



Grossmont Healthcare District



*Financial Statements and
Independent Auditors' Report*

Year Ended June 30, 2018

GROSSMONT HEALTHCARE DISTRICT

Table of Contents

	<u>Page</u>
Independent Auditors' Report.....	1-3
Management's Discussion and Analysis (Required Supplementary Information).....	4-11
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position/(Deficit)	13-14
Statement of Activities.....	15
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.....	16
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position/(Deficit).....	17
Statement of Revenues, Expenditures, and Changes in Fund Balances	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Notes to Basic Financial Statements:	21-63
Required Supplementary Information:	
Schedule of Changes in the Net OPEB Liability (Asset) and Related Ratios	65
Schedule of Contributions-OPEB	66
Schedule of the District's Proportinate Share of the Net Pension Liability-Defined Benefit Plan.....	67
Schedule of Contributions-Defined Benefit Plan	68
Budgetary Comparison Schedule-General Fund	69
Supplementary Information:	
Budgetary Comparison-Debt Service Fund	71
Proposition G Bond Funds Data	72-74

Auditor Opinion

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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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, 2018, 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.

Emphasis of Matters

As discussed in Note A to the basic financial statements, the District adopted Governmental Accounting Standards Board's Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*." The adoption of this standard required retrospective application resulting in a \$1,781,839 reduction of previously reported net position. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Changes in the Net OPEB Asset and Related Ratios, Schedule of Contributions-OPEB, Schedule of the District's Proportionate Share of Net Pension Liability, the Schedule of Contributions - Defined Benefit Plan and the Budgetary Comparison Schedule - General Fund, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Proposition G Bond Funds Data information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Other Information (Continued)

The Budgetary Comparison Schedule - Debt Service Fund on page 71 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.

The supplementary information on pages 72 to 74 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 4, 2018

GROSSMONT HEALTHCARE DISTRICT

Management's Discussion and Analysis (Unaudited)

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, 2018. 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 524 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, 2018, 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 \$15,350,000 from \$14,100,000

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 (Unaudited)

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 the 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 on pages 21-63.

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 65-68 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 71-74.

GROSSMONT HEALTHCARE DISTRICT

Management's Discussion and Analysis (Unaudited)

Overview of the Financial Statements, continued

Fund Based Financial Statements, continued

Net position of the District is classified into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net Investment in Capital Assets

This component of net position consists of capital assets, net of accumulated depreciation and is reduced by the outstanding balances of notes or borrowings that are attributable to the acquisition of the asset, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets.

Restricted Net Position

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

Unrestricted Net Position

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

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

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

Major Fund Analysis

The general fund is the primary operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$8,887,724, while total fund balance increased to \$24,274,970. The fund balance of the District's general fund increased by \$4,448,915 during the current fiscal year.

GROSSMONT HEALTHCARE DISTRICT

Management's Discussion and Analysis (Unaudited)

Overview of the Financial Statements, continued

Major Fund Analysis, continued

The general fund final expenditures at year-end were \$576,864 more than the final budget. This budget to actual variance was primarily due to an unbudgeted additional IGT payment for Grossmont Hospital of \$1,000,000 and additional principal payments of \$538,121. Actual revenues compared to the final budget were up \$2,711,013, which was primarily due to the receipt of one-time revenues.

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

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

The debt service fund final expenditures at year end were the same as amounts budgeted. Actual revenues were \$139,332 in excess of the final budget. This budget to actual variance was primarily due to property tax assessments received in excess of amounts budgeted.

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

Financial Activities & Fiscal Year 2018 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 services provided under contract at Grossmont Hospital to ensure that the Hospital is operated in a manner consistent with the terms of the Lease.
- Community Healthcare Programs - 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 Expenses - The District operates the Dr. William C. Herrick Community Health Care Library specializing in healthcare and health research media and specialized learning programs.
- Facility Expenses - 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.

GROSSMONT HEALTHCARE DISTRICT

Management's Discussion and Analysis (Unaudited)

Financial Activities & Fiscal Year 2018 Highlights, continued

- Debt Administration - This segment consists of all costs associated with issuing and servicing the long-term debt of the District.
- Contributions to Grossmont Hospital – The District contributes general operating support and Proposition G project support to Grossmont Hospital.

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of the District, unrestricted net position is negative due to the long-term nature of the Proposition G general obligation bonds recorded and the nature of the capital assets they finance. The District's most significant assets are cash, cash equivalents, and investments. The District's cash and investments position decreased \$4,773,876 from FY 2017 to FY 2018. 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.

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

Statements of Net Position/(Deficit)

	FY18	FY17
Assets:		
Cash, cash equivalents and investments	\$ 50,881,918	\$ 55,655,794
Capital assets, net of accumulated depreciation	9,908,589	10,020,104
All other assets	5,498,965	8,920,250
Total assets	66,289,472	74,596,148
Deferred outflows of resources	30,024,599	31,333,368
Liabilities:		
Long-term	290,984,100	294,604,666
Other	21,869,295	11,384,696
Total liabilities	312,853,395	305,989,362
Deferred inflows of resources	97,414	39,641
Net position/(deficit):		
Invested in capital assets	9,908,589	10,020,104
Restricted for debt service	7,556,684	6,601,252
Restricted for capital projects	14,286,736	24,242,996
Unrestricted	(248,388,747)	(240,963,839)
Total net position	\$ (216,636,738)	\$ (200,099,487)

GROSSMONT HEALTHCARE DISTRICT

Management's Discussion and Analysis (Unaudited)

Financial Activities & Fiscal Year 2018 Highlights, continued

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

	FY18	FY17
Revenues:		
Property tax revenue - general purposes	\$ 7,783,434	\$ 7,389,149
Property tax revenue - special assessment	13,733,392	13,020,236
Investment income	449,232	195,193
Operating grants and contributions	2,602,133	25,730
Other	98,024	78,067
Total revenues	24,666,215	20,708,375
Expenses:		
General government	2,225,259	1,722,093
Community healthcare programs	1,341,589	2,119,748
Library operating	314,336	318,552
Facility	347,290	249,324
Debt Administration	12,749,581	12,795,820
Contributions to Grossmont Hospital	22,443,572	11,381,743
Total expenses	39,421,627	28,587,280
Change in net position	(14,755,412)	(7,878,905)
Net Position - beginning of year	(200,099,487)	(192,220,582)
Prior period adjustment	(1,781,839)	-
Net Position - end of year	\$ (216,636,738)	\$ (200,099,487)

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 \$394,285 from FY 2017 to FY 2018 and property tax revenues from special assessments increased \$713,156 from FY 2017 to FY 2018. The local real estate market continues to improve and the District's taxable assessed valuations continue to increase.

Community healthcare expenses decreased \$778,159 from FY 2017 to FY 2018 which primarily represents an increase in resources provided to Grossmont Hospital.

