
Certain expenses are reported when paid in the statement of revenues, expenditures and changes in fund balances and expensed when incurred in the statement of activities:		
Compensated absences	$ (24)	
Bond insurance	(6,457)	(6,481)
The repayment of the principal of long-term debt consumes current financial resources of governmental funds. However, these transactions have no effect on net position:		
Principal payments	$ 7,014,107	
Bond premium amortization	845,799	
Amortization of deferred amount on refunding	(1,344,110)	6,515,796
Change in net position of governmental activities		$ (7,878,905)

See accompanying notes to financial statements.

Notes to Basic Financial Statements

Note A. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

Grossmont Healthcare District (the District) is a local healthcare district, formed in 1952, and organized pursuant to Division 23 of the Health and Safety Code of the State of California to provide and operate health care facilities for a specified geographic region of San Diego County. The District's boundaries encompass an area of 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.

Effective May 29, 1991, the District entered into an Affiliation Agreement with Sharp HealthCare (SHARP), a multi-facility health care system located in San Diego County. 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 a 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.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the *Statement of Net Position/(Deficit)* and the *Statement of Activities*) report information on all of the activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District has no business-type activities.

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

Government-Wide and Fund Financial Statements, continued

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Net position of the District is classified into three components – net investment in capital assets; restricted; and unrestricted. 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 borrowings 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.

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".

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

Government-Wide and Fund Financial Statements, continued
The fund balances reported on the fund statements consist of the following categories:

> Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally contractually required to be maintained intact.
>
> Restricted – This classification includes amounts that can be spent only for specific purposes stipulated by constitutional, external resource providers or through enabling legislation.
>
> Committed – This classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's Board of Directors.
>
> Assigned – This classification includes amounts to be used by the District, authorized by the Board of Directors, for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
>
> Unassigned – This classification includes the residual balance for the District's general fund and includes all spendable amounts not contained in other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

In the government-wide statements, the District considers restricted funds to be spent first then unrestricted funds when expenditures are incurred for purposes for which both restricted and unrestricted net position is available. In the governmental funds, when both restricted and unrestricted resources are available for use, expenses are considered to be paid first from restricted resources, and then from unrestricted resources. When committed, assigned or unassigned amounts are available for use, expenses are considered to be paid first from committed, then from assigned, and then unassigned.

The accounting system of the District is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the District's governmental funds are presented after the government-wide financial statements.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation
Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

In the government-wide *Statement of Net Position/(Deficit)* and the *Statement of Activities*, activities are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

All governmental funds are accounted for using the current financial resources measurement focus and the modified-accrual basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources at the end of the period. Their revenues are recognized when they become measurable and available. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter (within 60 days) to be available to finance the expenditures accrued for the reporting period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service payments (principal and interest), unpaid vacation, compensatory time and claims and judgments are recorded only when payment is due.

Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Locally imposed derived tax revenues are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. Imposed non-exchange transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary non-exchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation, continued
The funds designated as major funds are determined by a mathematical calculation consistent with GASB Statement No. 34. The District reports the following major governmental funds:

> The **General Fund** is the primary operating fund. It accounts for and reports all financial resources of the District, except those not accounted for and reported in another fund.
>
> The **Building Fund** is used to account for financial resources that are restricted, committed, or assigned to expenditures used for the acquisition or construction of major capital facilities funded by Proposition G. See Note F for more information on Proposition G.
>
> The **Debt Service Fund** is used to account for the accumulation of resources and the payment of Proposition G general obligation bond principal and interest from District resources, and special assessment bond principal and interest from special assessment levies, when the District is obligated in some manner for the payment.

Amounts reported as program revenues include: (1) fees and charges to customers, applicants, and citizens; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenues include all taxes. Program revenues and expenditures are classified by function. Each function is defined as a major department with a department head and separate budget.

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 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.

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

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 future periods and so will not be recognized as an outflow of resources (expense) until that time. The District has the following items that qualify for reporting in this category:

- Deferred losses on refunding of \$30,969,762 relating to the 2015 Series D Refunding Bonds, net of accumulated amortization of \$2,839,016, at June 30, 2017. It is amortized on a straight-line basis over 302 months which represents the shortest period between the remaining outstanding debt and the new debt.

- Deferred outflow related to pensions for employer contributions made after the measurement date of the net pension liability.

- Deferred outflow related to pensions for differences between expected and actual experiences. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans.

- Deferred outflow related to pensions for changes in proportion and differences between employer contributions and proportionate share of contributions. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans.

- Deferred inflows from pensions resulting from the difference in projected and actual earnings on investments of the pension plan fiduciary net position. This amount is amortized over five years.

