

Grossmont Healthcare District



*Financial Statements and
Independent Auditors' Report*

Year Ended June 30, 2016

GROSSMONT HEALTHCARE DISTRICT

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Grossmont Healthcare District
La Mesa, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Grossmont Healthcare District (the District) as of and for the year ended June 30, 2016, 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, and the State Controller's Minimum Audit Requirements for California Special Districts. 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.

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, 2016, 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, as well as the accounting systems prescribed by the California State Controller's Office and California regulations governing Special Districts.

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 DPHP, Schedule of the District's Proportionate Share of Net Pension Liability, the Schedule of Pension Contributions and the general fund budgetary comparison information, as identified in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary 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, 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 Dick Evans LLP

Carlsbad, California

September 9, 2016

GROSSMONT HEALTHCARE DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2016

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, 2016. 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, 2016, 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 \$11,850,000 from \$9,600,000

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:

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.

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.

Fund Based Financial Statements

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.

GROSSMONT HEALTHCARE DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2016

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.

GROSSMONT HEALTHCARE DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2016

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. The District had \$4,084,142 unspent related financing proceeds with a corresponding outstanding balance of the related borrowing in the amount of \$10,415,883 attributable to its capital assets at June 30, 2016.

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.

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 \$5,871,468, while total fund balance increased to \$21,826,884. The fund balance of the District's general fund increased by \$529,667 during the current fiscal year. As discussed earlier in connection with governmental activities, the increase was primarily due to an improvement in the District's taxable assessed valuation which resulted in increased property tax revenue.

GROSSMONT HEALTHCARE DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2016

Overview of the Financial Statements, continued

The general fund final expenditures at year-end were \$868,102 more than the final budget. This budget to actual variance was primarily due to the unbudgeted capital outlay of \$1,603,406. Actual revenues compared to the final budget were up \$557,676. The District showed a small increase in total revenues and a small increase in total expenditures compared to budget. This occurred through the District's increased property tax revenue, efficient operations and cost management, and the aforementioned unbudgeted capital outlay.

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 above.

Financial Activities & Fiscal Year 2016 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.
- 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.

GROSSMONT HEALTHCARE DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2016

Financial Activities & Fiscal Year 2016 Highlights, continued

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 \$25,366,554 from FY 2015 to FY 2016. 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. *Net Investment in Capital Assets* includes one project that is in progress:

1. The Cogeneration project is a 4.4 megawatt combustion turbine generator, heat recovery steam generator and other equipment to be included in the new Central Energy Plant project at the Hospital. The Cogeneration project budget is \$18 million to be paid for by tax-exempt bank financing and is expected to be fully operational in late 2016.

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)

	FY16	FY15	FY14
Assets:			
Cash, cash equivalents and investments	\$ 72,666,850	\$ 98,033,404	\$ 118,079,514
Capital assets	24,170,695	22,700,066	21,952,837
All other assets	3,017,471	3,209,925	3,669,307
Total assets	99,855,016	123,943,395	143,701,658
Deferred outflows of resources	32,965,582	33,804,910	-
Liabilities:			
Long-term	300,380,531	303,805,929	244,990,761
Other	24,566,440	19,035,474	19,987,399
Total liabilities	324,946,971	322,841,403	264,978,160
Deferred inflows of resources	94,210	139,422	-
Net position/(deficit):			
Invested in capital assets	17,838,954	15,263,999	14,472,919
Restricted for debt service	6,301,227	5,648,345	7,135,983
Restricted for capital projects	39,728,714	74,577,536	92,437,208
Unrestricted	(256,089,478)	(260,722,400)	(235,322,612)
Total net position	\$ (192,220,583)	\$ (165,232,520)	\$ (121,276,502)

GROSSMONT HEALTHCARE DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2016

Financial Activities & Fiscal Year 2016 Highlights, continued

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

	<u>FY16</u>	<u>FY15</u>	<u>FY14</u>
Revenues:			
Property tax revenue - general purposes	\$ 6,905,164	\$ 6,517,055	\$ 6,228,486
Property tax revenue - special assessment	12,099,518	9,682,330	9,022,104
Investment income	386,415	155,405	431,682
Operating grants and contributions	31,171	485,988	674,739
Total revenues	<u>19,422,268</u>	<u>16,840,778</u>	<u>16,357,011</u>
Expenses:			
General government	1,596,428	1,690,071	1,469,121
Community healthcare	1,379,866	1,063,455	1,048,883
Library operating	293,005	299,106	293,364
Facility	271,380	270,101	387,892
Debt Administration	12,615,054	14,534,315	12,977,957
Contributions to Grossmont Hospital	30,248,599	42,508,091	44,673,320
Total expenses	<u>46,404,332</u>	<u>60,365,139</u>	<u>60,850,537</u>
Change in net position	(26,982,064)	(43,524,361)	(44,493,525)
Net Position - beginning of year	(165,238,519)	(121,276,502)	(76,782,977)
Prior period adjustment	-	(437,656)	-
Net Position - restated	<u>(165,238,519)</u>	<u>(121,714,158)</u>	<u>(76,782,977)</u>
Ending net position	<u>\$ (192,220,583)</u>	<u>\$ (165,238,519)</u>	<u>\$ (121,276,502)</u>

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 \$388,109 from FY 2015 to FY 2016 and property tax revenues from special assessments increased \$2,417,188 from FY 2015 to FY 2016. The local real estate market continues to improve and the District's taxable assessed valuations continue to increase.

