

**FALLBROOK REGIONAL
HEALTH DISTRICT**

**ANNUAL FINANCIAL REPORT
WITH
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2019

FALLBROOK REGIONAL HEALTH DISTRICT

Annual Financial Report
For the Year Ended June 30, 2019

Table of Contents

	<u>Page</u>
Independent Auditor’s Report.....	1-2
Management’s Discussion and Analysis – Required Supplementary Information.....	3-9
Financial Statements:	
Statement of Net Position	10
Statement of Revenues, Expenses, and Changes in Net Position	11
Statement of Cash Flows	12
Notes to the Financial Statements	13-20

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of the Fallbrook Regional Health District
Fallbrook, California

Report on Financial Statements

We have audited the accompanying financial statements of the Fallbrook Regional Health District (the District), which comprise the statement of net position as of June 30, 2019, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

Our responsibility is to express an opinion 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk 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 opinion.

To the Board of Directors
of the Fallbrook Regional Health District
Fallbrook, California

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2019, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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.

Fechter & Company
Certified Public Accountants



Sacramento, California
October 25, 2019

FALLBROOK REGIONAL HEALTH DISTRICT

Management's Discussion and Analysis For the Year Ended June 30, 2019

The Fallbrook Regional Health District (District) has issued its annual financial report for the fiscal year ended June 30, 2019 in conformity with the format prescribed by the provisions of Government Accounting Standards Board Statement No. 34 (GASB 34). This report, Management's Discussion and Analysis, is an overview of the financial activities for the fiscal year and is an integral part of the accompanying Basic Financial Statements.

ACCOUNTING METHOD

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

THE BASIC FINANCIAL STATEMENTS

The District has only one fund, therefore the Basic Financial Statements do not reflect the activities of multiple funds. The Basic Financial Statements include the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position (Income Statement), and Statement of Cash Flows. Together with this report, the Basic Financial Statements provide information about the significant events, assumptions, and decisions resulting in the financial performance reflected in those statements.

The Statement of Net Position provides information regarding the financial position of the District, including its capital assets and debts.

The Statement of Revenues, Expenses, and Changes in Net Position (Income Statement) provides information regarding the revenues received by the District, and the expenses incurred in carrying out the District's programs. The ultimate focus of the income statement is the balance of effective current use of funds and planning for the future, as reflected by the amount of net income generated for the fiscal year.

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

FINANCIAL ACTIVITIES & FISCAL YEAR 2019 HIGHLIGHTS

Statement of Net Position

The District is a government entity operating under the Local Health Care District Law. In 1950, the residents of the area voted to establish the Fallbrook Healthcare District. In 2017, the District changed its name to the Fallbrook Regional Health District, since the building that housed the hospital, which closed in 2015, was sold.

FALLBROOK REGIONAL HEALTH DISTRICT

Management's Discussion and Analysis For the Year Ended June 30, 2019

A condensed version of the Statement of Net Position is presented in Table A below and the changes which occurred between Fiscal Year ended 2019 and 2018.

TABLE A

	2019	2018	Change
Assets:			
Cash and investments	\$ 9,327,108	\$ 9,179,933	\$ 147,175
All other assets	2,441,427	2,453,890	(12,463)
Total Assets	11,768,535	11,633,823	134,712
Liabilities:			
Current liabilities	44,375	71,940	(27,565)
Long-term liabilities	13,927	30,362	(16,435)
Total Liabilities	58,302	102,302	(44,000)
Net Position:			
Net investment in capital assets	2,384,799	2,118,390	266,409
Unrestricted	9,325,434	9,413,131	(87,697)
Total Net Position	\$ 11,710,233	\$ 11,531,521	\$ 178,712

The \$178,712 increase in Total Net Position reflects the change in net position for the year.