Contributions to Grossmont Hospital represent:

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

Contributions increased \$11,061,829 from FY 2017 to FY 2018 resulting primarily from a \$1,000,000 increase in general operating support and the phasing and timing of Proposition G program expenses financed by Proposition G general obligation bonds.

GROSSMONT HEALTHCARE DISTRICT

Management's Discussion and Analysis (Unaudited)

Capital Assets

At June 30, 2018 the District had \$12,285,375 in capital assets and \$2,376,783 in accumulated depreciation resulting in \$9,908,589 of net capital assets. A summary of the activity and balances in capital assets is presented below:

	FY18	FY17
Land	\$ 7,061,501	\$ 7,061,501
Buildings	4,707,202	4,707,202
Furniture and equipment	516,669	597,412
Subtotal	12,285,372	12,366,115
Less:		
Accumulated		
Depreciation	(2,376,783)	(2,346,011)
Total	\$ 9,908,589	\$10,020,104

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 (Unaudited)

Debt Administration, continued

Changes in long-term liabilities for the period ended June 30, 2018, are as follows:

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018	Due Within One Year
General Obligation Bonds					
2007 Series A - CAB's	\$ 23,597,076	\$ -	\$ -	\$ 23,597,076	\$ -
2007 Series A - CIB's	3,900,000	-	1,790,000	2,110,000	2,110,000
2007A unamortized premium	64,638	-	59,665	4,973	-
2007A CAB accrued interest	14,373,953	1,858,745	-	16,232,698	-
2011B CIB's	14,470,000	-	5,000	14,465,000	5,000
2011B unamortized premium	170,235	-	9,965	160,270	-
2015 Series C - CIB's	24,510,000	-	-	24,510,000	-
2015C unamortized premium	4,348,865	-	439,852	3,909,013	-
2015D Series D - CIB's	199,715,000	-	790,000	198,925,000	825,000
2015D unamortized premium	7,697,320	-	336,317	7,361,003	-
Total general obligation bonds, net	292,847,087	1,858,745	3,430,799	291,275,033	2,940,000
Other Long-term Liabilities					
Financing obligation	5,676,776	-	1,817,554	3,859,222	1,257,826
Total long-term liabilities	<u>\$ 298,523,863</u>	<u>\$ 1,858,745</u>	<u>\$ 5,248,353</u>	<u>\$ 295,134,255</u>	<u>\$ 4,197,826</u>

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

Economic Outlook and Major Initiatives

The District is continuing to maximize and leverage its tax revenues to fund the increasing healthcare services programs and needs within its service area. The Fiscal Year 2018 budget reflects total revenues of \$23,801,537 and total expenses, net of noncash adjustments of \$2,381,489, of \$21,420,048.

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, 2018

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 10,972,606
Investments	13,374,909
Property taxes receivable	788,583
Other accounts receivable	133,701
Due from other funds	189,160
Current portion of long term note - lease receivable	1,257,826
Accrued investment interest	104,492
Prepaid expenses and deposits	37,246
Restricted cash and cash equivalents with fiscal agent	24,808,693
Restricted investments with fiscal agent	1,725,710
Total Current Assets	<u>53,392,926</u>
Noncurrent Assets:	
Long term note - lease receivable	2,601,396
Prepaid bond insurance, net	97,395
Net OPEB asset	289,166
Capital assets:	
Land	7,061,501
Capital assets, net of depreciation	2,847,088
Total capital assets, net of depreciation	<u>9,908,589</u>
Total Noncurrent Assets	<u>12,896,546</u>
Total Assets	<u>66,289,472</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pension	366,565
Deferred outflows - OPEB	32,348
Deferred charges on refunding of long-term debt	29,625,686
Total deferred outflows of resources	<u>30,024,599</u>

GROSSMONT HEALTHCARE DISTRICT

Statement of Net Position/(Deficit)

June 30, 2018

	<u>Governmental Activities</u>
LIABILITIES	
Current Liabilities:	
Accounts and grants payable	\$ 12,558,466
Due to other funds	189,160
Current accrued compensated absences	15,890
Current maturities of long-term debt	4,197,826
Liabilities payable from restricted assets:	
Restricted accrued interest	4,699,249
Total Current Liabilities	<u>21,660,591</u>
Noncurrent Liabilities:	
Long-term accrued compensated absences	47,671
General obligation bonds	272,102,335
Financing obligation	2,601,396
Capital appreciation bond accrued interest	16,232,698
Net pension liability	208,704
Total Noncurrent Liabilities	<u>291,192,804</u>
Total Liabilities	<u>312,853,395</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pension	22,090
Deferred inflows - other post employment benefits	75,324
Total deferred inflows of resources	<u>97,414</u>
NET POSITION/(DEFICIT)	
Investment in capital assets	9,908,589
Restricted for debt service	7,556,684
Restricted for capital projects	14,286,736
Unrestricted	<u>(248,388,747)</u>
Total Net Position/(Deficit)	<u>\$ (216,636,738)</u>

GROSSMONT HEALTHCARE DISTRICT

Statement of Activities

Year Ended June 30, 2018

Functions/programs	Expenses	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
				Governmental Activities
Governmental activities:				
General government	\$ 2,225,259	\$ 2,602,133	\$ 13,733,392	\$ 14,110,266
Community healthcare programs	1,341,589	-	-	(1,341,589)
Library operating expenses	314,336	-	-	(314,336)
Facility expenses	347,290	-	-	(347,290)
Interest on long-term debt	12,749,581	-	-	(12,749,581)
Contributions to Grossmont Hospital	22,443,572	-	-	(22,443,572)
Total Governmental Activities	<u>\$ 39,421,627</u>	<u>\$ 2,602,133</u>	<u>\$ 13,733,392</u>	<u>(23,086,102)</u>
General Revenues:				
Property taxes, levied for general purposes				7,783,434
Investment earnings				449,232
Other revenue				98,024
Total General Revenues				<u>8,330,690</u>
Change in Net Position				(14,755,412)
Net Position/(Deficit) - Beginning of Year, As Restated				(201,881,326)
Net Position/(Deficit) - End of Year				<u><u>\$ (216,636,738)</u></u>

See accompanying notes to financial statements.

