

Fallbrook Healthcare District

Fallbrook, California

*Basic Financial Statements and
Independent Auditors' Report*

For the year ended June 30, 2009

Fallbrook Healthcare District

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Caporicci & Larson
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the Fallbrook Healthcare District
Fallbrook, California

We have audited the accompanying basic financial statements of the Fallbrook Healthcare District (District) as of and for the year ended June 30, 2009, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

The accompanying Required Supplementary Information, such as Management's Discussion and Analysis as listed in the table of contents, is not a required part of the basic financial statement but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on the Required Supplementary Information.

Caporicci & Larson

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Fallbrook Healthcare District (District) has issued its financial statements for the fiscal year ended June 30, 2009 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 Assets.

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 Assets, Statement of Revenues, Expenses and Changes in Net Assets (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 Assets provides information regarding the financial position of the District, including its capital assets and debts.

The Statement of Revenues, Expenses and Changes in Net Assets (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 2009 HIGHLIGHTS

The Statement of Net Assets

The District is a government entity operating under the Local Health Care District Law. In 1950, the residents of the area voted to establish, build and operate Fallbrook Hospital. In 1971, the hospital was enlarged to its present 47-bed capacity.

Since November 1998, the hospital has been leased under a 30-year agreement to Community Health Systems (CHS). The transaction was approved overwhelmingly by over 95% of District voters. A condensed version of the Statement of Net Assets is presented in Table A below and the changes which occurred between Fiscal Year ended 2009 and 2008.

Table A

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Assets:			
Investments	\$ 8,243,038	\$ 7,078,140	\$ 1,164,898
All Other Assets	<u>53,587</u>	<u>69,934</u>	<u>(16,347)</u>
Total Assets	<u>\$ 8,296,625</u>	<u>\$ 7,148,074</u>	<u>\$ 1,148,551</u>
Liabilities:			
Long Term Liabilities	\$ -	\$ -	\$ -
All other Liabilities	<u>4,840</u>	<u>14,612</u>	<u>(9,772)</u>
Total Liabilities	<u>\$ 4,840</u>	<u>\$ 14,612</u>	<u>\$ (9,772)</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 6,178	\$ 4,114	\$ 2,064
Unrestricted	<u>8,285,607</u>	<u>7,129,348</u>	<u>1,156,259</u>
Total Net Assets	<u>\$ 8,291,785</u>	<u>\$ 7,133,462</u>	<u>\$ 1,158,323</u>

The \$1,158,323 increase in Total Net Assets reflects \$1,158,323 in net income for the year.

The Statement of Revenues, Expenses & Changes in Net Assets

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

- Grant Program – The District administers a grant program, giving a portion of the District's annual property tax revenues to non-profit health-related programs serving residents of the Fallbrook, Bonsall and De Luz areas of northern San Diego County.
- Community Health Fair – The purpose of the Fair is to provide health screenings and access to information to residents that are readily accessible in the District for the entire community.
- Community Collaboratives – Representatives of the District's healthcare organizations and interested community members meet to network their programs, and identify, develop and initiate District sponsored health related community programs.

Table B, below, is a condensed version of the Income Statement; it summarizes the District's revenue and expenses, and compares Fiscal Year 2009 results to Fiscal Year 2008.

Table B

	<u>2009</u>	<u>2008</u>	<u>Change</u>
REVENUES:			
Property tax revenue	\$ 1,630,104	\$ 1,591,450	\$ 38,654
Total revenue	<u>1,630,104</u>	<u>1,591,450</u>	<u>38,654</u>
EXPENSES:			
Grant allocations	417,524	374,146	43,378
Salaries and Benefits	73,520	66,067	7,453
Administrative services	110,535	227,172	(116,637)
Community Programs	20,124	13,736	6,388
Depreciation	1,953	1,576	377
Total expenses	<u>623,656</u>	<u>682,697</u>	<u>(59,041)</u>
Operating income	<u>1,006,448</u>	<u>908,753</u>	<u>97,695</u>
NON-OPERATING INCOME (EXPENSES):			
Other Income	162,229	269,019	(106,790)
Other expenses	(10,354)	(11,561)	1,207
Total nonoperating income	<u>151,875</u>	<u>257,458</u>	<u>(105,583)</u>
Change in net assets	<u>\$ 1,158,323</u>	<u>\$ 1,166,211</u>	<u>\$ (7,888)</u>

Property taxes drive the District's operations and are its primary source of revenues. The minimal increase of \$38,654 of property tax revenue reflected the beginning of the downturn in the real estate market within the District's service area.

Total non-operating income decreased \$106,790 due to the reduction of interest rates earned on the investments of the District.