Community healthcare expenses increased \$316,411 from FY 2015 to FY 2016 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 \$12,259,492 from FY 2015 to FY 2016 resulting primarily from the phasing and timing of Proposition G program expenses financed by Proposition G general obligation bonds.

GROSSMONT HEALTHCARE DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2016

Capital Assets

At June 30, 2016 the District had \$26,384,375 in capital assets and \$2,213,678 in accumulated depreciation resulting in \$24,170,695 of net capital assets. A summary of the activity and balances in capital assets is presented below.

	<u>FY16</u>	<u>FY15</u>	<u>FY14</u>
Land	\$ 7,061,501	\$ 7,061,501	\$ 7,061,501
Construction in progress	14,043,983	12,440,577	11,618,437
Buildings	4,707,202	4,707,202	4,707,202
Furniture and equipment	571,689	571,689	518,518
Subtotal	<u>26,384,375</u>	<u>24,780,969</u>	<u>23,905,658</u>
Less:			
Accumulated			
Depreciation	<u>(2,213,680)</u>	<u>(2,080,903)</u>	<u>(1,952,821)</u>
Total	<u>\$24,170,695</u>	<u>\$22,700,066</u>	<u>\$21,952,837</u>

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.

GROSSMONT HEALTHCARE DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2016

Debt Administration, continued

Changes in long-term liabilities for the period ended June 30, 2016, are as follows:

	Balance			Balance	Due Within
Proposition G	June 30, 2015	Increases	Decreases	June 30, 2016	One Year
General Obligation Bonds					
2007 Series A - CAB's	\$ 23,597,076	\$ -	\$ -	\$ 23,597,076	\$ -
2007 Series A - CIB's	6,620,000	-	1,225,000	5,395,000	1,495,000
2007A unamortized premium	183,968	-	59,665	124,303	-
2007A CAB accrued interest	10,912,797	1,689,173	-	12,601,970	-
2011B CIB's	14,475,000	-	-	14,475,000	5,000
2011B unamortized premium	190,165	-	9,965	180,200	-
2015 Series C - CIB's	24,510,000	-	-	24,510,000	-
2015C unamortized premium	5,228,570	-	439,853	4,788,717	-
2015D Series D - CIB's	200,490,000	-	-	200,490,000	775,000
2015D unamortized premium	8,369,954	-	336,317	8,033,637	-
Total general obligation bonds, net	294,577,530	1,689,173	2,070,800	294,195,903	2,275,000
Other Long-term Debt					
Financing obligation	12,371,708	-	1,955,825	10,415,883	1,997,095
Total long-term liabilities	\$ 306,949,238	\$ 1,689,173	\$ 4,026,625	\$ 304,611,786	\$ 4,272,095

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

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

Grossmont Healthcare District
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Basic Financial Statements

GROSSMONT HEALTHCARE DISTRICT

Statement of Net Position/(Deficit)

June 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 7,482,735
Investments	10,784,672
Property taxes receivable	665,063
Other accounts receivable	187,180
Accrued investment interest	36,962
Prepaid expenses and deposits	21,274
Restricted cash and cash equivalents with fiscal agent	25,841,107
Restricted investments with fiscal agent	28,558,336
Total Current Assets	<u>73,577,329</u>
Noncurrent Assets:	
Prepaid bond insurance, net	110,309
Net OPEB asset	1,996,683
Capital assets:	
Land	7,061,501
Construction in progress	14,043,983
Capital assets, net of depreciation	3,065,211
Total capital assets, net of depreciation	<u>24,170,695</u>
Total Noncurrent Assets	<u>26,277,687</u>
Total Assets	<u>99,855,016</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pension contributions	651,710
Deferred charges on refunding of long-term debt	32,313,872
Total deferred outflow of resources	<u>32,965,582</u>

See accompanying notes to financial statements.

GROSSMONT HEALTHCARE DISTRICT

Statement of Net Position/(Deficit)

June 30, 2016

	<u>Governmental Activities</u>
LIABILITIES	
Current Liabilities:	
Accounts and grants payable	\$ 6,306,087
Current accrued compensated absences	13,613
Deposits	7,584,117
Unearned revenue	1,198,801
Net pension liability	434,705
Current maturities of long-term debt	4,272,096
Liabilities payable from restricted assets:	
Restricted accrued interest	4,757,021
Total Current Liabilities	<u>24,566,440</u>
Noncurrent Liabilities:	
Long-term accrued compensated absences	40,840
General obligation bonds	279,318,934
Financing obligation	8,418,787
Capital appreciation bond accrued interest	12,601,970
Total Noncurrent Liabilities	<u>300,380,531</u>
Total Liabilities	<u>324,946,971</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows from pension	<u>94,210</u>
NET POSITION/(DEFICIT)	
Net investment in capital assets	17,838,954
Restricted for debt service	6,301,227
Restricted for capital projects	39,728,714
Unrestricted	<u>(256,089,478)</u>
Total Net Position/(Deficit)	<u>\$ (192,220,583)</u>

See accompanying notes to financial statements.