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

In addition to liabilities, the *Statement of Net Position/(Deficit)* 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 future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has the following that qualify for reporting in this category:

- Deferred inflows from unavailable revenues, which are reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source, which are taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

- Deferred inflows from pensions resulting from changes in assumptions. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans determined as of June 30, 2016.

- Deferred inflows from pensions for differences between expected and actual experiences. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans determined as of June 30, 2016.

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.

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 $23.52 per $100,000 of assessed valuation. 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.

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

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
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 at the fair value per share of the pool's underlying portfolio.

Other Accounts Receivable
Other accounts receivable primarily represents post-employment benefit trust fund reimbursements from the California Public Employees Retirement System (Note I).

Other Noncurrent Assets
Prepaid bond insurance net, of $103,852 for the 2007A Bonds, at June 30, 2017, is being amortized on the straight-line method based on the estimated term of the related bond debt. Amortization expense of $6,457 for the year ended June 30, 2017 is included in the *Statement of Activities* 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 three to 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.

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.

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

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

Pensions
For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

Stewardship, Compliance and Accountability
General Budget Policies - The Chief Financial Officer shall prepare and submit the proposed annual budget to the Board for its approval for all governmental funds except the Building Fund. The Board adopts a project length multi-year budget for the Building Fund, therefore no budgetary statement for the Building Fund is included in the accompanying financial statements. The budget is reviewed during a public meeting and is then legally enacted by means of a budget resolution passed by the Board. Upon final adoption, the budget shall be in effect for the ensuing fiscal year.

Expenditures are controlled at the department level. Transfers between funds require Board authorization and transfers within funds are to be authorized by the Chief Executive Officer or Chief Financial Officer.

Budgets are prepared in accordance with generally accepted accounting principles using the modified accrual basis of accounting and appropriations lapse at the end of the fiscal year. Budget amounts are as originally adopted, or as amended in accordance with prescribed procedures throughout the fiscal year.

Excess of Expenditures Over Appropriations - The General Fund Capital Outlay is not budgeted, and, therefore, shows a variance with the final budget of $592,950 on the *Budgetary Comparison Schedule-General Fund* found on page 65.

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

New Accounting Pronouncements

GASB 74 - *"Financial Reporting for Postemployment Benefit Plans Other than Pension Plans"*, effective for periods beginning after June 15, 2016 and did not impact the District.

GASB 77 - *"Tax Abatement Disclosure"*, effective for periods beginning after December 15, 2015 and did not impact the District.

GASB 79 - *"Certain External Investment Pools and Pool Participants"*, contains certain provisions on portfolio quality, custodial credit risk, and shadow pricing, effective for periods beginning after December 15, 2015 and did not impact the District.

GASB 80 - *"Blending Requirements for Certain Component Units"*, effective for periods beginning after June 15, 2016 and did not impact the District.

Pending Accounting Standards

GASB has issued the following statements which may impact the District's financial reporting requirements in the future:

- GASB 75 - *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"*, effective for periods beginning after June 15, 2017.
- GASB 82 - *"Pension Issues"*, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.
- GASB 84 - *"Fiduciary Activities"*, effective for periods beginning after December 15, 2018.
- GASB 85 - *"Omnibus 2017"*, effective for periods beginning after June 15, 2017.
- GASB 86 - *"Certain Debt Extinguishment Issues"*, effective for periods beginning after June 15, 2017.
- GASB 87 - *"Leases"*, effective for periods beginning after December 15, 2019.

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 District's bond issuance process.

Note C. Proposition G Bond Sales

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

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

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

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

Bond sale proceeds at the close of the transaction on May 20, 2015 from the Series 2015C Bonds resulted in the following deposits:

Fund	Amount
Cost of issuance	$ 132,686
Debt service	1,095,000
Escrow fund	4,050,544
Building	24,510,000
	$ 29,788,230

Note C. Proposition G Bond Sales, continued

Bond sale proceeds at the close of the transaction on May 20, 2015 from the Series 2015D Bonds resulted in the following deposits:

Fund	Amount
Cost of issuance	$ 1,312,068
Escrow fund	211,092,283
	$ 212,404,351

See Note F for more information on the District's long-term liabilities.

Note D. Cash, Cash Equivalents, and Investments

The primary goals of the District's Investment Policy are to assure compliance with Federal, State, and Local laws governing the investment of funds under the control of the District, 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):		
Current assets		
Cash and cash equivalents	$	8,111,685
Investments		11,938,335
Restricted cash and cash equivalents with fiscal agent		22,696,494
Restricted investments with fiscal agent		12,909,280
Total cash, cash equivalents, and investments	$	55,655,794

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

Cash on hand	$	4
Deposits with financial institutions		734,380
Investments		54,921,410
Total cash, cash equivalents and investments	$	55,655,794

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

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

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

Investments Authorized by Debt, 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.