The Grant Allocation increased \$43,378, because the amounts requested and provided through the grant process varies from year to year.

Salaries increased \$7,453 from 2008 to 2009, due to the implementation of additional District sponsored projects, with the corresponding increase in salaries.

Administrative expenses decreased \$116,637, primarily due to one time expenses in 2008 of \$113,600, for the development of Long Range Strategic and Contingency Plans.

CAPITAL ASSETS

At June 30, 2008 the District had \$11,047 in capital assets and \$4,869 accumulated depreciation resulting in \$6,178 net capital assets.

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

Table C

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Furniture & Equipment	<u>\$ 7,734</u>	<u>\$ 4,017</u>	<u>\$ (704)</u>	<u>\$ 11,047</u>
Subtotal	<u>7,734</u>	<u>4,017</u>	<u>-</u>	<u>11,047</u>
Accumulated depreciation	<u>(3,620)</u>	<u>(1,953)</u>	<u>704</u>	<u>(4,869)</u>
Equipment, net	<u><u>\$ 4,114</u></u>	<u><u>\$ 2,064</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,178</u></u>

DEBT ADMINISTRATION

The District has no debt.

ECONOMIC OUTLOOK

The Fiscal Year 2009/2010 budget reflects decreased revenues due to projected decreases in property taxes and decreased interest income, partially offset by lowered operating expenses. Capital expenditures are budgeted at \$0.

MAJOR INITIATIVES

Fallbrook Healthcare District through its "Community Healthcare Programs", addresses many healthcare concerns and issues. Services to the District residents are provided across all ethnic, economic, age and gender lines to bring healthcare access and opportunity to as many at risk citizens as possible. The District uses a three pronged approach toward the Community's needs: the Grant Programs, the Community Collaborative Programs, and Sponsorships.

The major focus and allocation of funds is to the Grant Programs, which has reflected a very favorable impact within the community population.

The Grant Program, through a qualifying application process, funds non-profit community agencies that provide services, education, and other healthcare programs to District residents.

The following programs were funded in the 2008/2009 grant cycle.

- Funding for clinic primary medical and dental care to the uninsured and under-insured population, which would otherwise go untreated.
- Food Pantry providing nutritious basic food to low income families and/or the elderly.
- Think First program for youth, kindergarten through twelfth grades, which effectively promotes safe and healthy choices to avoid accident, injury or even death. This program was presented through the Fallbrook public school system, reaching over 7,000 students, staff and parents.

- Mental/Behavioral health services serving adults and children with counseling and/or appropriate medication, which would otherwise go untreated.
- Funding assistance for a trauma intervention program (TIP), which provides emergency assistance to trauma victims and survivors.
- Assistance in funding the transportation of senior citizens and the disabled for their healthcare needs.
- A program to assist in providing resources for in-home care for low and moderate income citizens.
- Funding for purchase and delivery of food, through both the congregate and home delivered meals programs for seniors in need within the community.
- Therapeutic programs which focus on individualized treatment using the riding of horses.
- Fallbrook Smiles Project for continuation of dental screening and dental care education for all second graders in the District.
- Automatic Electronic Defibrillators (AEDs) installation and training of staff on its use and application for the Fallbrook Sports Park.
- Establishment and development of a support center for high school students affected by Asperger's Syndrome.
- Initiation and delivery of Save Our Children's Sight, an ophthalmic screening program, for pre-school children.
- Assistance in providing funding for the storage of equipment used for the community's disabled.
- A program to develop a youth coalition to reduce the early onset of underage drinking and other drug use. This program uses law enforcement and other agencies to identify risk, and to promote an environment that will enable youth to make healthy responsible decisions.

During the fiscal year 2008/2009, the District received a total of \$417,524 in grant requests and approved distribution of \$417,524. This brings the total amount granted by the District since June 1999 to \$3,062,924.

Following were the results of the Community Collaborative projects:

- Development, production and distribution of 8000 Fallbrook Community Resource Directories to healthcare providers, service agencies, schools and churches.
- Organ Donor Seminar providing community members education on the value, process and importance of organ donation and transplantation. This program also provided continuing education for EMS/Paramedics and Registered Nurses.
- Co-sponsorship of an annual PSA screening event.
- Healthcare Hero program was initiated for the recognition of individuals who go "above and beyond" in service for the health and well-being of the citizens of the Fallbrook Community.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

Fallbrook Healthcare District

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BASIC FINANCIAL STATEMENTS

Fallbrook Healthcare District
Statement of Net Assets
June 30, 2009

ASSETS

Current assets:

Cash and cash equivalents	\$ 232,173
Investments	8,010,865
Tax receivable	15,766
Interest receivable	29,929
Prepaid items and deposits	<u>1,714</u>
Total current assets	8,290,447