Statement of Revenues, Expenses, and Changes in Net Position

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

- *Community Health Contract Program* – The District administers a Community Health Contract program, giving a portion of the District's annual property tax revenues to non-profit health-related programs serving residents of the Fallbrook, Bonsall, Rainbow, and De Luz areas of northern San Diego County.
- *Community Collaboratives* – Representatives of the District's healthcare organizations and interested community members meet to network their programs to identify, develop, and initiate District-sponsored health-related community programs and to address concerns. It also provides an additional education opportunity for guest presentations relative to health, health services, and health conditions, ranging in scope from Aids and Alzheimer's to suicide, drug abuse, and legislative issues impacting health and well-being.

FALLBROOK REGIONAL HEALTH DISTRICT

Management's Discussion and Analysis For the Year Ended June 30, 2019

Table B, below, is a condensed version of the Income Statement; it summarizes the District's revenue and expenses, and compares Fiscal Year 2019 results to Fiscal Year 2018.

<u>TABLE B</u>			
	<u>2019</u>	<u>2018</u>	<u>Change</u>
Revenues:			
Property tax revenue	\$ 1,972,693	\$ 1,874,033	\$ 98,660
Total Revenues	<u>1,972,693</u>	<u>1,874,033</u>	<u>98,660</u>
Expenses:			
Community Health Contracts	932,916	865,710	(67,206)
Blue Zone projects	15,018	80,903	65,885
Direct care services	120,000	130,000	10,000
Administrative services	376,465	409,055	32,590
Salaries and benefits	373,044	341,440	(31,604)
Management and maintenance	280,145	164,477	(115,668)
Depreciation	52,173	8,120	(44,053)
Total Expenses	<u>2,149,761</u>	<u>1,999,705</u>	<u>(150,056)</u>
Operating (Loss)	<u>(177,068)</u>	<u>(125,672)</u>	<u>248,716</u>
Non-Operating Income (Expenses):			
Other income	368,965	85,200	283,765
Other expenses	(13,185)	(175,943)	162,758
Total Non-Operating Income	<u>355,780</u>	<u>(90,743)</u>	<u>446,523</u>
Change in Net Position	<u>\$ 178,712</u>	<u>\$ (216,415)</u>	<u>\$ 395,127</u>

Property taxes drive the District's operations and are its primary source of revenues. The increase of \$98,660 in property taxes reflects the continuing health of the real estate market and the general state of the economy within the District's service area.

Total non-operating income increased by \$446,523 due to the increase in interest earnings available from savings and investments set aside by the District.

The Community Health Contract allocation increased by \$67,206 because the amounts requested and provided through the Community Health Contract process vary from year-to-year.

Salaries and benefits increased by \$31,604 due to a change in the position of Executive Director.

FALLBROOK REGIONAL HEALTH DISTRICT

Management's Discussion and Analysis For the Year Ended June 30, 2019

Administrative services reflect an overall decrease of \$32,590. There was an increase to general counsel in the amount of \$40,993, due to the following: HR issues pertaining to the change in Executive Director position; medical records retention and responses; an RFP for the Elder Street sidewalk project contractor; an RFP for a consultant for the Major Use Permit for the Mission Road property; an RFP for a consultant for the roofing specifications on all three properties; and the hiring process of a new Executive Director. In addition, there were consultant fees for remapping the District, in preparation for going to zone-based elections. Independent contract services increased by \$12,225, due to added interim director hours required from January through May, and by \$28,273 due to the addition of temporary staffing to accommodate the planning and events at the Mission Road property. Consulting fees decreased by \$28,247, due to a pivot in the District's outreach and communication services. Increased participation by Board members for District-sponsored events, meetings, conferences, and webinars resulted in a \$3,200 increase in stipends. Information technology and web services decreased by \$5,348. Office expense increased by \$2,208, largely due to the groundbreaking event at the Mission Road property.

Direct Care Services were supplemented monthly, in accordance with an extended Memorandum of Understanding (M.O.U.), to provide economic support for urgent care services in the amount of \$10,000 per month, which was a \$10,000 decrease from last fiscal year.