Investments by Fair Value Level
The District categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.

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

Investments by Fair Value Level, continued

Level 2: Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the District's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

The asset's or liability's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The determination of what constitutes observable requires judgment by the District's management. District management considers observable data to be that market data which is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market.

The categorization of an investment or liability within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to District management's perceived risk of that investment or liability.

The following is a description of the recurring valuation methods and assumptions used by the District to estimate the fair value of its investments. The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

When available, quoted prices are used to determine fair value. When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy. When quoted prices in active markets are not available, fair values are based on evaluated prices received by District's Chief Financial Officer from third party service provider.

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

Investments by Fair Value Level, continued

The District has no investments categorized in Level 3. When valuing Level 3 securities, the inputs or methodology are not necessarily an indication of the risks associated with investing in those securities. Changes in valuation techniques may result in transfers into or out of an assigned level within the disclosure hierarchy.

The District's investments in the California Local Agency Investment Fund, the San Diego County Investment Pool, and money market mutual funds are not subject to the fair value hierarchy.

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total
U.S. Government Sponsored				
Agency security				
FFCB	$ -	$ 2,536,904	$ -	$ 2,536,904
FHLB	-	5,709,040	-	5,709,040
FHLMC	-	1,998,205	-	1,998,205
FNMA	-	1,694,186	-	1,694,186
Held by fiscal agent:				-
U.S. Government Sponsored				-
Agency security				-
FFCB	-	7,916,030	-	7,916,030
FNMA	-	4,993,250	-	4,993,250
Sub total	-	24,847,615	-	24,847,615
Local Agency Investment Fund***				6,416,191
County of San Diego Investment Pool***				1,017,549
Held by fiscal agent:				
Money market mutual funds***				22,640,055
Total investments				$ 54,921,410

***Not subject to fair value measurements.

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

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.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations are provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2017:

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	$ 24,847,615	$ 14,622,296	$ 5,012,864	$ 5,212,455	$ -
Money Market Mutual Funds	22,640,055	22,640,055	-	-	-
County and State Pooled Funds	7,433,740	7,433,740	-	-	-
	$ 54,921,410	$ 44,696,091	$ 5,012,864	$ 5,212,455	$ -

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, 2017 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 $24,847,615 of U.S. Government Sponsored Entity securities at June 30, 2017 below are rated AA+ by Standard & Poors:

			Rating as of Year End		
Investment Type		Minimum Legal Rating	AAA	AA	Not Rated
U.S. Government Sponsored Entities	$ 24,847,615	N/A	$ 24,847,615	$ -	$ -
Money Market Mutual Funds	22,640,055	AAA	22,640,055	-	-
County and State Pooled Funds	7,433,740	N/A	1,017,549	-	6,416,191
	$ 54,921,410		$ 48,505,219	$ -	$ 6,416,191

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, 2017 are below:

Issuer Type	Investment Type	Reported Amount	
Federal Farm Credit Bank	U.S. Government Sponsored Entity	$	10,452,934
Federal Home Loan Bank	U.S. Government Sponsored Entity	$	5,709,040
Federal National Mortgage Association	U.S. Government Sponsored Entity	$	6,687,436

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District 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, 2017, $524,785 of the District's deposits with financial institutions were in excess of the Federal insurance limits with $524,785 held in collateralized accounts and $0 not collateralized.

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.

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

San Diego County Pooled Fund

The San Diego County Pooled Investment Fund (SDCPIF) is pooled investment fund program governed by the County of San Diego Board of Supervisors, and administered by the County of San Diego Treasurers and Tax Collector. Investments in SDCPIF are highly liquid as deposits and withdrawals can be made at any time without penalty.

The County of San Diego's bank deposits are either federally insured or collateralized in accordance with the California Government Code. Pool details in included in the County of San Diego Comprehensive Annual Financial Report (CAFR). Copies of the CAFR may be obtained from the County of San Diego Auditor-Controller's Office – 1600 Pacific Coast Highway, San Diego California 92101.

Note E. Capital Assets

The following table presents a summary of the changes in capital assets at June 30, 2017:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Capital Assets Not Depreciated:				
Land	$ 7,061,501	$ -	$ -	$ 7,061,501
Construction in progress	14,043,983	592,950	14,636,933	-
Total capital assets not depreciated	21,105,484	592,950	14,636,933	7,061,501
Capital Assets Being Depreciated:				
Buildings	4,707,202	-	-	4,707,202
Furniture and equipment	571,689	25,723	-	597,412
Total capital assets being depreciated	5,278,891	25,723	-	5,304,614
Less Accumulated Depreciation:				
Furniture and equipment	538,547	14,647	-	553,194
Buildings	1,675,133	117,684	-	1,792,817
Total	2,213,680	132,331	-	2,346,011
Total Capital Assets Being Depreciated, net	3,065,211	(106,608)	-	2,958,603
Total Capital Assets, Net	$ 24,170,695	$ 486,342	$ 14,636,933	$ 10,020,104

Depreciation expense of $132,331 is included in facility expenses on the *Statement of Activities* for the fiscal year ended June 30, 2017.