GROSSMONT HEALTHCARE DISTRICT

Statement of Activities

For the year ended June 30, 2016

Functions/programs	Expenses			Net (Expense)
		Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Governmental activities:				
General government	\$ 1,596,428	\$ 31,171	\$12,099,518	\$ 10,534,261
Community healthcare	1,379,866	-	-	(1,379,866)
Library operating expenses	293,005	-	-	(293,005)
Facility expenses	271,380	-	-	(271,380)
Interest on long-term debt	12,615,054	-	-	(12,615,054)
Contributions to Grossmont Hospital	30,248,599	-	-	(30,248,599)
Total Governmental Activities	<u>\$ 46,404,332</u>	<u>\$ 31,171</u>	<u>\$12,099,518</u>	<u>(34,273,643)</u>
General Revenues:				
Property taxes				6,905,164
Investment earnings				386,415
Total General Revenues				<u>7,291,579</u>
Change in net position				<u>(26,982,064)</u>
Net Position - Beginning of Year				<u>(165,238,519)</u>
Net Position- End of Year				<u>\$ (192,220,583)</u>

See accompanying notes to financial statements.

GROSSMONT HEALTHCARE DISTRICT

Balance Sheet - Governmental Funds

June 30, 2016

	General Fund	Proposition G		Total Governmental Funds
		Building Fund	Debt Service Fund	
ASSETS				
Cash and cash equivalents	\$ 7,482,735	\$ -	\$ -	\$ 7,482,735
Investments	10,784,672	-	-	10,784,672
Property taxes receivable	207,418	-	457,645	665,063
Other accounts receivable	131,089	56,091	-	187,180
Accrued investment interest	15,046	21,255	661	36,962
Prepaid expense and deposits	21,274	-	-	21,274
Restricted cash and cash equivalents with fiscal agent	4,084,142	12,303,761	9,453,204	25,841,107
Restricted investments with fiscal agent	-	26,953,953	1,604,383	28,558,336
TOTAL ASSETS	\$ 22,726,376	\$ 39,335,060	\$ 11,515,893	\$ 73,577,329
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts and grants payable	\$ 899,491	\$ 5,406,595	\$ -	\$ 6,306,087
TOTAL LIABILITIES	899,491	5,406,595	-	6,306,087
FUND BALANCES				
Nonspendable:				
Prepaid items	21,274	-	-	21,274
Restricted for:				
Capital projects	4,084,142	33,928,465	-	38,012,607
Debt service	-	-	11,515,893	11,515,893
Assigned to:				
Board contingency fund	11,850,000	-	-	11,850,000
Unassigned	5,871,468	-	-	5,871,468
Total Fund Balances	21,826,884	33,928,465	11,515,893	67,271,242
TOTAL LIABILITIES AND FUND BALANCES	\$ 22,726,376	\$ 39,335,060	\$ 11,515,893	\$ 73,577,329

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, 2016

Total fund balances for governmental funds		\$ 67,271,242
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).		24,170,695
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.		110,309
Deposits received for equipment construction have not been reported in the governmental funds.		(7,584,117)
Interest payable for the general obligation bonds has not been reported in the governmental funds.		(4,757,021)
Unearned revenue has not been reported in the governmental funds.		(1,198,801)
GASB 68 net pension liability is not due in the current period and is not reported as a fund liability.		(434,705)
Deferred inflows from GASB 68 pension contribution are not reported in governmental funds.		(94,210)
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	\$ (281,593,934)	
Financing obligation	(10,415,883)	
Capital appreciation bond accrued interest	(12,601,970)	
Accrued compensated absences	<u>(54,453)</u>	(304,666,240)
The net OPEB asset is not receivable in the current period, and therefore is not reported in the governmental funds balance sheet.		1,996,683
Deferred outflows from GASB 68 pension contributions are not reported in governmental funds.		651,710
Net deferred outflows resulting from the advance refunding of debt are not current financial resources and, therefore, not reported the governmental funds balance sheet.		32,313,872
Net position/(deficit) of governmental activities.		<u>\$ (192,220,583)</u>

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, 2016

	Proposition G			Total Governmental Funds
	General Fund	Building Fund	Debt Service Fund	
REVENUES:				
Property taxes, levied for general purposes	\$ 6,905,164	\$ -	\$ -	\$ 6,905,164
Property taxes, levied for special assessments	-	-	12,099,518	12,099,518
Investment income	131,467	246,821	8,127	386,415
Grant and other income	31,171	-	-	31,171
Contribution from Sharp	2,195,729	-	-	2,195,729
Total Revenues	<u>9,263,531</u>	<u>246,821</u>	<u>12,107,645</u>	<u>21,617,997</u>
EXPENDITURES:				
General government	1,990,479	-	-	1,990,479
Community healthcare	1,379,866	-	-	1,379,866
Library operating expense	293,005	-	-	293,005
Facility expense	271,380	-	-	271,380
Capital outlay	1,603,406	-	-	1,603,406
Contributions to Grossmont Hospital	1,000,000	29,248,599	-	30,248,599
Debt Service:				
Principal	1,955,825	-	1,225,000	3,180,825
Interest and fiscal charges	239,904	-	7,230,183	7,470,087
Total Expenditures	<u>8,733,864</u>	<u>29,248,599</u>	<u>8,455,183</u>	<u>46,437,647</u>
NET CHANGES IN FUND BALANCES	529,667	(29,001,778)	3,652,462	(24,819,650)
FUND BALANCES, BEGINNING OF YEAR	<u>21,297,217</u>	<u>62,930,243</u>	<u>7,863,431</u>	<u>92,090,891</u>
FUND BALANCES, END OF YEAR	<u>\$ 21,826,884</u>	<u>\$ 33,928,465</u>	<u>\$ 11,515,893</u>	<u>\$ 67,271,242</u>