CAPITAL ASSETS

At June 30, 2019, the District had \$2,464,817 in capital assets and \$80,018 accumulated depreciation resulting in \$2,384,799 net capital assets

A summary of the activity and balances in capital assets is presented in Table C below:

TABLE C

	<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Reclassifications</u>	<u>Balance</u> <u>June 30, 2019</u>
Capital assets, not depreciated:					
Land	-	-	-	\$ 644,477	644,477
Capital assets, being depreciated:					
Buildings and improvements	\$ 2,092,659	\$ 21,140	\$ -	\$ (353,237)	\$ 1,760,562
Equipment	53,576	6,202	-	-	59,778
Subtotal	<u>2,146,235</u>	<u>27,342</u>	<u>-</u>	<u>(353,237)</u>	<u>1,820,340</u>
Accumulated depreciation	<u>(27,845)</u>	<u>(52,173)</u>	<u>-</u>	<u>-</u>	<u>(80,018)</u>
Capital assets, net	<u>\$ 2,118,390</u>	<u>\$ (24,831)</u>	<u>\$ -</u>	<u>\$ 291,240</u>	<u>\$ 2,384,799</u>

FALLBROOK REGIONAL HEALTH DISTRICT

Management's Discussion and Analysis For the Year Ended June 30, 2019

ECONOMIC OUTLOOK

The Fiscal Year 2018/2019 budget reflects an 5-6% increase in revenues, as property values/taxes have increased. Interest income grew substantially due to market increases. Capital expenditures are expected to increase in the coming fiscal year, due to renovations and improvements to all three properties. The Community Investment Fund will be used to complete such renovations and improvements.

MAJOR INITIATIVES

COMMUNITY HEALTH CONTRACT PROGRAMS 2018-2019

The Community Health Contracts (CHC) undertaken each year by the District are open for nonprofit 501(c)(3) agencies. Those who are awarded CHCs must meet strict criteria and provide both comprehensive financial and service reports quarterly that demonstrate measurable outcomes.

The District's focus: Prevention, Education, Treatment, and Ancillary Services

- Amount requested: \$1,442,947.43
- Amount funded: \$910,415.97, plus ambulance funds to North County Fire per existing grant agreement
- Twenty Community Health Contracts awarded:
 - 6 Youth programs
 - 5 Seniors
 - 9 All ages

YOUTH

- **Boys and Girls Club, Summer Water Safety Program- \$9,240.00:** Aims to inspire and enable youth members, from ages 5 to 18, on how to be safe around water and realize their full potential as productive, caring and responsible citizens.
- **Boys and Girls Club, Triple Play-\$36,750.00:** Allows youths ages 5 to 14 to learn skills such as living a full productive life in good health, engaging in positive social behaviors, to forming good habits and setting goals throughout their lives.
- **Fallbrook Citizens Crime Prevention Committee, GANAS Mentoring Program-\$10,500.00:** Provides a comprehensive approach to crime awareness, prevention, and reduction. It provides health education and career development information, promotes daily physical activity, and helps mentees develop an interest in taking responsibility for one's community. This program targets youth ages 9 to 17 that live in high crime and economically challenged neighborhoods.
- **Fallbrook Union High School District, Fallbrook High School Wellness Center-\$20,000.00:** The goal of this project is to link student health and learning, and desires to provide a comprehensive program promoting healthy eating and physical activity for district students.

FALLBROOK REGIONAL HEALTH DISTRICT

Management's Discussion and Analysis For the Year Ended June 30, 2019

- **Mental Health Systems, Fallbrook Youth Advocacy Coalition-\$9,711.45:** This program improves the lives of individuals, families, and communities impacted by substance abuse and behavioral health disorders and serves the youth mostly 12-25 years of age.
- **UCSD EyeMobile for Children, EyeMobile for Children @ UC San Diego/Shiley Eye Institute - \$8,925.00:** Provides vision care services for low-income children who otherwise would not have been able to receive this much-needed health care

