REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS
WITH SUPPLEMENTAL SCHEDULES

TRI-CITY HEALTHCARE DISTRICT

June 30, 2018 and 2017

Table of Contents

MOSSADAMS

Report of Independent Auditors

The Board of Directors
Tri-City Healthcare District

Report on the Financial Statements

We have audited the accompanying financial statements of Tri-City Healthcare District (the "District"), which comprise the statements of net position as of June 30, 2018 and 2017, and the related statements of revenues, expenses, changes in net position, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the California Code of Regulations, Title 2, Section 1131.2, *State Controller's Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audits 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tri-City Healthcare District as of June 30, 2018 and 2017, and the results of its operations and its cash flows for the years 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 management's discussion and analysis on pages 3 to 12 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of net position, June 30, 2018 and schedule of revenues, expenses, and changes in net position for the year ended June 30, 2018 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of net position as of June 30, 2018 and schedule of revenues, expenses, and changes in net position for the year ended June 30, 2018 are the responsibility of management and were 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 and the California Code of Regulations, Title 2, Section 1131.2, *State Controller's Minimum Audit Requirements for California Special Districts*. In our opinion, the schedule of net position as of June 30, 2018 and schedule of revenues, expenses, and changes in net position for the year ended June 30, 2018 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Moss Adams LLP

Irvine, California
September 21, 2018

Overview

The Tri-City Healthcare District (the "District") is a public healthcare district and is a political subdivision of the State of California (the "State") organized pursuant to Division 23 of the Health and Safety Code of the State of California. The District operates a 386-bed acute care hospital in northern San Diego County (the "County"). The "Tri-City" name represents the cities of Carlsbad, Oceanside, and Vista, the three cities which fall within its boundaries. The District was formed in 1957, and the hospital opened in 1961.

This report contains the operating results of Tri-City Medical Center and the subsidiaries in which the District owns a controlling interest. Those entities include: Tri-City Medical Center Ambulatory Surgery Center Operators, LLC ("Ambulatory Surgery Center Operators"), the Tri-City Medical Center Cardiovascular Health Institute, LLC ("Cardiovascular Institute"), the Tri-City Medical Center Orthopedic Institute, LLC ("Orthopedic Institute"), the Tri-City Medical Center Neuroscience Institute, LLC ("Neuroscience Institute"), the Tri-City Real Estate Holding and Management Company, LLC ("Real Estate Holding and Management Company") and Tri-City Wellness, LLC ("Wellness Center").

Ambulatory Surgery Center Operators, the Cardiovascular Institute, the Orthopedic Institute, the Neuro Institute, the Real Estate Holding and Management Company and the Tri-City Wellness Center are component units that have been blended for presentation purposes. The District has determined blended presentation is appropriate for Ambulatory Surgery Center Operators as it appoints a voting majority of the governing body and its operations are an integral part of the District's mission. The District has also determined blended presentation is appropriate for the Cardiovascular Institute, the Orthopedic Institute, and the Neuro Institute as the component units provide services almost entirely to the District. The District has determined blended presentation is appropriate for the Real Estate Holding and Management Company and the Tri-City Wellness Center as management of the District has operational responsibility.

This section of the District's annual financial report presents an analysis of the District's financial performance for the years ended June 30, 2018, 2017 and 2016. All references to years refer to the fiscal year ended June 30, unless otherwise indicated. Please read this analysis in conjunction with the Report of Independent Auditors and the financial statements that follow this section.

This annual financial report includes four items:

1. Report of Independent Auditors
2. Management's Discussion and Analysis
3. Financial statements of the District, including notes that explain in more detail, some of the information in the financial statements.
4. Supplemental schedules

Overview (continued)

The District's financial statements report information using accounting methods required by the Governmental Accounting Standards Board (GASB). These statements contain short-term and long-term financial information about its activities. In accordance with accounting principles generally accepted in the United States of America (also known as GAAP or generally accepted accounting principles) for governmental health care providers, the District's statements of revenue, expenses, and changes in net position reflect that non-operating income (expenses) including interest expense, which for nongovernmental hospitals is typically grouped as an operating expense. While these GASB requirements make district hospitals conform to other governmental entities, such as cities and counties, they may be less comparable to nongovernment hospitals because of these GASB requirements.

Executive Summary

For the year ended June 30, 2018, the District reported a reduction in net position (deficiency of revenue over expenses) of approximately $4.3 million.

The 2018 deficiency of revenue over expenses (EROE) by entity was as follows:

Tri-City Medical Center	$ (6,110,100)
Ambulatory Surgery Center Operators	2,256,685
Real Estate Holding and Management Company	(1,700)
Tri-City Wellness Center	99,120
Cardiovascular Institute	421,212
Orthopedic Institute	116,319
Neuroscience Institute	220,373
Eliminations	(1,264,215)
Total deficiency of revenue over expenses	$ (4,262,306)

Contributing to the 2018 results were the following significant activities:

- The District reported Earnings Before Interest Taxes Depreciation and Amortization (EBITDA) of approximately $11.3 million during fiscal 2018.

- The District recorded revenue totaling approximately $18.7 million through the continuation of the Intergovernmental Transfer (IGT) program. This program reimbursed the District for a portion of the difference between the cost of treating Medi-Cal patients and the amount reimbursed through pre-existing Medi-Cal contracts.

- The District participated in the Public Hospital Redesign and Incentives in Medi-Cal (PRIME) program in 2018. The PRIME program is a community centric population health, pay-for-performance, outcomes-based initiative. Performance baselines were established and target goals were set. The District is currently in the ongoing evaluation of quality improvement interventions phase of the program. The PRIME program contributed approximately $7.5 million to revenue in 2018.