Construction in progress represents accumulated costs for the District's Cogeneration equipment project, which was completed in June 2017. The project was financed by a bank and the debt service is paid by the Corporation (see Note F for more information). During June 30, 2017, the project was completed and the cost of $14,636,933 was deleted from the District's capital asset portfolio.

Note F. Long-Term Liabilities

Long-term liabilities for the year ended June 30, 2017, are as follows:

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017	Due Within One Year
General Obligation Bonds					
2007 Series A - CAB's	$ 23,597,076	$ -	$ -	$ 23,597,076	$ -
2007 Series A - CIB's	5,395,000	-	1,495,000	3,900,000	1,790,000
2007A unamortized premium	124,303	-	59,665	64,638	-
2007A CAB accrued interest	12,601,970	1,771,983	-	14,373,953	-
2011B CIB's	14,475,000	-	5,000	14,470,000	5,000
2011B unamortized premium	180,200	-	9,965	170,235	-
2015 Series C - CIB's	24,510,000	-	-	24,510,000	-
2015C unamortized premium	4,788,717	-	439,852	4,348,865	-
2015D Series D - CIB's	200,490,000	-	775,000	199,715,000	790,000
2015D unamortized premium	8,033,637	-	336,317	7,697,320	-
Total general obligation bonds, net	294,195,903	1,771,983	3,120,799	292,847,087	2,585,000
Other Long-term Debt					
Financing obligation	10,415,883	-	4,739,107	5,676,776	1,375,055
Total long-term liabilities	$ 304,611,786	$ 1,771,983	$7,859,906	$ 298,523,863	$ 3,960,055

General Obligation Bonds

The District received authorization at an election held on June 6, 2006, by more than two-thirds 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 the 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.

Oversight Committee

Proposition G was not a Proposition 39 bond measure. However, the District's Board of Directors established an Independent Citizens' Bond Oversight Committee (ICBOC) to establish accountability over the fund expenses. See page 68 for more information on the IBOC.

Note F. Long-Term Liabilities, continued

General Obligation Bonds, continued

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. 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.

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 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.

In May 2015, Series 2015C general obligation bonds (Series 2015C Bonds) in the amount of $24,510,000 were sold at a premium of $5,278,231. The Series 2015C Bonds were sold direct to Goldman, Sachs & Co., the underwriter, under the terms of a negotiated sale agreement.

In May 2015, Series 2015D general obligation refunding bonds (Series 2015D Refunding Bonds) in the amount of $200,490,000 were sold at a premium of $8,407,925. The Series 2015D Refunding Bonds were sold direct to Goldman, Sachs & Co., the underwriter, under the terms of a negotiated sale agreement.

Security for the Bonds

The Series 2007A, 2011B, 2015C and 2015D 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, 2011B, 2015C and 2015D Bonds. The 2007A, 2011B, 2015C and 2015D 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, 2015C and 2015D Bonds are uninsured.

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, 2017 is $14,373,953. Interest accrued during the fiscal year ending June 30, 2017 was $1,771,983.

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

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

Note F. Long-Term Liabilities, continued

General Obligation Bonds, continued

In May 2015, a portion of the 2007A CIB Bonds were defeased by the 2015D Refunding Bonds. See page 46 for more information on the 2015D Refunding Bonds.

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

Current Interest Bonds $3,900,000

Maturity Date July 15	Interest Rate	Principal Amount
2017	5.000%	$ 1,790,000
2018	5.000%	2,110,000
		$ 3,900,000

Note F. Long-Term Liabilities, continued

General Obligation Bonds, continued

In February 2011, the District issued $136,860,000 of current interest bonds. In May 2015, a portion of the 2011B Bonds were defeased by the 2015D Refunding Bonds. See page 46 for more information on the 2015D Refunding Bonds.