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, 2016

	<u>Amount</u>
Net change in fund balances - total governmental funds	\$ (24,819,650)
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:	
Purchased directly by the District	\$ 1,603,406
Depreciation expense	<u>(132,775)</u>
	1,470,631
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 activities.	(2,957,554)
Interest accrued on the capital appreciation bonds is expensed when incurred in the statement of activities.	(1,689,173)
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.	(2,195,729)
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.	922
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.	536,796
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	\$ (4,435)
Bond insurance	<u>(6,457)</u>
	(10,892)
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	\$ 3,180,825
Bond premium amortization	845,800
Amortization of deferred amount on refunding	<u>(1,344,040)</u>
Change in net position of governmental activities	<u><u>2,682,585</u></u>
	<u><u>\$ (26,982,064)</u></u>

See accompanying notes to financial statements.

Notes to Basic Financial Statements

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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. The District had \$4,084,142 unspent related financing proceeds with a corresponding outstanding balance of the related borrowing in the amount of \$10,415,893 attributable to its capital assets at June 30, 2016.

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”.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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 following items that qualify for reporting in this category:

- Deferred losses on refunding of \$32,313,872 relating to the 2015 Series D Refunding Bonds, net of accumulated amortization of \$1,344,040, at June 30, 2016. 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 determined as of June 30, 2014 (the beginning of the measurement period ended June 30, 2015), which is 3.8 years.
- 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 determined as of June 30, 2014 (the beginning of the measurement period ended June 30, 2015), which is 3.8 years.

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 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.
- 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, 2014 (the beginning of the measurement period ended June 30, 2015), which is 3.8 years.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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

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.

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 \$110,309 for the 2007A Bonds, at June 30, 2016, 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, 2016 is included in the *Statement of Activities* as prepaid bond insurance amortization.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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

Accounts and Grants Payable

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

Capital Assets

The District's office furniture and equipment and buildings are stated at cost. Depreciation has been provided over the estimated useful lives of five years for office furniture and equipment and forty years for buildings using the straight-line method. The District has set the capitalization threshold for reporting capital assets at a cost greater than \$5,000 with an expected life greater than one year. Repairs, maintenance, and minor replacements of property are charged to expense.

Accrued Compensated Absences

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

Restricted Assets and Liabilities

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

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 California Public Employees Retirement System (CalPERS), and additions to the CalPERS 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.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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

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 so 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 \$1,603,406 on the *Budgetary Comparison Schedule- General Fund* found on page 65.

New Accounting Pronouncements

In fiscal year 2015-2016, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "*Fair Value Measurement and Application*". GASB Statement No. 72 requires the District to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or income approach. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that were used for the fair value measurements. There was no material impact on the District's financial statements as a result of the implementation of GASB Statement No. 72.

GASB Statement No. 73 - "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*", was required to be implemented in the current fiscal year, except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016, and did not impact the District.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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

GASB Statement No. 76 - *"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"*, was required to be implemented in the current fiscal year and did not impact the District.

GASB Statement No. 79 - *"Certain External Investment Pools and Pool Participants"*, was required to be implemented in the current fiscal year, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing, which are effective for periods beginning after December 15, 2015, and did not impact the District.

The District also early implemented GASB Statement No. 82 - *"Pension Issues an Amendment of GASB Statement No. 67, No. 68 and No. 73."*

Pending Accounting Standards

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

- GASB 73 - *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68"*, the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 is effective for periods beginning after June 15, 2016.
- GASB 74 - *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"*, effective for periods beginning after June 15, 2016.
- GASB 75 - *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"*, effective for periods beginning after June 15, 2017.
- GASB 77 - *"Tax Abatement Disclosure"*, effective for periods beginning after December 15, 2015.
- GASB 78 - *"Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans"*, effective for periods beginning after December 15, 2015.
- GASB 79 - *"Certain External Investment Pools and Pool Participants"*, the certain provisions on portfolio quality, custodial credit risk, and shadow pricing, is effective for periods beginning after December 15, 2015.
- GASB 80 - *"Blending Requirements for Certain Component Units"*, effective for periods beginning after June 15, 2016.
- GASB 81 - *"Irrevocable Split-Interest Agreements"*, effective for periods beginning after December 15, 2016.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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:

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

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

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

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

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

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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
	<u>\$ 212,404,351</u>

Note D. Cash, Cash Equivalents, and Investments

The primary goals of the District's Investment Policy is 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	\$ 7,482,735
Restricted cash and cash equivalents with fiscal agent	25,841,107
Investments	10,784,672
Restricted investments with fiscal agent	28,558,336
Total cash, cash equivalents, and investments	<u>\$ 72,666,850</u>

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

Cash on hand	\$ 65
Deposits with financial institutions	4,674,898
Investments	67,991,887
Total cash, cash equivalents and investments	<u>\$ 72,666,850</u>

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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 I 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.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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.