SENIORS

- **Foundation for Senior Care, Senior Care Advocacy Program - \$62,830.16:** Provides programs and resources enabling seniors to enhance their well-being and safely age at home.
- **Foundation for Senior Care, Senior Transportation Services - \$72,169.65:** Provides accessible, inexpensive reliable transportation that allows their clients to determine when to make their medical appointments and other basic needs at minimal costs and no delays. Helps their riders stay active, independent, and in control of their lives.
- **Foundation for Senior Care, Door-Through-Door, Hospital to Home - \$53,464.64:** Provides seniors and disabled adults ranging from ages 27 to 105, a bridge of care when they experience a hospitalization or stay at a skilled nursing facility and then discharged home to recover.
- **Foundation for Senior Care, Respite Support at the Adult Day Care - \$31,062.57:** The Fallbrook Day Care Center, "The Club", provides resources for seniors and the disabled, ages ranging from 27 to 105, to have an enriched life, provides socialization, and allows for respite support for those caregivers who work so hard caring for their family members.
- **Fallbrook Senior Center Service Club, Inc., Home Delivered Meals Program - \$78,750:** This program brings awareness of the importance of a healthy diet and delivers food to seniors in our District.

ALL AGES

- **Community Health Systems, Inc., Integrated Women's Health - \$105,000.00:** Provides health screenings, comprehensive perinatal health, and integrated primary care services along with oral health and behavioral health services to underserved women ages 18-64 in a dignified setting.
- **Fallbrook Food Pantry, Preventing Hunger in the Greater Fallbrook Area - \$125,600.00:** Provides an adequate and nutritious supply of food to any individuals in the community who are in need.
- **Fallbrook Land Conservancy, Expanding Community Wellness Walking Resource - \$10,000.00:** This program allows the Land Conservancy to preserve and enhance the rural character and natural beauty of our area through the permanent protection of open space and related activities, for all ages.
- **Fallbrook Smiles Project, Fallbrook Smiles Project - \$75,075.00:** The Fallbrook Smiles Program was created to improve the communities of Fallbrook, Rainbow, and Bonsall by helping the residents of all ages and genders achieve optimal physical health through dental and medical screenings.

FALLBROOK REGIONAL HEALTH DISTRICT

Management's Discussion and Analysis For the Year Ended June 30, 2019

- **Healthy Adventures, Fallbrook Community Wellness - \$9,450.00:** Provides family-friendly wellness workshops on exercise, gardening, cooking and living a healthy lifestyle. It will expand and provide CPR/First-Aid classes and health screenings with follow-up coaching.
- **Jeremiah's Ranch, Jeremiah's Ranch Support Group - \$15,487.50:** This program provides an opportunity to share information, support, and resources to family members, care providers, and extended family members of individuals with developmental disabilities, in a monthly meeting.
- **Michelle's Place Breast Cancer Resource Center, Breast Health Assistance - \$25,200.00:** This program provides breast health resources, education, navigation, financial assistance, transportation, and support to underinsured and underserved women and their families dealing with breast cancer.
- **Palomar Family Counseling Service, Inc., Healthy Bodies, Healthy Minds - \$82,950.00:** This program will address health disparities of childhood obesity and behavioral health through prevention and treatment: parent workshops, presentations on healthy lifestyles, individual counseling, and counseling services and parenting classes at the Wellness Center.
- **REINS Therapeutic Horsemanship Program, Behavioral Health & Wellness Therapy Program - \$68,250.00:** Provides advanced physical, mental, and emotional therapy by specialized, highly educated therapists. The students usually ride almost 3 miles on the Equine Therapists.

During the fiscal year 2018/2019, the Board of Directors approved distribution of the foregoing amounts to qualified applicants, plus funds to North County Fire as the 4th installment of a \$100,000 grant agreement. This brings the total amount granted by the District since June 1999 to \$9,756,690.64.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

Fallbrook Regional Health District
138 South Brandon Road
Fallbrook, CA 92028
(760) 731-9187 Office
(760) 731-9131 Fax
Email: bookkeeper@fallbrookhealth.org
Website: www.fallbrookhealth.org