GROSSMONT HEALTHCARE DISTRICT

Balance Sheet - Governmental Funds

June 30, 2018

	General Fund	Proposition G		Total Governmental Funds
		Building Fund	Debt Service Fund	
ASSETS				
Cash and cash equivalents	\$ 10,972,606	\$ -	\$ -	\$ 10,972,606
Investments	13,374,909	-	-	13,374,909
Property taxes receivable	265,572	-	523,011	788,583
Other accounts receivable	123,681	10,020	-	133,701
Due from other funds	189,160	-	-	189,160
Accrued investment interest	96,226	-	8,266	104,492
Prepaid expenses and deposits	37,246	-	-	37,246
Restricted cash and cash equivalents with fiscal agent	-	14,286,736	10,521,957	24,808,693
Restricted investments with fiscal agent	-	-	1,725,710	1,725,710
TOTAL ASSETS	\$ 25,059,400	\$ 14,296,756	\$ 12,778,944	\$ 52,135,100
LIABILITIES				
Accounts and grants payable	\$ 592,177	\$ 11,966,289	\$ -	\$ 12,558,466
Due to other funds	-	189,160	-	189,160
TOTAL LIABILITIES	592,177	12,155,449	-	12,747,626
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues	192,253	-	400,067	592,320
TOTAL DEFERRED INFLOWS OF RESOURCES	192,253	-	400,067	592,320
FUND BALANCES				
Nonspendable:				
Prepaid items	37,246	-	-	37,246
Restricted for:				
Capital projects	-	2,141,307	-	2,141,307
Debt service	-	-	12,378,877	12,378,877
Assigned to:				
Board contingency fund	15,350,000	-	-	15,350,000
Unassigned	8,887,724	-	-	8,887,724
Total Fund Balances	24,274,970	2,141,307	12,378,877	38,795,154
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 25,059,400	\$ 14,296,756	\$ 12,778,944	\$ 52,135,100

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, 2018

	<u>Amount</u>
Total fund balances for governmental funds	\$ 38,795,154
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).	9,908,589
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.	97,395
Long term note receivables are not available to finance current financial resources, and, therefore, are not reported in governmental funds.	3,859,222
Interest payable for the general obligation bonds has not been reported in the governmental funds.	(4,699,249)
Pension related debt applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Deferred outflows of resources and deferred inflows of resources related to pensions are only reported in the Statement of Net Position as the changes in these amounts effects only the government-wide statements for governmental activities	
Deferred outflows of resources	\$ 366,565
Deferred inflows of resources	(22,090)
Pension Liability	<u>(208,704)</u>
	135,771
Long-term liabilities applicable to 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	\$ (275,042,335)
Financing obligation	(3,859,222)
Capital appreciation bond accrued interest	(16,232,698)
Accrued compensated absences	<u>(63,561)</u>
	(295,197,816)
OPEB related asset applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Deferred outflows of resources and deferred inflows of resources related to OPEB are only reported in the Statement of Net Position as the changes in these amounts effects only the government-wide statements for governmental activities	
Deferred outflows of resources	\$ 32,348
Deferred inflows of resources	(75,324)
OPEB asset	<u>289,166</u>
	246,190
Revenues reported as unavailable revenue in the governmental funds and recognized in the statement of activities.	592,320
Net deferred outflows resulting from the advance refunding of debt are not current financial resources and, therefore, not reported in the governmental funds balance sheet.	<u>29,625,686</u>
Net position/(deficit) of governmental activities.	<u>\$ (216,636,738)</u>

See accompanying notes to financial statements.

GROSSMONT HEALTHCARE DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds Year Ended June 30, 2018

	Proposition G			Total Governmental Funds
	General Fund	Building Fund	Debt Service Fund	
REVENUES:				
Property taxes, levied for general purposes	\$ 7,797,234	\$ -	\$ -	\$ 7,797,234
Property taxes, levied for special assessments	-	-	13,739,419	13,739,419
Investment earnings	154,807	219,653	74,772	449,232
Grant and other income	2,602,091	-	42	2,602,133
Contributions from Grossmont Hospital - cogeneration revenue	1,377,457	-	-	1,377,457
Total Revenues	<u>11,931,589</u>	<u>219,653</u>	<u>13,814,233</u>	<u>25,965,475</u>
EXPENDITURES:				
General government	1,536,756	-	-	1,536,756
Community healthcare programs	1,341,589	-	-	1,341,589
Library operating expenses	314,336	-	-	314,336
Facility expenses	374,415	-	-	374,415
Contributions to Grossmont Hospital	2,000,000	20,443,572	-	22,443,572
Debt Service:				
Principal	1,817,554	-	2,585,000	4,402,554
Interest and fiscal charges	98,024	-	10,304,738	10,402,762
Total Expenditures	<u>7,482,674</u>	<u>20,443,572</u>	<u>12,889,738</u>	<u>40,815,984</u>
NET CHANGES IN FUND BALANCES	4,448,915	(20,223,919)	924,495	(14,850,509)
FUND BALANCES, BEGINNING OF YEAR	<u>19,826,055</u>	<u>22,365,226</u>	<u>11,454,382</u>	<u>53,645,663</u>
FUND BALANCES, END OF YEAR	<u>\$ 24,274,970</u>	<u>\$ 2,141,307</u>	<u>\$ 12,378,877</u>	<u>\$ 38,795,154</u>

See accompanying notes to financial statements.

GROSSMONT HEALTHCARE DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2018

	<u>Amount</u>
Net change in fund balances - total governmental funds	\$ (14,850,509)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital asset acquisitions as expenditures; however, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense:	
Capital assets acquired:	
Capital Outlay	\$ 27,125
Depreciation expense	<u>(138,640)</u>
	(111,515)
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.	16,660
Interest accrued on the capital appreciation bonds is expensed when incurred in the statement of activities.	(1,858,745)
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.	(1,817,554)
Revenues reported as unavailable in the governmental funds and recognized in the statement of activities.	(19,827)
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.	30,423
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 position liability, and related change in pension amounts for deferred outflows of resources and deferred inflows of resources	(33,081)
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	\$ (9,084)
Bond insurance	<u>(6,457)</u>
	(15,541)
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	\$ 4,402,554
Bond premium amortization	845,799
Amortization of deferred amount on refunding	<u>(1,344,076)</u>
	3,904,277
Change in net position of governmental activities	<u>\$ (14,755,412)</u>

See accompanying notes to financial statements.

Notes to Basic Financial Statements

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

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 at-large 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, 2018

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 is not included in the calculation of invested in capital assets.

Restricted Net Position

This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, 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, 2018

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, 2018

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, liabilities and deferred inflows of resources 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, 2018

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, 2018

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/(Deficit)* will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. The District has the following items that qualify for reporting in this category:

- Deferred charges on refunding of \$29,625,686 relating to the 2015 Series D Refunding Bonds, net of accumulated amortization of \$4,183,092 at June 30, 2018. 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 outflows related to Other post employment benefits (OPEB) for employer contributions made after the measurement date of the net OPEB 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 service lives of all employees that are provided with pensions through the Plans.
- Deferred outflows from pensions resulting from changes in assumptions. This amount is amortized over a closed period equal to the pensions of the expected remaining service lives of all employees that are provided with pensions through the Plans.
- Deferred outflow related to pensions for changes in proportion and differences between employer contributions and proportionate share of contributions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans.
- Deferred outflows 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.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

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

Deferred Outflows/Inflows of Resources, continued

In addition to liabilities, the *Statement of Net Position/(Deficit)* will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has the following that qualify for reporting in this category:

- Deferred inflows from unavailable revenues, which are reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source, which are taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflows from pensions resulting from changes in assumptions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans.
- Deferred inflows from pensions for differences between expected and actual experiences. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans.
- Deferred inflows from OPEB resulting from the difference in projected and actual earnings on investments of the OPEB plan fiduciary net position. This amount is amortized over five years.