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total
U.S. Government Sponsored				
Agency security				
FFCB	\$ -	\$ 1,815,660	\$ -	\$ 1,815,660
FHLB	-	2,752,970	-	2,752,970
FHLMC	-	1,759,310	-	1,759,310
FNMA	-	4,456,732	-	4,456,732
Local agency investment fund	5,883,158	-	-	5,883,158
County of San Diego investment pool	1,008,755	-	-	1,008,755
Corporate medium term notes	-	1,505,081	-	1,505,081
Held by fiscal agent:				-
U.S. government sponsored				-
Agency security				-
FFCB	-	6,652,934	-	6,652,934
FHLB	-	6,238,048	-	6,238,048
FNMA	-	14,151,186	-	14,151,186
Money market mutual funds	21,768,053	-	-	21,768,053
Total investment	<u>\$ 28,659,966</u>	<u>\$ 39,331,921</u>	<u>\$ -</u>	<u>\$ 67,991,887</u>

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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, 2016:

<u>Investment Type</u>		<u>Twelve Months or Less</u>	<u>Thirteen to Twenty-four Months</u>	<u>Twenty-five to Sixty Months</u>	<u>More Than Sixty Months</u>
U.S. Government Sponsored Entities	\$ 37,826,840	\$ 20,743,988	\$ 15,267,192	\$ 1,815,660	\$ -
Money Market Mutual Funds	21,768,053	21,768,053	-	-	-
Corporate Notes	1,505,081	-	482,721	1,022,360	-
County and State Pooled Funds	6,891,913	6,891,913	-	-	-
	<u>\$ 67,991,887</u>	<u>\$ 49,403,954</u>	<u>\$ 15,749,913</u>	<u>\$ 2,838,020</u>	<u>\$ -</u>

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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, 2016 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 \$37,826,840 of U.S. Government Sponsored Entity securities at June 30, 2016 below are rated AA+ by Standard & Poors:

Investment Type		Minimum Legal Rating	Rating as of Year End		
			AAA	AA	Not Rated
U.S. Government Sponsored Entities	\$ 37,826,840	N/A	\$ 37,826,840		\$ -
Money Market Mutual Funds	21,768,053	AAA	21,768,053	-	-
County and State Pooled Funds	6,891,913	N/A	1,008,755	-	5,883,158
Corporate Notes	1,505,081	N/A	-	1,505,081	-
	<u>\$ 67,991,887</u>		<u>\$ 60,603,648</u>	<u>\$ 1,505,081</u>	<u>\$ 5,883,158</u>

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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 Proposition G investments as of June 30, 2016 are below:

<u>Issuer Type</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Farm Credit Bank	U.S. Government Sponsored Entity	\$ 8,468,594
Federal National Mortgage Association	U.S. Government Sponsored Entity	\$ 18,477,352
Federal Home Loan Bank	U.S. Government Sponsored Entity	\$ 8,991,018

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, 2016, \$4,174,898 of the District's deposits with financial institutions were in excess of the Federal insurance limits with \$340,756 held in collateralized accounts and \$3,834,142 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.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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, 2016:

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2016</u>
Capital Assets Not Depreciated:				
Land	\$ 7,061,501	\$ -	\$ -	\$ 7,061,501
Construction in progress	12,440,577	1,603,406	-	14,043,983
Total capital assets not depreciated	19,502,078	1,603,406	-	21,105,484
Capital Assets Being Depreciated:				
Buildings	4,707,202	-	-	4,707,202
Furniture and equipment	571,689	-	-	571,689
Total capital assets being depreciated	5,278,891	-	-	5,278,891
Less Accumulated Depreciation:				
Furniture and equipment	523,454	15,093	-	538,547
Buildings	1,557,449	117,684	-	1,675,133
Total	2,080,903	132,777	-	2,213,680
Total Capital Assets Being Depreciated, net	3,197,988	(132,777)	-	3,065,211
Total Capital Assets, Net	<u>\$ 22,700,066</u>	<u>\$ 1,470,629</u>	<u>\$ -</u>	<u>\$ 24,170,695</u>

Depreciation expense of \$132,777 is included in facility expenses on the *Statement of Activities* for the fiscal year ended June 30, 2016. Construction in progress of \$14,043,983 represents accumulated costs for the District's Cogeneration equipment project currently under construction (Note F).