Capital assets, net of accumulated depreciation 6,178

Total assets 8,296,625

LIABILITIES

Accounts payable	2,541
Accrued liabilities	<u>2,299</u>
Total liabilities	<u>4,840</u>

NET ASSETS

Invested in capital assets	6,178
Unrestricted	<u>8,285,607</u>
Total net assets	<u>\$ 8,291,785</u>

Fallbrook Healthcare District
Statement of Revenues, Expenses and Changes in Net Assets
For the year ended June 30, 2009

OPERATING REVENUES:

Property tax revenue	\$ 1,630,104
Total operating revenues	<u>1,630,104</u>

EXPENSES:

Grant allocations	437,648
Administrative services	110,535
Salaries and benefits	73,520
Depreciation	1,953
Total expenses	<u>623,656</u>
Operating income	<u>1,006,448</u>

NONOPERATING INCOME (EXPENSES):

Interest income	158,579
Other income	3,650
Other expenses	<u>(10,354)</u>
Total nonoperating income	<u>151,875</u>
Change in net assets	1,158,323

NET ASSETS:

Beginning of year	<u>7,133,462</u>
End of year	<u>\$ 8,291,785</u>

Fallbrook Healthcare District
Statement of Cash Flows
For the year ended June 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from property owners	\$ 1,624,994
Cash payments to vendors for goods and services	(119,376)
Cash payments to employees for services	(73,756)
Cash payments to grantees for programs	(437,648)
Net cash provided (used) by operating activities	<u>994,214</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of capital assets	(4,017)
Net cash provided (used) by capital and related financing activities	<u>(4,017)</u>

CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:

Cash payment for other expenses	(6,704)
Net cash provided (used) by noncapital and related financing activities	<u>(6,704)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest revenue	181,405
Net cash provided (used) by investing activities	<u>181,405</u>
Net change in cash, cash equivalents and investments	1,164,898

CASH, CASH EQUIVALENTS AND INVESTMENTS:

Beginning of year	7,078,140
End of year	<u>\$ 8,243,038</u>

**RECONCILIATION OF CASH, CASH EQUIVALENTS AND INVESTMENTS
TO STATEMENT OF NET ASSETS:**

Cash and cash equivalents	\$ 232,173
Investments	8,010,865
	<u>\$ 8,243,038</u>

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating income	\$ 1,006,448
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	1,953
Changes in operating assets and liabilities:	
Tax receivable	(5,110)
Prepaid items and deposits	695
Accounts payable	(9,536)
Accrued liabilities	(236)
Net cash provided (used) by operating activities	<u>\$ 994,214</u>

See accompanying Notes to Basic Financial Statements.

Fallbrook Healthcare District
Notes to Basic Financial Statements
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Fallbrook Healthcare District (District) have been prepared in conformity with generally accepted accounting principles (GAAP) as 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 basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

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

C. Cash, Cash Equivalents and Investments

Cash Equivalents

The District has considered all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Investment Valuation

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, 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.

Fallbrook Healthcare District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Cash, Cash Equivalents and Investments, Continued

Deposits and Investment Risk Disclosures

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*, certain disclosure requirements, if applicable, for deposit and investment risks are specified for the following areas:

- Interest Rate Risk
- Credit Risk
 - ◆ Overall
 - ◆ Custodial Credit Risk
 - ◆ Concentrations of Credit Risk
- Foreign Currency Risk

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 taxes at 1% of full market value (at time of purchase) and can increase the property tax rate 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 tax revenue is recognized in the fiscal year for which the taxes have been levied.

No allowance for doubtful accounts was considered necessary.

E. Income Taxes

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

F. Capital Assets

The District's capital assets are stated at cost. 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.

Fallbrook Healthcare District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Net Assets

Net assets can be classified into the following categories:

- Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation, reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.
- Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
- Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

The District had no restricted net assets.

H. 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.

2. LEASE AGREEMENT WITH FALLBROOK HOSPITAL CORPORATION

Effective November 1, 1998, the District entered into a Lease Agreement (Agreement) with Fallbrook Hospital Corporation (Corporation), a healthcare system located in the County to operate the Fallbrook Hospital for the benefit of District residents. While the hospital license remains in the name of the District, the Corporation has the responsibility of maintaining the license, maintaining the hospital in good condition, maintaining appropriate accreditations and adequate insurance, and providing quarterly reports to the District.