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.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

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

Property Taxes-General Apportionments and Debt Service, continued

The District's levy was at \$23.52 per \$100,000 of assessed valuation as of June 30, 2018. There is no allowance for doubtful accounts considered necessary for related property tax receivables 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 (CalPERS). Also see Note I for more information.

Other Noncurrent Assets

Prepaid bond insurance of \$97,395, net of amounts defeased, for the 2007A Bonds, at June 30, 2018, 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, 2018 is included in the *Statement of Activities* as prepaid bond insurance amortization.

Accounts and Grants Payable

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

Capital Assets

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

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

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

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 District's CalPERS plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability and deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's OPEB Plan and additions to/deductions from the OPEB Plans' fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the District's OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

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

Use of Estimates

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

Stewardship, Compliance and Accountability

General Budget Policies - The Chief Financial Officer shall prepare and submit the proposed annual budget to the Board for its approval for all governmental funds except the Building Fund. The Board adopts a project length multi-year budget for the Building Fund; therefore no budgetary statement for the Building Fund is included in the accompanying financial statements.

The budget is reviewed during a public meeting and is then legally enacted by means of a budget resolution passed by the Board. Upon final adoption, the budget shall be in effect for the ensuing fiscal year.

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

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

New Accounting Pronouncements

- In fiscal year 2017-2018, the District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for postemployment benefits other than pensions. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this statement decreased the net position at July 1, 2017 of the governmental activities by \$1,781,839.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

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

New Accounting Pronouncements, continued

- GASB 82 - *Pension Issues*, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017, and did not impact the District.
- GASB 85 - *Omnibus 2017*, effective for periods beginning after June 15, 2017, and did not impact the District.
- GASB 86 - *Certain Debt Extinguishment Issues*, effective for periods beginning after June 15, 2017, and did not impact the District.

Pending Accounting Standards

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

- GASB 84 - *Fiduciary Activities*, effective for periods beginning after December 15, 2018.
- GASB 87 - *Leases*, effective for periods beginning after December 15, 2019.
- GASB 88 - *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, effective for periods beginning after June 15, 2018.
- GASB 89 - *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for periods beginning after December 15, 2019.

Note B. Financing Authorities

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

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

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, 2018

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:

<u>Fund</u>	<u>Amount</u>
Cost of issuance	\$ 1,312,068
Escrow fund	211,092,283
	<u>\$ 212,404,351</u>

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

Note D. Cash, Cash Equivalents, and Investments

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

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

Statement of Net Position/(Deficit):

	<u>Amount</u>
Current assets	
Cash and cash equivalents	\$ 10,972,606
Investments	13,374,909
Restricted cash and cash equivalents with fiscal agent	24,808,693
Restricted investments with fiscal agent	1,725,710
Total cash, cash equivalents, and investments	<u>\$ 50,881,918</u>

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

	<u>Amount</u>
Cash on hand	\$ 34
Deposits with financial institutions	2,542,016
Investments	48,339,868
Total cash, cash equivalents and, investments	<u>\$ 50,881,918</u>

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

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

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

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

Fair Value Measurements, continued

The District has the following recurring fair value measurements as of June 30, 2018:

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total
U.S. Government Sponsored				
Agency security				
FFCB	\$ -	\$ 3,015,689	\$ -	\$ 3,015,689
FHLB	-	10,112,530	-	10,112,530
FHLMC	-	246,690	-	246,690
Held by fiscal agent:				
U.S. Government Sponsored				
Agency security				
FFCB	-	1,725,710	-	1,725,710
Subtotal	-	15,100,619	-	15,100,619
Local Agency Investment Fund***				8,430,555
Held by fiscal agent:				
Money market mutual funds***				24,808,694
Total investments				<u>\$ 48,339,868</u>

***Not subject to fair value measurements.

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.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

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

Disclosures Relating to Interest Rate Risk, continued

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, 2018:

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	\$ 15,100,619	\$ 4,997,234	\$ 6,649,000	\$ 3,454,385	\$ -
Money Market Mutual Funds	24,808,694	24,808,694	-	-	-
State Pooled Funds	8,430,555	8,430,555	-	-	-
	\$ 48,339,868	\$ 38,236,483	\$ 6,649,000	\$ 3,454,385	\$ -

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, 2018, 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 \$15,100,619 of U.S. Government Sponsored Entity securities at June 30, 2018, 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	\$ 15,100,619	N/A	\$ 15,100,619	\$ -	\$ -
Money Market Mutual Funds	24,808,694	AAA	24,808,694	-	-
State Pooled Funds	8,430,555	N/A	-	-	8,430,555
	\$ 48,339,868		\$ 39,909,313	\$ -	\$ 8,430,555

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

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

Concentration of Credit Risk

The investment policy of the District contains various limitations on the amounts that can be invested in any one type or group of investments and in any issuer, beyond that stipulated, by the California Government Code, Sections 53600 through 53692. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments as of June 30, 2018 are below:

<u>Issuer Type</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Farm Credit Bank	U.S. Government Sponsored Entity	\$ 4,741,399
Federal Home Loan Bank	U.S. Government Sponsored Entity	\$ 10,112,530

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, 2018, \$2,384,671 of the District's deposits with financial institutions were in excess of the Federal insurance limits with \$2,384,671 held in collateralized accounts and \$0 not collateralized.

Local Agency Investment Fund (LAIF)

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

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

Note E. Capital Assets

The following table presents a summary of the changes in capital assets at June 30, 2018:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Capital Assets Not Depreciated:				
Land	\$ 7,061,501	\$ -	\$ -	\$ 7,061,501
Total capital assets not depreciated	7,061,501	-	-	7,061,501
Capital Assets Being Depreciated:				
Buildings	4,707,202	-	-	4,707,202
Furniture and equipment	597,412	27,125	107,868	516,669
Total capital assets being depreciated	5,304,614	27,125	107,868	5,223,871
Less Accumulated Depreciation:				
Furniture and equipment	553,194	20,928	107,840	466,282
Buildings	1,792,817	117,684	-	1,910,501
Total	2,346,011	138,612	107,840	2,376,783
Total Capital Assets Being Depreciated, net	2,958,603	(111,487)	28	2,847,088
Total Capital Assets, Net	\$ 10,020,104	\$ (111,487)	\$ 28	\$ 9,908,589

Depreciation expense of \$138,612 is included in facility expenses on the *Statement of Activities* for the fiscal year ended June 30, 2018.