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements
Year Ended June 30, 2016

Note F. Long-Term Liabilities

Long-term liabilities for the year ended June 30, 2016, are as follows:

Proposition G	Balance			Balance June 30, 2016	Due Within One Year
	June 30, 2015	Increases	Decreases		
<u>General Obligation Bonds</u>					
2007 Series A - CAB's	\$ 23,597,076	\$ -	\$ -	\$ 23,597,076	\$ -
2007 Series A - CIB's	6,620,000	-	1,225,000	5,395,000	1,495,000
2007A unamortized premium	183,968	-	59,665	124,303	-
2007A CAB accrued interest	10,912,797	1,689,173	-	12,601,970	-
2011B CIB's	14,475,000	-	-	14,475,000	5,000
2011B unamortized premium	190,165	-	9,965	180,200	-
2015 Series C - CIB's	24,510,000	-	-	24,510,000	-
2015C unamortized premium	5,228,570	-	439,853	4,788,717	-
2015D Series D - CIB's	200,490,000	-	-	200,490,000	775,000
2015D unamortized premium	8,369,954	-	336,317	8,033,637	-
Total general obligation bonds, net	<u>294,577,530</u>	<u>1,689,173</u>	<u>2,070,800</u>	<u>294,195,903</u>	<u>2,275,000</u>
<u>Other Long-term Debt</u>					
Financing obligation	12,371,708	-	1,955,825	10,415,883	1,997,095
Total long-term liabilities	<u>\$ 306,949,238</u>	<u>\$ 1,689,173</u>	<u>\$ 4,026,625</u>	<u>\$ 304,611,786</u>	<u>\$ 4,272,095</u>

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.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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 April 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 April 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.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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, 2016 is \$12,601,970. Interest accrued during the fiscal year ending June 30, 2016 was \$1,689,173.

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

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

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

Note F. Long-Term Liabilities, continued

General Obligation Bonds, continued

During the year a portion of the 2007A CIB Bonds were defeased by the 2015D Refunding Bonds. See below for more information on the 2015D Refunding Bonds.

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

Current Interest Bonds \$5,395,000		
Maturity Date July 15	Interest Rate	Principal Amount
2016	5.000%	\$ 1,495,000
2017	5.000%	1,790,000
2018	5.000%	2,110,000
		<u>\$ 5,395,000</u>

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

Note F. Long-Term Liabilities, continued

General Obligation Bonds, continued

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

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

Current Interest Bonds \$14,475,000		
Maturity Date	Interest Rate	Principal Amount
2016	3.000%	\$ 5,000
2017	3.250%	5,000
2018	3.500%	5,000
2019	3.750%	5,000
2020	4.000%	5,000
2021	4.250%	5,000
2022	4.500%	5,000
2023	4.750%	5,000
2024	5.000%	5,000
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
		<u>\$ 14,475,000</u>

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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
2016	0.000%	\$ -
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
		<u>\$ 24,510,000</u>

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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, 2016.

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

Current Interest Bonds \$200,490,000		
Maturity Date	Interest Rate	Principal Amount
2016	2.000%	\$ 775,000
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
		<u>\$ 200,490,000</u>

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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, 2016, excluding unamortized premiums, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	72,411,702	41,641,973	114,053,675
2037-2040	103,775,000	10,865,400	114,640,400
Totals	<u>\$ 266,192,075</u>	<u>\$ 215,727,925</u>	<u>\$ 481,920,000</u>

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:

<u>Redemption Date</u>	<u>Amount</u>
July-15	
2036	\$ 20,245,000
2037	22,365,000
2038	24,645,000
2039	27,080,000
2040 ¹	29,685,000

¹Final Maturity

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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.

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

The acquisition and installation of the Cogeneration equipment is estimated to be completed in September 2016 at which time the classification of the Lease will be recorded as a capital lease with the related asset and receivable from the Corporation being recorded at that time.

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

Debt Service Requirements

Minimum lease payments as of June 30, 2016, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,997,096	\$ 198,634	\$ 2,195,730
2018	2,039,237	156,492	2,195,729
2019	2,082,268	113,461	2,195,729
2020	2,126,207	69,523	2,195,730
2021	2,171,075	24,657	2,195,732
Totals	<u>\$ 10,415,883</u>	<u>\$ 562,767</u>	<u>\$ 10,978,650</u>

Liquidity Ratio

The Lessor requires the District to maintain a liquidity ratio (as described in the agreement) calculated on its general operations segment at not less than 1.00 to 1.00 of the difference between the District's annual tax revenues less administrative, library and facilities expenses to the annual lease payment. The liquidity ratio will be calculated as of June 30 of each year under the Lease. The District was in compliance with the liquidity ratio at June 30, 2016.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

Note G. Net Position

Designated Net Position

In addition to the restricted net position, \$11,850,000 of the unrestricted net position has been designated by the Board of Directors for contingency reserves as of June 30, 2016.

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 at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 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, 2016, are summarized as follows:

	<u>Miscellaneous</u>
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 eligible compensation	3.00%
Required employee contribution rates	8%
Required employer contribution rates	11.72%

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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 be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. 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.

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

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, 2015, 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 June 30, 2014 and 2015 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2014	.02%
Proportion - June 30, 2015	.02%
Change - Increase Decrease	0%

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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, 2016, the District recognized pension expense of \$536,796. At June 30, 2016, 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	\$ 520,048	\$ -
Differences between actual and expected experience	6,633	-
Change in assumptions	-	(62,752)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	125,029	
Net differences between projected and actual earnings on plan investments	-	(31,458)
Total	<u>\$ 651,710</u>	<u>\$ (94,210)</u>

\$520,048 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, 2017.