The remaining maturity schedule of the 2011B current interest bonds are as follows:

Current Interest Bonds $14,470,000

Maturity Date July 15	Interest Rate	Principal Amount
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
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
2034	5.750%	1,350,000
		$ 14,470,000

Note F. Long-Term Liabilities, continued

General Obligation Bonds, continued

The remaining maturity schedule of the 2015C current interest bonds are as follows:

Current Interest Bonds $24,510,000		
Maturity Date July 15	Interest Rate	Principal Amount
2017	0.000%	$ -
2018	0.000%	-
2019	5.000%	405,000
2020	5.000%	920,000
2021	5.000%	1,485,000
2022	5.000%	2,100,000
2023	5.000%	2,780,000
2024	5.000%	3,520,000
2025	5.000%	3,990,000
2026	5.000%	4,425,000
2027	5.000%	4,885,000
		$ 24,510,000

Note F. Long-Term Liabilities, continued

General Obligation Bonds, continued

In May 2015, the District issued $200,490,000 Refunding General Obligation Bonds, Series 2015D for the purpose for refunding $52,500,000 of the outstanding balance of the 2007A CIB Bonds and $122,385,000 of the outstanding 2011B Bonds.

The District refunded the above referenced portions of the 2007A CIB Bonds and 2011B Bonds to reduce its total debt service payments over 25 years by $28,616,486 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $14,855,150.

The District had $174,885,000 of defeased debt outstanding at June 30, 2017.

The remaining maturity schedule of the 2015D current interest bonds are as follows:

Current Interest Bonds $199,715,000		
Maturity Date July 15	Interest Rate	Principal Amount
2017	5.000%	$ 790,000
2018	5.000%	825,000
2019	5.000%	3,330,000
2020	5.000%	3,745,000
2021	5.000%	4,205,000
2022	5.000%	4,695,000
2023	5.000%	1,055,000
2024	5.000%	1,110,000
2025	5.000%	1,505,000
2026	5.000%	1,225,000
2027	5.000%	1,285,000
2028	3.000%	1,350,000
2029	3.125%	1,390,000
2030	3.125%	1,430,000
2031	3.250%	1,475,000
2032	4.000%	6,065,000
2033	4.000%	6,925,000
2034	4.000%	15,030,000
2035	4.000%	18,260,000
2036	4.000%	20,245,000
2037	4.000%	22,365,000
2038	4.000%	24,645,000
2039	4.000%	27,080,000
2040	4.000%	29,685,000
		$ 199,715,000

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, 2017, excluding unamortized premiums, are as follows:

Year Ending June 30	Principal	Interest	Total
2017	$ 2,585,000	$ 10,369,319	$ 12,954,319
2018	2,940,000	10,240,156	13,180,156
2019	3,740,000	10,093,231	13,833,231
2020	4,670,000	9,906,294	14,576,294
2021	5,695,000	9,672,844	15,367,844
2022-2026	35,353,652	54,697,892	90,051,544
2027-2031	35,021,721	58,240,816	93,262,537
2032-2036	72,411,703	41,641,972	114,053,675
2037-2040	103,775,000	10,865,400	114,640,400
Totals	$ 266,192,076	$ 215,727,924	$ 481,920,000

Mandatory Sinking Fund Redemption of Refunding Bonds
The 2015D Refunding Bonds maturing on July 15, 2040, are subject to redemption prior to maturity from mandatory sinking fund payments on July 15th of each year, beginning July 15, 2036, at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium. The principal amount of these bonds to be so redeemed and the dates therefore and the final principal payment redemption date are as indicated in the following table:

Redemption Date July-15	Amount
2036	$ 20,245,000
2037	22,365,000
2038	24,645,000
2039	27,080,000
2040[1]	29,685,000

[1]Final Maturity

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 build 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. As such, a long-term receivable equal to the outstanding balance is included in the accompanying financial statements.

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.

Required monthly payments are paid directly to the Lessor by the Corporation for the full term of the Lease.

Debt Service Requirements
Minimum lease payments as of June 30, 2017, are as follows:

Year Ending June 30	Principal	Interest	Total
2018	$ 1,375,055	$ 105,522	$ 1,480,577
2019	1,404,070	76,507	1,480,577
2020	1,433,698	46,879	1,480,577
2021	1,463,953	16,625	1,480,578
Totals	$ 5,676,776	$ 245,533	$ 5,922,309

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, 2017.

Note G. Fund Balance

Designated Net Position

In addition to the fund balance, $14,100,000 has been assigned by the Board of Directors for contingency reserves as of June 30, 2017.