FINANCIAL STATEMENTS

**FALLBROOK REGIONAL HEALTHCARE DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2019**

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 2,330,463
Investments	6,996,645
Taxes receivable	21,137
Interest receivable	8,925
Prepaid expenses	<u>26,566</u>
Total current assets	<u>9,383,736</u>
Non-current assets:	
Assets held for resale (Note 10)	-
Capital assets, net of accumulated depreciation	<u>2,384,799</u>
Total non-current assets	<u>2,384,799</u>
TOTAL ASSETS	<u><u>\$ 11,768,535</u></u>

LIABILITIES AND NET POSITION

Current liabilities:	
Accrued liabilities	<u>\$ 44,375</u>
Total current liabilities	<u>44,375</u>
Compensated absences	<u>13,927</u>
Total liabilities	58,302
Net Position	
Invested in capital assets, net	2,384,799
Unrestricted	<u>9,325,434</u>
Total net position	<u>11,710,233</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 11,768,535</u></u>

The accompanying notes are an integral part of these financial statements.

**FALLBROOK REGIONAL HEALTHCARE DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019**

Operating revenues:	
Property taxes	<u>\$ 1,972,693</u>
Total operating revenues	<u>1,972,693</u>
Operating expenses:	
Community healthcare programs	932,916
Blue Zone projects	15,018
Direct care services	120,000
Administrative services	376,466
Salaries and benefits	373,044
Management and maintenance	280,144
Depreciation	<u>52,173</u>
Total operating expenses	<u>2,149,761</u>
Operating income (loss)	<u>(177,068)</u>
Non-operating revenues and (expenses):	
Interest and investment income	311,365
Lease income	57,600
Other expenses	<u>(13,185)</u>
Total non-operating revenues and (expenses)	<u>355,780</u>
Change in net position	178,712
Beginning net position	<u>11,531,521</u>
Ending net position	<u><u>\$ 11,710,233</u></u>

The accompanying notes are an integral part of these financial statements.

**FALLBROOK REGIONAL HEALTHCARE DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019**

Cash flows from operating activities:

Cash received from County of San Diego for property taxes	\$ 1,968,723
Cash payments to vendors for goods and services	(825,620)
Cash payments to employees for services	(389,479)
Cash payments to grantees for programs	<u>(932,916)</u>
Net cash (used in) operating activities	<u>(179,292)</u>

Cash flows from capital and related financing activities:

Proceeds from lease of property	<u>57,600</u>
Net cash provided by capital and related financing activities	<u>57,600</u>

Cash flows from investing activities:

Fixed asset additions	(27,342)
Other capital outlay activity	(13,185)
Interest revenue	<u>33,245</u>
Net cash (used in) investing activities	<u>(7,282)</u>

Net (decrease) in cash and cash equivalents	(128,974)
Cash and cash equivalents, beginning of year	<u>2,459,437</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,330,463</u></u>

Reconciliation of operating income (loss) to net cash provided by (used) by operating activities:

Operating (loss)	\$ (177,068)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:	
Depreciation	52,173
Changes in operating assets and liabilities:	
Tax receivable	(3,970)
Reimbursement receivable	-
Prepaid items and deposits	(6,427)
Accrued liabilities	(27,565)
Compensated absence	<u>(16,435)</u>
Net cash (used) by operating activities	<u><u>\$ (179,292)</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FALLBROOK REGIONAL HEALTH DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2019

Note 1: **Summary of Significant Accounting Policies**

The financial statements of the Fallbrook Regional Health District (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as it applies to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. **Reporting Entity**

The District, formerly known as the Fallbrook Hospital District, is organized under the provisions of the Health and Safety Code of the State of California to provide and operate health care facilities in Fallbrook, California, an unincorporated area within the County of San Diego, California (County).

B. **Basis of Accounting and Measurement Focus**

The financial statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows.

The Statement of Net Position reports separate sections for Deferred Outflows of Resources and Deferred Inflows of Resources, where applicable.

Deferred Outflows of Resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as revenue until that time.