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
2017	\$ 3,341
2018	1,872
2019	(7,975)
2020	40,214
2021	-
Thereafter	<u>\$ 37,452</u>

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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, 2014 actuarial valuation was determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
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 this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2014 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 7.50% used for the June 20, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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 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 best-estimate ranges of 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 cash flows. Using historical returns of all the funds' asset classes, 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 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.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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.

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	19.00	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
Infrastructure and Forestland	2.00	4.50	5.09
Liquidity	2.00	-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.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in Discount Rate

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	\$ 729,031
Current Discount Rate	7.65%
Net Pension Liability	\$ 424,705
1% Increase	8.65%
Net Pension Liability	\$ 191,705

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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.

Payable to the Pension Plan

At June 30, 2016, the District reported a payable of \$10,054 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

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, (DHP), provides medical benefits to eligible retired District employees and beneficiaries. DHP 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. DHP 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 DHP 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 DHP 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.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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, 2016.

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.

	2016	2015
Annual required contribution	\$ 11,941	\$ 6,034
Interest on net OPEB asset	(145,291)	(151,089)
Adjustment to annual required contribution (ARC)	144,368	140,735
Annual OPEB cost	11,018	(4,320)
Contributions made	(11,941)	(6,034)
(Increase) in net OPEB asset	(923)	(10,354)
Net OPEB (asset), beginning of year	(1,995,760)	(1,985,406)
Net OPEB (asset), end of year	<u>\$(1,996,683)</u>	<u>\$(1,995,760)</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation/(asset) for the fiscal years ended June 30, 2016, 2015, and 2014 were as follows:

Three Year Trend Information

Fiscal year ended June 30:	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB (Asset)
2016	\$ 11,018	100.0%	\$ (1,996,683)
2015	(4,320)	140.0%	(1,995,760)
2014	(6,464)	60.0%	(1,985,406)

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	130%
Covered payroll	\$ 528,000
UAAL as a percentage of covered payroll	113%

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

Note I. Other Post-Employment Benefits, continued

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	24
Asset valuation method	Expected market
Actuarial assumptions:	
Investment rate of return	7.61%
Projected salary increase	3.00%
Inflation	2.80%
Individual salary growth	N/A
Healthcare cost trend rate	7.50%

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

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

Note J. Contributions to Grossmont Hospital Corporation

Subsequent to June 30, 1995, the District's Board of Directors rescinded the standing resolution that directed the automatic transfer of cash and investments to the Corporation. Under the new resolution, all property tax revenues, as they are incrementally collected and paid to the District, will remain with the District and will not be shared, except as allocated by separate resolution. During the fiscal year ending 2016 contributions, including amounts accrued, to the Corporation were \$30,248,599 consisting of:

General Support	\$ 1,000,000
Proposition G Support	29,248,599
	<u>\$ 30,248,599</u>

Note K. Commitments and Contingencies

Construction Commitments

The District had outstanding contracts and commitments under capital projects of \$6,965,932 at June 30, 2016.

Grant Commitments

The District had grants payable to various agencies under its grant program in the amount of \$582,625 for the year ended June 30, 2016.

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, 2016 the arbitrage rebate liability was \$0.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

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 \$1000 deductible.

Earthquake, Flood and Terrorism Coverage Under SHARP Policy

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

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2016

Note L. Risk Management, continued

Seismic Update

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

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

Adequacy of Protection

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

Note M. Subsequent Event

On July 15 2016, the District Board approved a capital equipment grant of \$1,000,000 to a local healthcare non-profit. Funding for the grant will be made from District reserves.

Other events occurring after June 30, 2016 have been evaluated for possible adjustments to the financial statements or disclosure as of September 9, 2016, which is the date the financial statement were available to the issued.

Required Supplementary Information

GROSSMONT HEALTHCARE DISTRICT

Required Supplementary Information

Year Ended June 30, 2016

Schedule of Funding Progress for DPHP ¹

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded / (Overfunded) Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	UAAL As a % of Payroll
06/30/15	\$ 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.

GROSSMONT HEALTHCARE DISTRICT

Required Supplementary Information

Year Ended June 30, 2016

Schedule of the District's Proportionate Share of the Net Pension Liability

	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.01585%	0.00668%
Proportionate share of net pension liability	\$ 434,705	\$ 415,578
Covered- employee payroll	\$ 552,613	\$ 542,801
Proportionate share of net pension liability as percentage of covered-employee payroll	80.74%	77.19%
Plan's fiduciary net position	\$ 10,896,036,068	\$ 10,639,461,174
Plan fiduciary net position as a percentage of the total pension liability	79.88%	81.14%

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

GROSSMONT HEALTHCARE DISTRICT

Required Supplementary Information

Year Ended June 30, 2016

Schedule of Contributions

	2016	2015
Contractually required contribution (actuarially determined)	\$ 94,907	\$ 103,403
Contributions made in relation to the actuarially determined contributions	(94,907)	(103,403)
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 552,613	\$ 542,801
Contributions as a percentage of covered-employee payroll	17.17%	17.61%

Notes to Schedule

Valuation Date:	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 two years are shown