Note H. Defined Benefit Pension Plan

General Information

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Local Government's cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire between the ages of 50 and 62 with statutorily reduced benefits. All members are eligible for non-industrial disability benefits after five (5) years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Miscellaneous
Benefit formula	3.0% @ 60
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50 - 55
Monthly benefits, as a % of elgible compensation	3.00%
Required employee contribution rates	8%
Required employer contribution rates	11.72%

Note H. Defined Benefit Pension Plan, continued

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total Plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. District contribution rates may changes if Plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions are classified as plan member contributions.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2017, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	$ 155,113

The District's net pension liability is measured as its proportionate share of the Plan's net pension liability. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the Plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability as of the measurement date ended June 30, 2016 and 2015 was as follows:

	Miscellaneous
Proportion - June 30, 2016	.00447%
Proportion - June 30, 2015	.01585%
Change - Increase (Decrease)	(.01138)%

Note H. Defined Benefit Pension Plan, continued

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions, continued

For the year ended June 30, 2017, the District recognized pension expense of $34,663. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 116,858	$ -
Differences between actual and expected experience	3,268	(749)
Change in assumptions	-	(30,924)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	82,528	(7,968)
Net differences between projected and actual earnings on plan investments	160,952	-
Total	$ 363,606	$ (39,641)

The $116,858 reported as deferred outflows of resources related to expenses subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Amount
2018	$ 43,643
2019	46,696
2020	75,078
2021	41,690
2022	-
Thereafter	$ 207,107

Note H. Defined Benefit Pension Plan, continued

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions, continued

Actuarial Assumptions
The total pension liabilities in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions:

	Micellaneous
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return (1)	7.5% (2)
Mortality	(3)

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

(3)The probabilities of mortality are derived using CalPERS membership data for all funds. The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at the CalPERS website under Forms and Publications.

GASB 69, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.65% used for the June 30, 2016 measurement date is without reduction of pension plan administrative expense.

Note H. Defined Benefit Pension Plan, continued

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions, continued

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contribution on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB 68 Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds' asset classes (which include agent plan and two cost-sharing plans or PERF A, B, and C funds) expected compound returns were calculated over the short-term (first 10 years) and the long-term (11- 60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

Note H. Defined Benefit Pension Plan, continued

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions, continued

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses. The target allocation shown below was adopted by the CalPERS Board effective July 1, 2015.

Asset Class	New Strategic Allocation	Real Return Years 1-10 (a)	Real Return Years 11+ (b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00	0.99	2.43
Inflation Sensitive	6.00	0.45	3.36
Private Equity	10.00	6.83	6.95
Real Estate	10.00	4.50	5.13
Infastructure and Forestland	2.00	4.50	5.09
Liquidity	1.00	-0.55	-1.05
Total	100.00%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

<u>Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in Discount Rate</u>
The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Miscellaneous
1% Decrease	6.65%
Net Pension Liability	$ 479,978
Current Discount Rate	7.65%
Net Pension Liability	$ 155,113
1% Increase	8.65%
Net Pension Liability/(Asset)	$ (113,371)

Note H. Defined Benefit Pension Plan, continued

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions, continued

Pension Plan Fiduciary Net Pension
Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Subsequent Events
There were no subsequent events that would materially affect the results presented in this disclosure.

Payable to the Pension Plan
At June 30, 2017, the District reported a payable of $16,882 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

Note I. Other Post-Employment Benefits

Plan Description and Provisions
The District has established a policy to participate in the California Employer Retirement Benefit Trust, a multiple-employer, Defined Benefit Other Post-Employment 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 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 spouses. In addition to paying the full premium for the cost of health and long-term care insurance, the District also reimburses 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 spouses receiving benefits. Also there are five active eligible employees and three spouses in the DPHP plan. The plan is 100% District funded. Effective November 21, 2014, the Board of Directors capped premiums for current and future employees not in the DPHP to $2,000 per year with no post-retirement benefit. Coverage benefits are established by District policy and may be amended by the Board of Directors.

Note I. Other Post-Employment Benefits, continued

Annual OPEB Cost and Net OPEB Obligation/(Asset)

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover the normal annual cost. Any unfunded actuarial liability (or funding excess) is amortized over a period not to exceed thirty years. The current ARC rate was 0.7% of the annual covered payroll as of June 30, 2017.

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.

	2017
Annual required contribution	$ 12,300
Interest on net OPEB asset	(145,359)
Adjustment to annual required contribution (ARC)	144,436
Annual OPEB cost	11,377
Contributions made	(12,300)
(Increase) in net OPEB asset	(923)
Net OPEB (asset), beginning of year	(1,996,683)
Net OPEB (asset), end of year	$(1,997,606)

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, 2017, 2016, and 2015 were as follows:

Three Year Trend Information

Fiscal year ended June 30:	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
2017	$ 11,377	100.0%	$ (1,997,606)
2016	11,018	100.0%	(1,996,683)
2015	(4,320)	140.0%	(1,995,760)

Note I. Other Post-Employment Benefits, continued

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2015, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	$	1,999,165
Actuarial value of plan assets	$	(2,585,033)
Unfunded actuarial accrued liability/(surplus) or (UAAL)	$	(585,868)
Funded ratio		129%
Covered payroll	$	528,000
UAAL as a percentage of covered payroll		111%

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 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.