Note F. Long-Term Liabilities

Long-term liabilities for the year ended June 30, 2018, are as follows:

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018	Due Within One Year
General Obligation Bonds					
2007 Series A - CAB's	\$ 23,597,076	\$ -	\$ -	\$ 23,597,076	\$ -
2007 Series A - CIB's	3,900,000	-	1,790,000	2,110,000	2,110,000
2007A unamortized premium	64,638	-	59,665	4,973	-
2007A CAB accrued interest	14,373,953	1,858,745	-	16,232,698	-
2011B CIB's	14,470,000	-	5,000	14,465,000	5,000
2011B unamortized premium	170,235	-	9,965	160,270	-
2015 Series C - CIB's	24,510,000	-	-	24,510,000	-
2015C unamortized premium	4,348,865	-	439,852	3,909,013	-
2015D Series D - CIB's	199,715,000	-	790,000	198,925,000	825,000
2015D unamortized premium	7,697,320	-	336,317	7,361,003	-
Total general obligation bonds, net	292,847,087	1,858,745	3,430,799	291,275,033	2,940,000
Other Long-term Liabilities					
Financing obligation	5,676,776	-	1,817,554	3,859,222	1,257,826
Total long-term liabilities	\$ 298,523,863	\$ 1,858,745	\$ 5,248,353	\$ 295,134,255	\$ 4,197,826

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

Note F. Long-Term Liabilities, continued

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 72 for more information on the ICBOC.

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.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

Note F. Long-Term Liabilities, continued

Authority for Issuance of the Bonds, continued

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

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

Security for the Bonds

The Series 2007A, 2011B, 2015C and 2015D Bonds represent general obligations of the District payable from certain *ad valorem* taxes. The Board of Supervisors of the County shall levy and collect annually *ad valorem* taxes upon all property subject to taxation by the District for the payment of the principal or accreted value of and interest on the 2007A, 2011B, 2015C and 2015D Bonds. The 2007A, 2011B, 2015C and 2015D Bonds are not obligations of the County of San Diego, the Authorities, the State or any of its political subdivisions, other than the District.

Insurance

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

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

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, 2018 is \$16,232,698. Interest accrued during the fiscal year ending June 30, 2018 was \$1,858,745.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

Note F. Long-Term Liabilities, continued

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

<u>Capital Appreciation Bonds \$23,597,076</u>		
<u>Maturity Date July 15</u>	<u>Yield to Maturity</u>	<u>Principal Amount</u>
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>

In May 2015, a portion of the 2007A CIB Bonds were defeased by the 2015D Refunding Bonds. See page 44 for more information on the 2015D Refunding Bonds.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

Note F. Long-Term Liabilities, continued

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

Current Interest Bonds \$2,110,000		
Maturity Date	Interest Rate	Principal Amount
July 15		
2018	5.000%	\$ 2,110,000
		<u>\$ 2,110,000</u>

In February 2011, the District issued \$136,860,000 of current interest bonds. In May 2015, a portion of the 2011B Bonds were defeased by the 2015D Refunding Bonds. See page 44 for more information on the 2015D Refunding Bonds.

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

Current Interest Bonds \$14,465,000		
Maturity Date	Interest Rate	Principal Amount
July 15		
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>\$ 14,465,000</u>

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

Note F. Long-Term Liabilities, continued

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

<u>Current Interest Bonds \$24,510,000</u>		
Maturity Date	Interest Rate	Principal Amount
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>

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 \$138,960,000 of defeased debt outstanding at June 30, 2018.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

Note F. Long-Term Liabilities, continued

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

Current Interest Bonds \$198,925,000		
Maturity Date	Interest Rate	Principal Amount
July 15 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>\$ 198,925,000</u>

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

Note F. Long-Term Liabilities, continued

Debt Service Requirements

Debt service requirements on Proposition G bonded debt as of June 30, 2018, excluding unamortized premiums, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	6,800,000	9,388,131	16,188,131
2022-2026	38,125,007	56,711,324	94,836,331
2027-2031	33,773,322	59,045,922	92,819,244
2032-2036	86,453,746	33,586,304	120,040,050
2037-2040	81,410,000	6,714,400	88,124,400
Totals	<u>\$ 263,607,075</u>	<u>\$ 205,358,606</u>	<u>\$ 468,965,681</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, 2018

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 percent. Effective June 29, 2012, the District simultaneously entered into a Cogeneration and Energy Equipment Purchase Agreement with the Corporation, whereby the Corporation agrees to make all scheduled lease payments required under the Lease direct to the Lessor. As such, a long-term receivable equal to the outstanding balance is included in the accompanying financial statements.

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

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

Debt Service Requirements

Minimum lease payments as of June 30, 2018, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,257,826	\$ 68,071	\$ 1,325,897
2020	1,284,248	41,649	1,325,897
2021	1,317,148	14,671	1,331,819
Totals	<u>\$ 3,859,222</u>	<u>\$ 124,391</u>	<u>\$ 3,983,613</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 1:1 of the difference between the District's annual tax revenues less administrative, library operating and facility expenses to the annual lease payment. The liquidity ratio is calculated for the year ending June 30 of each year under the Lease. The District was in compliance with the liquidity ratio at June 30, 2018.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

Note G. Fund Balance

Designated Net Position

In addition to the fund balance, \$15,350,000 has been assigned by the Board of Directors for contingency reserves in the General Fund as of June 30, 2018.

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 CalPERS. Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

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

The Plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

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	12.698%

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

Note H. Defined Benefit Pension Plan, continued

Contributions

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

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	<u>\$ 208,704</u>

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, 2017, 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, 2016, rolled forward to June 30, 2017, using standard update procedures. The District's proportionate share 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.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

Note H. Defined Benefit Pension Plan, continued

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

The District's proportionate share of the net pension liability as of the measurement date ended June 30, 2017 and 2016 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2017	.00447%
Proportion - June 30, 2016	.01585%
Change - Increase (Decrease)	(.01138)%

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 122,437	\$ -
Differences between actual and expected experience	929	(13,304)
Change in assumptions	115,221	(8,786)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	101,920	-
Net differences between projected and actual earnings on plan investments	26,058	-
Total	<u>\$ 366,565</u>	<u>\$ (22,090)</u>

The \$122,437 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, 2019.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

Note H. Defined Benefit Pension Plan, continued

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

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
2019	\$ 86,432
2020	92,621
2021	58,457
2022	(15,472)
2023	-
Thereafter	<u>\$ 222,038</u>

For the year ended June 30, 2018, the District recognized pension expense of \$155,519.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

Note H. Defined Benefit Pension Plan, continued

Actuarial Assumptions

The total pension liabilities in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase	(1)
Mortality	(2)
Post Retirement Benefit Increase	(3)

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

(2) The probabilities of mortality are derived using CalPERS membership data for all funds.