In connection with the Agreement, 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 (Transfer). In November 1998, the District exercised its option to have the Corporation prepay the receivable to the District. A portion of the proceeds from the prepayment and assets held by the trustee under the indentures were used by the District to retire its 1985 Series A Insured Refunding Revenue Bonds (1985 Bonds), with the remainder placed irrevocably into an escrow deposit account to be used to satisfy scheduled payments of principal and interest on the District's Series 1987A Revenue Bonds (1987 Bonds) through 1998, when the 1987 Bonds will be redeemed. At June 30, 1998, the 1987 Bonds were redeemed and the outstanding balance was zero.

Fallbrook Healthcare District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

2. LEASE AGREEMENT WITH FALLBROOK HOSPITAL CORPORATION, Continued

In accordance with the Lease Agreement, the advance refunding of the 1985 Bonds and the 1987 Bonds constitutes a prepayment of rent. Accordingly, rental income to the District from the Corporation for the remaining term of the Agreement is \$1.00 per year.

At the end of the Agreement's 30-year term, the Corporation will transfer back to the District all assets and liabilities pursuant to terms substantially identical to those of the Transfer.

In accordance with the Lease Agreement, the District received \$4,400,000 in November 1998 that was treated as the purchase price of the assigned assets. Therefore, all assigned assets were not included in the accompanying financial statements.

3. CASH AND INVESTMENTS

A. Cash Deposits

The carrying amount of the District's cash deposits was \$232,173, as of June 30, 2009. Bank balances before reconciling items were \$242,954 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.

B. 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 bankers acceptances
- Prime commercial paper
- Negotiable certificates of deposit
- Repurchase agreements
- Money market funds
- State of California Local Agency Investment Fund
- Medium-term notes

Fallbrook Healthcare District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

3. CASH AND INVESTMENTS, Continued

C. Summary of Cash and Investments

The following is a summary of cash and investments at June 30, 2009:

	Credit Quality Rating	Fair Value
Cash Deposits:		
Bank Deposits	Not Rated	\$ 232,173
Investments:		
Local Agency Investment Funds	Not Rated	8,010,865
Total cash and investments		<u>\$ 8,243,038</u>

D. Investments in Local Agency Investment Funds

The District's investments with LAIF at June 30, 2009 include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities and similar transactions. These investments may include the following:

Structured Notes – Debt securities (other than Asset-Backed Securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depend on one or more indices and/or that have imbedded forwards or options.

Asset-Backed Securities – Generally mortgage-backed securities which entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2009, the District had \$8,010,865 invested in LAIF, which had invested 13.32% of the pool investment funds in Structured Notes and Asset-Backed Securities. The reported value of the pool is the same as the fair value of the pool shares.

E. Maturity of Investments

Investments held by the District, grouped by maturity date at June 30, 2009, were as follows:

Maturity	LAIF balance
Current to one year	\$ 8,010,865
Total	<u>\$ 8,010,865</u>

Fallbrook Healthcare District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

4. PREPAID ITEMS AND DEPOSITS

The following is a summary of prepaid items and deposits at June 30, 2009:

Prepaid insurance	\$ 1,714
Total	\$ 1,714

5. CAPITAL ASSETS

The following is a summary of the changes in capital assets at June 30, 2009:

	Beginning Balance	Additions	Deletions	Ending Balance
Furniture and fixtures	\$ 2,375	\$ -	\$ -	\$ 2,375
Equipment	5,359	4,017	(704)	8,672
Subtotal	7,734	4,017	(704)	11,047
Accumulated depreciation	(3,620)	(1,953)	704	(4,869)
Capital assets, net	\$ 4,114	\$ 2,064	\$ -	\$ 6,178

6. COMMITMENTS AND CONTINGENCIES

Earthquake Retrofit

Senate Bill 1953 imposes certain requirements that acute care hospitals would be required to meet within a specified time. These requirements include conducting seismic evaluations. Hospitals determined to pose certain risks shall only be used for nonacute care purposes after January 1, 2008. After January 1, 2030, all hospitals must be in compliance. The District is not liable for compliance with Senate Bill 1953 in accordance with the Agreement with the Corporation.

7. INSURANCE

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. During the fiscal year 2009, no claims were made against the District.

8. TRANSFERS TO/FROM FALLBROOK HOSPITAL CORPORATION

All property tax revenues, as they are incrementally collected and paid to the District, will remain with the District and will not be shared, except as allocated by separate resolution. During the fiscal year ended June 30 2009, no transfers were made to the Corporation.

Cost report settlements for all years prior to the Agreement have been settled.

Fallbrook Healthcare District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

9. DEFINED CONTRIBUTION PENSION PLAN

All qualified District employees participate in the 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 employees begin participating the first day of the month following their 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, 2009, was \$54,000. Total employer contributions paid by the District amounted to \$1,800 or 3.33% of covered payroll.

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.