These financial statements are accounted for using the “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets, are included in the accompanying Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents the change in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Operating revenues are those revenues that are generated from property tax only. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

FALLBROOK REGIONAL HEALTH DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2019

Note 1: **Summary of Significant Accounting Policies** - continued

C. Investments

Investment Valuation

Highly liquid investments with maturities of one year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

State Investment Pool

The District participates in the Local Agency Investment Fund (LAIF), an investment pool managed by the State of California. LAIF has invested a portion of the pool funds in Structured Notes and Asset-Backed Securities. These Structured Notes and Asset-Backed Securities are subject to market risk as a result of changes in interest rates. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments.

CalTrust Investment

The District also participates in CalTrust, which is a pool of diversified marketable bonds; including federal, federal agency, corporate, and California municipal bonds. The bonds are pooled in a Medium-Term account. CalTrust investments are subject to market risk as a result of changes in interest rates.

D. Property Taxes

Property taxes are levied on March 1 and are payable in two installments: November 1 and February 1 of each year. Property taxes become delinquent on December 10 and April 10, for the first and second installments, respectively. The lien date is March 1. The County of San Diego, California (County) bills and collects property taxes and remits them to the District according to a payment schedule established by the County.

The County is permitted by State law to levy on properties at 1% of full market value (at time of purchase) and can increase the property tax rate at no more than 2% per year. The District receives a share of this basic tax levy proportionate to what it received during the years 1976-1978.

Property taxes are recognized in the fiscal year for which the taxes have been levied. No allowance for doubtful accounts was considered necessary.

FALLBROOK REGIONAL HEALTH DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2019

Note 1: **Summary of Significant Accounting Policies** - continued

F. Capital Assets

The District's capital assets are stated at the lower of cost or fair market value. Depreciation has been provided over the estimated useful lives of the assets using the straight-line method, generally 3-10 years. The capitalization threshold is \$500.

G. Compensated Absences

It is the District's policy to permit contract employees to accumulate earned but unused vacation leave time. Non-contract employees may accumulate earned but unused vacation leave time up to a maximum of thirty (30) days. All employees may accrue unused sick leave time up to a maximum of thirty (30) days. Upon termination, all employees are entitled to a lump sum payment of 25% of accrued sick leave, not to exceed fifteen (15) days. At June 30, 2019, compensated absences balance was \$13,927.

H. Net Position

Net position represents the difference between all other elements in the statement of net position and should be displayed in the following three components:

Net Investment in Capital Assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

At June 30, 2019, the District had no restricted component of net position.

Use of Restricted and Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted component of net position is available, the District's policy is to apply restricted component of net position first.

FALLBROOK REGIONAL HEALTH DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2019

Note 1: **Summary of Significant Accounting Policies** - continued

I. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Note 2: **Cash and Cash Equivalents**

The following is a summary of cash and cash equivalents at June 30, 2019:

	<u>Amount</u>
Cash and Cash Equivalents:	
Bank deposits	\$ 964,529
Petty cash	84
LAIF	<u>1,365,850</u>
Total Cash and Cash Equivalents	<u><u>\$ 2,330,463</u></u>

A. Cash Deposits

The carrying amount of the District's cash deposits was \$964,529 as of June 30, 2019. Bank balances before reconciling items were \$1,019,854 at that date, which were fully insured or collateralized with securities held by the pledging financial institutions in the District's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the District's cash by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash is considered to be held in the District's name. The market value of pledged securities must equal at least 110% of the District's cash. California law also allows financial institutions to secure the District's cash by pledging first trust deed mortgage notes having a value of 150% of the District's total cash.

FALLBROOK REGIONAL HEALTH DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2019

Note 2: **Cash and Cash Equivalents** - continued

B. Local Agency Investment Funds

The District participates in The Local Agency Investment Fund (LAIF), a voluntary program for California’s local governments and special districts. Accordingly, the District has adopted the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requiring all applicable investments to be reported at fair value as provided by the State Treasurer. The Local Investment Advisory Board (LIAB), consisting of five members, provides oversight for LAIF. Included in the LAIF’s investment portfolio are U.S. Treasury bills and notes, certificates of deposit, time deposits, mortgage-backed securities, and commercial paper.

As of June 30, 2019, the District had a balance of \$1,365,850 invested in LAIF.