The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report. (based on CalPERS demographic data from 1997 to 2011) available on the CalPERS website.

(3) Contract COLA up to 2.75% until Purchasers Power Protection Allowance Floor or Purchasers Power applies, 2.75% thereafter.

All other actuarial assumptions used in the June 30, 2016, 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.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

Note H. Defined Benefit Pension Plan, continued

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

Change in Assumptions

In fiscal year 2017-2018, the financial reporting discount rate was reduced from 7.65 to 7.15 percent. Deferred outflows of resources and deferred inflows of resources for changes of assumptions represent the unamortized portion of this assumption change and the unamortized portion of the changes of assumptions related to prior measurement periods.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent for each Plan and reflects the long-term expected rate of return for each Plan net of investment expenses and without relocation for administrative expenses. 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 7.15 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 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contribution on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB 68 Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 section.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

Note H. Defined Benefit Pension Plan, continued

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

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

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

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses. The target allocation shown below was adopted by the CalPERS Board effective July 1, 2014.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10 (a)</u>	<u>Real Return Years 11+ (b)</u>
Global Equity	47.00%	4.9%	5.38%
Global Fixed Income	19.00	0.50	2.27
Inflation Sensitive	6.00	0.60	1.39
Private Equity	12.00	6.60	6.63
Real Estate	11.00	2.80	5.21
Infrastructure and Forestland	3.00	3.90	5.36
Liquidity	2.00	-0.40	-0.90
Total	<u>100.00%</u>		

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

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

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

Note H. Defined Benefit Pension Plan, continued

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:

	<u>Miscellaneous</u>
1% Decrease	6.15%
Net Pension Liability	\$ 588,506
Current Discount Rate	7.15%
Net Pension Liability	\$ 208,704
1% Increase	8.15%
Net Pension Liability/(Asset)	\$ (105,855)

Pension Plan Fiduciary Net Pension

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

Subsequent Events

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

Payable to the Pension Plan

At June 30, 2018, the District reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

Note I. Other Post-Employment Benefits

a. General Information about the DPHP Plan:

Plan Description:

The District has established an agent multiple-employer Defined Benefit Postemployment Healthcare Plan (DPHP) that provides post-retirement medical benefits to retirees through the California Public Employees Medical and Hospital Care Act (PEMCHA) which is managed through the California Retiree Benefit Trust (CERBT). The plan provides retiree medical, dental and vision benefits to eligible retirees and their eligible dependents. The plan pays 100 percent of the cost (premiums) for benefits and reimburses covered members for any out-of-pocket costs associated with the benefit plan provisions. Effective March 2013, out-of-pocket costs for active employees was capped at \$2,500 and will remain in effect through post-employment. The plan also pays 100 percent of Long-term Care (LTC) premiums for the CalPERS Comprehensive Plan for an employee and/or their spouse who has applied for and has been accepted into the plan. The Comprehensive Plan provides for lifetime benefits, dollar maximums and built-in inflation protection of 5 percent per year. For employees hired on or prior to November 21, 2014, the plan contribution is capped at \$2,000. Employees hired after November 21, 2014, are not eligible for plan paid LTC benefits at retirement. Benefits are payable for the life of the retiree and spouse coverage continues after the death of the retiree. A separate financial report is not prepared for the plan.

Employees Covered:

As of the June 30, 2017, actuarial valuation, the following current and former employees were covered by the benefit terms under the plan:

	<u>Count</u>
Inactive employees or beneficiaries currently receiving benefits	5
Active employees	6
Total	<u>11</u>

Contributions

The DPHP and its contribution requirements are established by District policy and may be amended by the Board of Directors. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2018, the District's cash contributions were \$30,887 in payments to the trust and the estimated implicit subsidy was \$1,461 resulting in payments of \$32,348.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

Note I. Other Post-Employment Benefits, continued

b. Net DPHP Liability/(Asset):

The District's net DPHP liability/(asset) was measured as of June 30, 2017, and the total DPHP liability used to calculate the net DPHP liability/(asset) was determined by an actuarial valuation dated June 30, 2017. A summary of the principal assumptions and methods used to determine the total DPHP liability is shown below.

c. Total DPHP Liability:

Actuarial Assumptions

The total DPHP liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.00%
Inflation	2.75%
Projected Salary Increase	3.00% per annum, in aggregate
Expected long term investment rate of return	7.00%
Healthcare Cost Trend Rates	6.0% HMO/6.0% PPO, decreasing to 5%
Pre-retirement Turnover	Derived from CalPERS pension plan
Mortality	Derived from CalPERS pension plan updated to reflect most recent experience study

The actuarial assumptions used in the June 30, 2017, valuation were based on a standard set of assumptions the actuary has used for similar valuations, modified as appropriate for the District.

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

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

Note I. Other Post-Employment Benefits, continued

Actuarial Assumptions, continued

These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the DPHP plan's target asset allocation as of June 30, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>New Strategic Allocation %</u>	<u>Long-Term Expected Real Rate of Return %</u>
CERBT:		
US Equity	30.00	4.85
International Equity	27.00	5.85
REITs	8.00	3.65
US Fixed Income	27.00	2.35
Commodities	3.00	1.75
Inflation assets	5.00	1.50
Total	<u>100.00</u>	

Discount Rate

The discount rate used to measure the total DPHP liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that District's contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the DPHP's fiduciary net position was projected to be available to make all projected DPHP payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on DPHP plan investments was applied to all periods of projected benefit payments to determine the total DPHP liability.

Change of Discount Rate

The discount rate utilized in the June 30, 2017, valuation was 7.00 percent as compared to the June 30, 2015, valuation discount rate of 7.28 percent. The discount rate was changed in order to provide a more conservative liability/(asset).

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

Note I. Other Post-Employment Benefits, continued

Change of Discount Rate, continued

d. Changes in the net DPHP Liability/(Asset):

	Total DPHP Liability	Plan DPHP Net Position	Net DPHP Liability (Asset)
Balance at June 30, 2016	\$ 2,266,905	\$ 2,482,672	\$ (215,767)
Changes during the Year:			
Service cost	55,668	-	55,668
Interest on the total DPHP liability	156,675	-	156,675
Differences between actual and expected experience	-	-	-
Changes in assumptions	-	-	-
Changes in benefit terms	-	-	-
Contribution - employer	-	24,241	(24,241)
Net investment income	-	262,838	(262,838)
Administrative expenses	-	(1,337)	1,337
Benefit payments	(168,725)	(168,725)	-
Net Changes	43,618	117,017	(73,399)
Balance at June 30, 2017	\$ 2,310,523	\$ 2,599,689	\$ (289,166)

Change of Assumptions

There were no changes of assumptions.