GROSSMONT HEALTHCARE DISTRICT

Budgetary Comparison Schedule – General Fund

Year Ended June 30, 2016

	Budget Amount		Actual	Variance with Final Budget
	Original	Final		
FUND BALANCE, JULY 1	\$ 21,297,217	\$ 21,297,217	\$ 21,297,217	\$ -
RESOURCES (INFLOWS)				
Property taxes	6,450,120	6,450,120	6,905,164	455,044
Investment income	60,000	60,000	131,467	71,467
Grant and other income	-	2,195,736	2,226,901	31,165
Amount available for appropriations	6,510,120	8,705,856	9,263,532	557,676
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
General government	2,131,260	2,008,260	1,604,686	403,574
Community healthcare	1,567,900	1,567,900	1,379,866	188,034
Library operating expense	328,950	328,950	293,005	35,945
Facility expense	381,860	381,860	271,380	110,480
Contributions to Grossmont Hospital	1,000,000	1,000,000	1,000,000	-
Capital outlay	-	-	1,603,406	(1,603,406)
Debt service:				
Principal	-	1,980,000	1,955,825	24,175
Interest and fiscal charges	-	213,000	239,904	(26,904)
Total charges to appropriations	5,409,970	7,479,970	8,348,073	(868,102)
NET CHANGES IN FUND BALANCES	1,100,150	1,225,886	915,460	(310,426)
FUND BALANCE, JUNE 30	\$ 22,397,367	\$ 22,523,103	\$ 22,212,677	\$ (310,426)

Supplementary Information

The information found in 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, 2016

	<u>Budget Amount</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
FUND BALANCE, JULY 1	<u>\$ 7,863,431</u>	<u>\$ 7,863,431</u>	<u>\$ 7,863,431</u>	<u>\$ -</u>
RESOURCES (INFLOWS)				
Property taxes	9,314,280	9,314,280	12,099,518	2,785,238
Investment income	180,000	180,000	8,127	(171,873)
Amount available for appropriations	<u>9,494,280</u>	<u>9,494,280</u>	<u>12,107,645</u>	<u>2,613,365</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Debt service:				
Principal	1,225,000	1,225,000	1,225,000	-
Interest and fiscal charges	1,872,260	7,220,084	7,220,183	(99)
Total charges to appropriations	<u>3,097,260</u>	<u>8,445,084</u>	<u>8,445,183</u>	<u>(99)</u>
NET CHANGES IN FUND BALANCES	<u>6,397,020</u>	<u>1,049,196</u>	<u>3,662,462</u>	<u>2,613,266</u>
FUND BALANCE, JUNE 30	<u>\$ 14,260,451</u>	<u>\$ 8,912,627</u>	<u>\$ 11,525,893</u>	<u>\$ 2,613,266</u>

GROSSMONT HEALTHCARE DISTRICT

Proposition G Bond Funds

ICBOC Committee

June 30, 2016

The ICBOC was comprised of the following members as of June 30, 2016:

<u>ICBOC Member</u>	<u>Position</u>	<u>Background</u>	<u>Representing</u>
Kathleen Bute	Chair	Retired Accountant	Finance organization
Glen Sparrow	Vice Chair	Professor Emeritus/SDSU	San Diego County Taxpayers Association
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
Dexter Levy	Member	Retired Construction and Labor Relations Executive	Construction
James Maletic	Member	Construction Bus. Owner	Business Organization
Jeffrey Olson	Member	Deputy County Assessor	Sharp Grossmont Hospital Foundation
Sandy Pugliese	Member	Professional Staff	Sharp Grossmont Hospital

GROSSMONT HEALTHCARE DISTRICT

Proposition G Bond Funds

June 30, 2016

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, 2016:

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	\$ 26,911,602	\$ 15,241,018	\$ 11,670,584	\$ -	\$ -
Money Market Mutual Funds	21,756,963	21,756,963	-	-	-
Corporate Notes	1,646,736	1,646,736	-	-	-
	<u>\$ 50,315,301</u>	<u>\$ 38,644,717</u>	<u>\$ 11,670,584</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2016 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 \$26,911,602 of U.S. Government Sponsored Entity securities at June 30, 2016 below are rated AA+ by Standard & Poors:

Investment Type		Minimum Legal Rating	Rating as of Year End		
			AAA	AA	Not Rated
U.S. Government Sponsored Entities	\$ 26,911,602	N/A	\$ 26,911,602	\$ -	\$ -
Money Market Mutual Funds	21,756,963	AAA	21,756,963	-	-
Corporate Notes	1,646,736	N/A	-	1,646,736	-
	<u>\$ 50,315,301</u>		<u>\$ 48,668,565</u>	<u>\$ 1,646,736</u>	<u>\$ -</u>

GROSSMONT HEALTHCARE DISTRICT

Proposition G Bond Funds

June 30, 2016

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, 2016:

<u>Issuer Type</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Farm Credit Bank	U.S. Government Sponsored Entity	\$ 6,652,934
Federal National Mortgage Association	U.S. Government Sponsored Entity	\$ 14,020,620
Federal Home Loan Bank	U.S. Government Sponsored Entity	\$ 6,238,048

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, 2016, zero of the District's Proposition G deposits with financial institutions in excess of the Federal insurance limits were held in collateralized accounts.