Note 3: **Investments**

The District is generally authorized under state statutes to invest in:

- Obligations of the U.S. Government, its agencies, and instrumentalities
- Certificates of deposit and other evidences of deposit at commercial banks and savings and loan institutions
- Prime banker’s acceptances
- Prime commercial paper
- Negotiable certificates of deposit
- Repurchase agreements
- Money market funds
- State of California Local Agency Investment Fund
- Medium-term notes

The following is summary of investments grouped by maturity date at June 30, 2019:

	Credit Rating	Amount
	<hr/>	<hr/>
Investments:		
CalTrust	Not Rated	<u>6,996,645</u>

FALLBROOK REGIONAL HEALTH DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2019

Note 4: **Capital Assets**

Capital assets activities for the year ended June 30, 2019, are as follows:

	Balance July 1, 2018	Additions	Deletions	Reclassifications	Balance June 30, 2019
Capital assets, not depreciated:					
Land	-	-	-	\$ 644,477	644,477
Capital assets, being depreciated:					
Buildings and improvements	\$ 2,092,659	\$ 21,140	\$ -	\$ (353,237)	\$ 1,760,562
Equipment	53,576	6,202	-	-	59,778
Subtotal	2,146,235	27,342	-	(353,237)	1,820,340
Accumulated depreciation	(27,845)	(52,173)	-	-	(80,018)
Capital assets, net	\$ 2,118,390	\$ (24,831)	\$ -	\$ 291,240	\$ 2,384,799

Depreciation expense for Fiscal Year ended June 30, 2019 totaled \$52,173.

Note 5: **Insurance**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District carries insurance through Special District Risk Management Authority (SDRMA). SDRMA is a risk pooling joint powers authority formed under the California Government Code to provide insurance coverage for SDRMA's member districts. SDRMA purchases excess insurance from commercial carriers to reduce its exposure to large losses.

There were no instances in the past three years where a settlement exceeded the District's coverage provided through SDRMA.

FALLBROOK REGIONAL HEALTH DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2019

Note 6: **Operating Lease Commitment**

The District is under contract for one operating lease for its copy machine, located in the administrative office. The minimum future equipment rental payments under this non-cancelable, unsecured 60-month operating lease as of June 30, 2019 are as follows:

Fiscal Year Ending June 30,	Minimum Lease Commitments
2020	8,664
2021	8,664
2022	8,664
2023	6,498
2024	-
Total	32,490

Note 7: **Defined Contribution Pension Plan**

The District has a Section 408(p) defined contribution pension plan as allowed under the Internal Revenue Code. The plan type sponsored by the District is the Savings Incentive Match Plan for Employees of Small Employers (SIMPLE), which was effective on January 6, 2006. The Plan is a defined contribution retirement plan in which the employer’s contribution is nondiscretionary and is based on a formula that is not related to profit. The Plan sponsor guarantees no benefit and bears no investment risk while the Plan participants bear all investment risk and have no guaranteed level of benefits.

Eligible non-contract employees may begin participating in the Pension Plan following a one-year probationary employment period. The Administrator may begin participating the first day of the month following the employment date of work. The Plan is entirely funded by District contributions of up to 3% of the participants’ gross pay for employees hired on or after March 1, 2006 who contribute up to 3% of their salary to the deferred compensation plan. Participants are fully vested upon joining the plan. Plan provisions and contribution requirements are established and may be amended by the District. Participants are eligible to begin receiving benefits at age 55.

The District’s payroll for employees covered by the Plan for the year ended June 30, 2019, was \$0. Total employer contributions paid by the District amounted to \$0.

Funds paid into the Plan by the District are placed in a SIMPLE IRA account at a financial institution determined by the Plan participants. The financial information of the defined contribution pension plan is not in the accompanying financial statements.

FALLBROOK REGIONAL HEALTH DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2019

Note 8: **Subsequent Events**

Subsequent events have been evaluated through October 25, 2019, the date the financial statements were available to be issued, and determined that there were no events occurring subsequent to June 30, 2019 that would have a material impact on the results of operations or its financial position.