Change of Benefit Terms

There were no changes of benefit terms.

Subsequent Events

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

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

Note I. Other Post-Employment Benefits, continued

Sensitivity of the Net DPHP Liability/(Asset) to Changes in the Discount Rate

The following presents the net DPHP liability/(asset) of the District, as well as what the District's net DPHP liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current discount rate:

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Net DPHP Liability/(Asset)	\$ (62,625)	\$ (289,166)	\$ (484,159)

Sensitivity of the Net DPHP Liability to Changes in Health Care Cost Trend Rates

The following presents the net DPHP liability/(asset) of the District, as well as what the District's net DPHP liability/(asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (5.00% HMO/5.50% PPO decreasing to 4.00% HMO/4.00% PPO) or 1-percentage point higher (7.00% HMO/7.50% PPO decreasing to 6.00% HMO/6.00% PPO) than the current healthcare cost trend rates:

	1% Decrease (5.00% HMO/5.50% PPO decreasing to 4.00% HMO/4.00% PPO)	Current Healthcare Cost Trend Rates (6.00% HMO/6.50% PPO decreasing to 5.00% HMO/5.00% PPO)	1% Increase (7.00% HMO/7.50% PPO decreasing to 6.00% HMO/6.00% PPO)
Net DPHP Liability/(Asset)	\$ (491,671)	\$ (289,166)	\$ (76,804)

e. DPHP Expense and Deferred Outflows/Inflows of Resources Related to DPHP:

For the year ended June 30, 2018, the District recognized DPHP expense of \$(73,399). At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to DPHP from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
DPHP contributions subsequent to measurement date	\$ 32,348	\$ -
Differences between actual and expected experience	-	-
Change in assumptions	-	-
Differences between projected and actual earnings	-	75,324
Total	<u>\$ 32,348</u>	<u>\$ 75,324</u>

The net difference between projected and actual earnings on plan investments is amortized over a five-year period. The differences between actual and expected experience and change in assumptions are amortized over the expected average remaining service life. The expected average remaining service life for the 2016-17 measurement period is 5 years.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

Note I. Other Post-Employment Benefits, continued

Sensitivity of the Net DPHP Liability to Changes in Health-Care Cost Trend Rates, continued

\$32,348 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net DPHP liability/(asset) in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to DPHP will be recognized as DPHP expense as follows:

Year Ending June 30,	Amount
2019	\$ (18,831)
2020	(18,831)
2021	(18,831)
2022	(18,831)
2023	-
Thereafter	-

f. At June 30, 2018, the District had no outstanding amount of contributions to the DPHP plan required for the year ended June 30, 2018.

Note J. Contributions to Grossmont Hospital Corporation

During the fiscal year, contributions including amounts accrued, to the Corporation were \$22,443,572 consisting of:

	Amount
General Support	\$ 2,000,000
Proposition G Support	20,443,572
	<u>\$ 22,443,572</u>

Note K. Commitments and Contingencies

Construction Commitments

The District had outstanding contracts and commitments under capital projects of \$3,686,778 at June 30, 2018.

Grant Commitments

The District had grants payable to various agencies under its grant program in the amount of \$566,164 at June 30, 2018.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

Note K. Commitments and Contingencies, continued

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, 2018, the arbitrage rebate liability was \$0.

Note L. Risk Management

General Liability

The District is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, and natural disasters. The District participates in an insurance pool through the Special District Risk Management Authority (SDRMA). SDRMA is a not-for-profit public agency formed under California Government Code Sections 6500 et. Seq. SDRMA is governed by a board composed of members from participating agencies. The District pays an annual premium for commercial insurance covering general liability, excess liability, property, automobile, public employee dishonesty, worker's compensation, 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.

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

Note L. Risk Management, continued

SHARP provides and pays the following insurance for the District:

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

Property Loss Coverage Under SHARP Policy

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

Boiler and Machinery Coverage Under SHARP Policy

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

Earthquake, Flood and Terrorism Coverage Under SHARP Policy

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

Seismic Update

Senate Bill 1953 established requirements for earthquake SPC & NPC-2 safety for all acute care hospital buildings in California.

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

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

Adequacy of Protection

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

GROSSMONT HEALTHCARE DISTRICT

Notes to Financial Statements

Year Ended June 30, 2018

Note M. Restatement of Net Position

Net position at July 1, 2017, were restated as follows:

	<u>General Fund</u>
Net position as previously reported as of June 30, 2017	\$ (200,099,487)
To adjust OPEB asset for GASB 75 implementation at June 30, 2017	(1,781,839)
Net position as restated July 1, 2017	<u>\$ (201,881,326)</u>

Note N. Subsequent Event

As a result of changes in the California Government Code, it is no longer necessary to maintain the San Diego County Health Facilities Financing Authority in order to provide for the negotiated sale of general obligation bonds.

On August 17, 2018, the District Board voted to terminate participation in and dissolve the Authority.

Other events occurring after June 30, 2018, have been evaluated for possible adjustments to the financial statements or disclosure as of September 4, 2018, which is the date the financial statements were available to be issued.

Required Supplementary Information

GROSSMONT HEALTHCARE DISTRICT

Required Supplementary Information

Year Ended June 30, 2018

Schedule of Changes in the Net OPEB Liability/(Asset) and Related Ratios

Last Ten Fiscal Years*

	Measurement Date <u>6/30/2017</u>
Total Pension Liability:	
Service cost	\$ 55,668
Interest on total OPEB liability	156,675
Benefit payments, including refunds	<u>(168,725)</u>
Net Change in Total OPEB Liability	43,618
Total OPEB Liability - Beginning of Year	<u>2,266,905</u>
Total OPEB Liability - End of Year (a)	<u>2,310,523</u>
Plan Fiduciary Net Position:	
Contributions - employer	24,241
Net investment income	262,838
Administrative expenses	(1,337)
Benefit payments	<u>(168,725)</u>
Net Change in Plan Fiduciary Net Position	117,017
Plan Fiduciary Net Position - Beginning of Year	<u>2,482,672</u>
Plan Fiduciary Net Position - End of Year (b)	<u>2,599,689</u>
Net OPEB Liability/(Asset) - Ending (a)-(b)	<u>\$ (289,166)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	112.52%
Covered - employee payroll	\$ 552,613
Net OPEB liability as percentage of covered - employee payroll	52.33%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

There were no changes in assumptions.

* Fiscal year 2018 was the first year of implementation; therefore, only one year is shown.