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	20
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 J. Contributions to Grossmont Hospital Corporation

During the fiscal year contributions, including amounts accrued, to the Corporation were $12,726,206 consisting of:

General Support	$ 1,050,000
Proposition G Support	11,676,206
	$ 12,726,206

Note K. Commitments and Contingencies

Construction Commitments
The District had outstanding contracts and commitments under capital projects of $10,286,247 at June 30, 2017.

Grant Commitments
The District had grants payable to various agencies under its grant program in the amount of $532,427 at June 30, 2017.

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.

Arbitrage Rebate Liability
The District is required to rebate to the federal government the excess investment earnings on bond proceeds if the yield on those earnings exceeds the effective yield on the related bonds issued. Rebates are payable every five years or upon the maturity of the bonds, whichever is earlier. At June 30, 2017 the arbitrage rebate liability was $0.

Note L. Risk Management

General Liability
The District is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, and natural disasters. The District participates in an insurance pool through the Special District Risk Management Authority (SDRMA). SDRMA is a not-for-profit public agency formed under California Government Code Sections 6500 et. Seq. SDRMA is governed by a board composed of members from participating agencies. The 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 $1,000,000 per occurrence with a $0 deductible.

Workers' Compensation Under SDRMA Policy
Total coverage limits of $5,000,000 per occurrence with a $0 deductible.

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 $10,000,000 for earthquake, $60,000,000 for flood loss, and $100,000,000 for terrorism per occurrence. Deductibles are 5% of unit value with a $100,000, $250,000 and $200,000 minimum for earthquake, flood and terrorism coverages, respectively.

Note L. Risk Management, continued

Seismic Update
Senate Bill 1953 established requirements for earthquake safety for all acute care hospital buildings in California.

The Hospital's buildings are in compliance with the earthquake retrofit requirements through 2030.

Any costs associated with compliance are covered under the terms of the Extended Lease Agreement with the Corporation.

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 M. Restatement of Fund Balances

Fund balances at July 1, 2016 were restated as follows:

	General Fund	Debt Service Fund
Fund balances as previously reported as of June 30, 2016	$ 21,826,884	$ 11,515,893
To adjust property tax revenues not available as of year end at June 30, 2016	(149,126)	(359,259)
Fund balances as restated July 1, 2016	$ 21,677,758	$ 11,156,634

Note N. Subsequent Event

Other events occurring after June 30, 2017 have been evaluated for possible adjustments to the financial statements or disclosure as of September 8, 2017, which is the date the financial statements were available to the issued.

Required Supplementary Information

Schedule of Funding Progress for Defined Postemployment Healthcare Plan[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
06/30/15	$ 1,999	$ 2,585	$ (586)	129.3%	$ 528	-111.0%
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%

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

Schedule of the District's Proportionate Share of the Net Pension Liability-Defined Benefit Plan

Fiscal Year End	2017	2016	2015
Measurement Period	2016	2015	2014
Proportion of the net pension liability	0.00179%	0.01585%	0.00668%
Proportionate share of net pension liability	$ 155,113	$ 434,705	$ 415,578
Covered- employee payroll	$ 552,613	$ 542,801	$ 538,385
Proportionate share of net pension liability as percentage of covered-employee payroll	20.40%	80.74%	77.19%
Plan's fiduciary net position	$ 10,923,476,287	$ 10,896,036,068	$ 10,639,461,174
Plan fiduciary net position as a percentage of the total pension liability	75.87%	79.88%	81.14%

Note: Fiscal year 2015 was the first year of implementation, therefore only three years are shown

Schedule of Contributions-Defined Benefit Plan

	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 116,858	$ 94,907	$ 103,403
Contributions made in relation to the actuarially determined contributions	(116,858)	(520,048)	(103,403)
Contribution deficiency (excess)	$ -	$ (425,141)	$ -
Covered-employee payroll	$ 572,792	$ 552,613	$ 542,801
Contributions as a percentage of covered-employee payroll	20.40%	17.17%	17.61%

Notes to Schedule

Valuation Date:	6/30/2015	6/30/2013	6/30/2013

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal - GASB 68
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	7.50%
Salary increases	Varies by entry age and service
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Retirement age	57 yrs.
Mortality	Derived using CalPERS' membership data for all funds

Note: Fiscal year 2015 was the first year of implementation, therefore only three years are shown.