GROSSMONT HEALTHCARE DISTRICT

Required Supplementary Information

Year Ended June 30, 2018

Schedule of Contributions - OPEB

Last Ten Fiscal Years*

	<u>6/30/2018</u>
Actuarially determined contributions	\$ 32,348
Contributions in relation to the actuarially determined contributions	<u>(32,348)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered - employee payroll	\$ 647,147
Contributions as a percentage of covered - employee payroll	4.99%

Notes to Schedule:

Valuation Date 6/30/2017

Methods and Assumptions Used to Determine Contribution Rates:

Single and agent employers	Entry age**
Amortization method	Level percentage of payroll, closed**
Asset valuation method	Market Value***
Inflation	2.75%**
Salary increases	3.00%
Investment rate of return	7.00%
Discount rate	7.00%

* Fiscal year 2018 was the first year of implementation; therefore, only one year is shown.

GROSSMONT HEALTHCARE DISTRICT

Required Supplementary Information

Year Ended June 30, 2018

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

Fiscal Year End	2018	2017	2016	2015
Measurement Period	2017	2016	2015	2014
Proportion of the net pension liability	0.00210%	0.00179%	0.01585%	0.00668%
Proportionate share of net pension liability	\$ 208,704	\$ 155,113	\$ 434,705	\$ 415,578
Covered- employee payroll	\$ 647,147	\$ 552,613	\$ 542,801	\$ 538,385
Proportionate share of net pension liability as percentage of covered-employee payroll	18.92%	20.40%	80.74%	77.19%
Plan's fiduciary net position	\$ 12,074,499,781	\$ 10,923,476,287	\$ 10,896,036,068	\$ 10,639,461,174
Plan fiduciary net position as a percentage of the total pension liability	73.31%	75.87%	79.88%	81.14%

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

GROSSMONT HEALTHCARE DISTRICT

Required Supplementary Information

Year Ended June 30, 2018

Schedule of Contributions-Defined Benefit Plan

	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	\$ 122,437	\$ 116,858	\$ 94,907	\$ 103,403
Contributions made in relation to the actuarially determined contributions	(122,437)	(116,858)	(520,048)	(103,403)
Contribution deficiency (excess)	\$ -	\$ -	\$ (425,141)	\$ -
Covered-employee payroll	\$ 647,147	\$ 572,792	\$ 552,613	\$ 542,801
Contributions as a percentage of covered-employee payroll	18.92%	20.40%	17.17%	17.61%

Notes to Schedule

Valuation Date:	6/30/2015	6/30/2013	6/30/2013
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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 four years are shown.

GROSSMONT HEALTHCARE DISTRICT

Budgetary Comparison Schedule – General Fund

Year Ended June 30, 2018

	Budget Amount		Actual	Variance with Final Budget
	Original	Final		
FUND BALANCE, JULY 1, AS RESTATED	\$ 19,826,055	\$ 19,826,055	\$ 19,826,055	\$ -
RESOURCES (INFLOWS)				
Property taxes	7,350,000	7,350,000	7,797,234	447,234
Investment income	90,000	90,000	154,807	64,807
Cogeneration lease revenue	1,480,576	1,480,576	1,377,457	(103,119)
Grant and other income	300,000	300,000	2,602,091	2,302,091
Amount available for appropriations	9,220,576	9,220,576	11,931,589	2,711,013
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
General government	1,286,160	1,286,160	1,536,756	(250,596)
Community healthcare	2,370,700	2,370,700	1,341,589	1,029,111
Library operating expense	350,364	350,364	314,336	36,028
Facility expense	418,010	418,010	374,415	43,595
Contributions to Grossmont Hospital	1,000,000	1,000,000	2,000,000	(1,000,000)
Capital outlay	-	-	-	-
Debt service:				
Principal	1,375,054	1,375,054	1,817,554	(442,500)
Interest and fiscal charges	105,522	105,522	98,024	7,498
Total charges to appropriations	6,905,810	6,905,810	7,482,674	(576,864)
NET CHANGES IN FUND BALANCE	2,314,766	2,314,766	4,448,915	2,134,149
FUND BALANCE, JUNE 30	\$ 22,140,821	\$ 22,140,821	\$ 24,274,970	\$ 2,134,149

Supplementary Information

The information found on pages 71-74 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, 2018

	<u>Budget Amount</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
FUND BALANCE, JULY 1, AS RESTATED	<u>\$ 11,454,382</u>	<u>\$ 11,454,382</u>	<u>\$ 11,454,382</u>	<u>\$ -</u>
RESOURCES (INFLOWS)				
Property taxes	13,584,900	13,584,900	13,739,419	154,519
Investment income	90,000	90,000	74,814	(15,186)
Amount available for appropriations	<u>13,674,900</u>	<u>13,674,900</u>	<u>13,814,233</u>	<u>139,333</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Debt service:				
Principal	2,585,000	2,585,000	2,585,000	-
Interest and fiscal charges	10,304,737	10,304,738	10,304,738	-
Total charges to appropriations	<u>12,889,737</u>	<u>12,889,738</u>	<u>12,889,738</u>	<u>-</u>
NET CHANGES IN FUND BALANCE	<u>785,163</u>	<u>785,162</u>	<u>924,495</u>	<u>139,333</u>
FUND BALANCE, JUNE 30	<u>\$ 12,239,545</u>	<u>\$ 12,239,544</u>	<u>\$ 12,378,877</u>	<u>\$ 139,333</u>

GROSSMONT HEALTHCARE DISTRICT

Proposition G Bond Funds

June 30, 2018

The ICBOC was comprised of the following members as of June 30, 2018:

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

GROSSMONT HEALTHCARE DISTRICT

Proposition G Bond Funds

June 30, 2018

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, 2018:

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	\$ 1,725,710	\$ -	\$ 1,725,710	\$ -	\$ -
Money Market Mutual Funds	24,808,694	24,808,694	-	-	-
	\$ 26,534,404	\$ 24,808,694	\$ 1,725,710	\$ -	\$ -

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, 2018 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 \$1,725,710 of U.S. Government Sponsored Entity securities at June 30, 2018 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	\$ 1,725,710	N/A	\$ 1,725,710	\$ -	\$ -
Money Market Mutual Funds	24,808,694	AAA	24,808,694	-	-
	\$ 26,534,404		\$ 26,534,404	\$ -	\$ -

GROSSMONT HEALTHCARE DISTRICT

Proposition G Bond Funds

June 30, 2018

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, 2018:

<u>Issuer Type</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Farm Credit Bank	U.S. Government Sponsored Entity	\$ 1,725,710
Federal National Mortgage Association	U.S. Government Sponsored Entity	\$ -

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, 2018, zero of the District's Proposition G deposits with financial institutions in excess of the Federal insurance limits were held in collateralized accounts.