GROSSMONT HEALTHCARE DISTRICT

Budgetary Comparison Schedule – General Fund
Year Ended June 30, 2017

	Budget Amount			Variance with Final Budget
	Original	Final	Actual	
FUND BALANCE, JULY 1, AS RESTATED	$ 21,677,758	$ 21,677,758	$ 21,677,758	$ -
RESOURCES (INFLOWS)				
Property taxes	6,708,120	6,708,120	7,332,222	624,102
Investment income	75,000	75,000	68,360	(6,640)
Cogeneration lease revenue	2,195,736	2,195,736	1,599,769	(595,967)
Grant and other income	300,000	300,000	25,730	(274,270)
Amount available for appropriations	9,278,856	9,278,856	9,026,081	(252,775)
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
General government	1,410,216	1,410,216	1,636,718	(226,502)
Community healthcare	1,367,900	1,367,900	2,119,748	(751,848)
Library operating expense	335,638	335,638	318,552	17,086
Facility expense	395,680	395,680	275,047	120,633
Contributions to Grossmont Hospital	1,000,000	1,000,000	1,050,000	(50,000)
Capital outlay	-	-	592,950	(592,950)
Debt service:				
Principal	1,997,096	1,997,096	4,739,107	(2,742,011)
Interest and fiscal charges	198,633	198,633	145,662	52,971
Total charges to appropriations	6,705,163	6,705,163	10,877,784	(4,172,621)
NET CHANGES IN FUND BALANCES	2,573,693	2,573,693	(1,851,703)	(4,425,396)
FUND BALANCE, JUNE 30	$ 24,251,451	$ 24,251,451	$ 19,826,055	$ (4,425,396)

Supplementary Information

The information found on pages 68-70 are to provide additional data for the Independent Citizens' Bond Oversight Committee (ICBOC) on select Proposition G related investment data.

GROSSMONT HEALTHCARE DISTRICT

Budgetary Comparison Schedule – Debt Service Fund
Year Ended June 30, 2017

	Budget Amount			
	Original	Final	Actual	Variance with Final Budget
FUND BALANCE, JULY 1, AS RESTATED	$ 11,156,634	$ 11,156,634	$ 11,156,634	$ -
RESOURCES (INFLOWS)				
Property taxes	9,780,000	9,780,000	12,973,401	3,193,401
Investment income	120,000	120,000	13,866	(106,134)
Amount available for appropriations	9,900,000	9,900,000	12,987,267	3,087,267
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Debt service:				
Principal	2,275,000	2,275,000	2,275,000	-
Interest and fiscal charges	10,414,519	10,414,519	10,414,519	-
Total charges to appropriations	12,689,519	12,689,519	12,689,519	-
NET CHANGES IN FUND BALANCES	(2,789,519)	(2,789,519)	297,748	3,087,267
FUND BALANCE, JUNE 30	$ 8,367,115	$ 8,367,115	$ 11,454,382	$ 3,087,267

The ICBOC was comprised of the following members as of June 30, 2017:

ICBOC Member	Position	Background	Representing
Glen Sparrow	Chair	Professor Emeritus/SDSU	San Diego County Taxpayers Association
Jeffrey Olson	Vice Chair	Deputy County Assessor	Sharp Grossmont Hospital Foundation
Kathleen Bute	Member	Retired Accountant	Finance Organization
Charles R. Fouquette	Member	Union Business Rep.	Construction Organization
Peggy Gaul	Member	Professional Staff	Sharp Grossmont Hospital
Kenneth D. Lavigne	Member	Training Director, SD Sheet Metal Joint App. Committee	San Diego County Labor Council
James Maletic	Member	Construction Bus. Owner	Construction
Sandy Pugliese	Member	Professional Staff	Sharp Grossmont Hospital
Lindsey Ryan, RN	Member	Registered Nurse	Sharp Grossmont Hospital
James Sly	Member	Project Management	Construction Organization

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.

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, 2017:

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	$ 12,909,280	$ 11,179,440	$ 1,729,840	$ -	$ -
Money Market Mutual Funds	22,640,054	22,640,054	-	-	-
	$ 35,549,334	$ 33,819,494	$ 1,729,840	$ -	$ -

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, 2017 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 $12,909,280 of U.S. Government Sponsored Entity securities at June 30, 2017 below are rated AA+ by Standard & Poors:

			Rating as of Year End		
Investment Type		Minimum Legal Rating	AAA	AA	Not Rated
U.S. Government Sposored Entities	$ 12,909,280	N/A	$ 12,909,280	$ -	$ -
Money Market Mutual Funds	22,640,054	AAA	22,640,054	-	-
	$ 35,549,334		$ 35,549,334	$ -	$ -

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, 2017:

Issuer Type	Investment Type	Reported Amount	
Federal Farm Credit Bank	U.S. Government Sponsored Entity	$	7,916,030
Federal National Mortgage Association	U.S. Government Sponsored Entity	$	4,993,250

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District 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, 2017, zero of the District's Proposition G deposits with financial institutions in excess of the Federal insurance limits were held in collateralized accounts.