Executive Summary (continued)

- The District has experienced a decrease in inpatient patient volumes for the past few years. From 2014 – 2015 hospitals saw a spike in patient volumes. This was due to the implementation of the Affordable Care Act (ACA) that enabled more people to obtain healthcare insurance than prior to the ACA. In recent years there has been an overall shift towards outpatient care. There have been increases to outpatient surgery centers and urgent care centers. The national shift to outpatient care is also due to increases in insurance deductibles where patients shoulder a larger portion of their healthcare costs. Accordingly, there has been a decrease in emergency department visits nationwide and the District has experienced a 2.6% decrease in emergency department visits that has resulted in a 2.8% decrease in inpatient days.

- The District's strategic partnership in Ambulatory Surgery Center Operators resulted in an excess of revenues over expenses of approximately $2.3 million in 2018. Because the District owns 60% of Ambulatory Surgery Center Operators and Ambulatory Surgery Center Operators owns 52.8% of North Coast Surgery Center Ltd., the District's share of earnings was approximately $638 thousand.

- The District's revenue related to prior years' cost report settlements totaled approximately $3.6 million. Cost reports typically are finalized several years beyond the close of each fiscal year, after review by the appropriate government agency, and after all appeal rights have been exhausted. Tentative settlements occur between the end of a fiscal year and finalization of the settlement process.

- In August 2016, the District and University of California San Diego Health ("UC San Diego Health") solidified an exclusive affiliation agreement designed to enhance the delivery of high quality health care to patients in North San Diego County by leveraging the combined strengths of the District and UC San Diego Health to provide expanded access to locally provided healthcare services. Cardiothoracic surgery, neurosurgery, and intra-operative radiation therapy are a few of the collaborative efforts enhancing the health and wellness of the communities served by the District.

- The District continued to recruit physicians to improve medical coverage for the communities it serves. Specialties recruited include primary care, cardiology, and surgery. Loans to physicians accrue interest during the draw period and during the forgiveness period. As of June 30, 2018, the physician loan balance was $4.4 million. Approximately $2.2 million was forgiven during 2018.

- In July 2017, the District purchased Orthopedic Specialists of North County (OSNC) clinic operations for $6.0 million. The partnership between the District and the clinic combines the strength of the two organizations to provide delivery of the most advanced, high quality orthopedic medical and surgical services, including joint replacement, spine care, sports medicine, cutting-edge non-operative therapy, and physical rehabilitation to the community. OSNC operations were budgeted and realized a $2.2 million loss. The associated transactions along with financial results are reported in the District's financial statements.

Executive Summary (continued)

- Supplies and Pharmaceuticals expense increased by $7.4 million during fiscal 2018. Shortages caused by a hurricane that impacted Puerto Rico where many pharmaceutical companies are located resulted in significant increases to drug prices. This was further compounded by a severe influenza season that continued for several months. The majority of patients were seniors that encountered longer than normal length of stays at the hospital. This increased pharmaceutical usage necessary to appropriately treat these patients.

Required Financial Statements

Statement of net position – The statement of net position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities), and net position – the difference between assets and liabilities – of the District, and the changes thereto. The statement of net position also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

Condensed Statements of Net Position as of June 30 (In Thousands):

ASSETS	2018	2017	2016
Current assets	$ 114,329	$ 115,075	$ 119,253
Capital assets - net	101,759	103,650	108,307
Non-current assets	44,710	39,869	21,454
TOTAL ASSETS	$ 260,798	$ 258,594	$ 249,014
LIABILITIES AND NET POSITION			
Current liabilities	$ 79,850	$ 67,817	$ 117,444
Long-term debt - net of current portion	83,988	88,091	29,464
Workers' compensation and comprehensive liability - net of current portion	7,938	7,755	7,672
Total liabilities	171,776	163,663	154,580
Invested in capital assets - net of related debt	12,995	13,377	74,691
Restricted assets	8,670	7,966	1,432
Unrestricted	67,357	73,588	18,311
Total net position	89,022	94,931	94,434
TOTAL LIABILITIES AND NET POSITION	$ 260,798	$ 258,594	$ 249,014

Analysis of Changes in the Statement of Net Position

Changes from fiscal year 2017 to 2018

- Current assets totaling approximately $114.3 million in 2018 represent a decrease of $746 thousand from the prior year. Included in current assets is a decrease of approximately $6.3 million in short-term investments, cash, and cash equivalents, and an increase of approximately $5.1 million of estimated amounts due from third-party settlements to the District for participation in the PRIME program.

- Non-current assets totaling approximately $44.7 million in 2018 represent an increase of $4.8 million from the prior year primarily due to the $4.9 million goodwill related to the purchase of OSNC Clinic operations. Included in non-current assets is approximately $7.0 million of mortgage reserve funds related to the HUD guaranteed loan and a $17.0 million deposit made to the State of California associated with a medical office building legal matter.

- Cash on hand, short-term investments and unused availability from the revolving credit facility provides liquidity to the District. Cash and cash equivalents totaled approximately $41.2 million, short-term investments totaled approximately $5.4 million and the unused available revolving line of credit was approximately $6.2 million as of June 30, 2018. This resulted in total liquidity of $52.8 million.

- Net estimated third-party payor settlements of approximately $6.8 million increased by approximately $5.1 million from 2017. The majority of the third-party settlements balance as of June 30, 2018 pertains to outstanding receivables from the PRIME program and current year cost report estimates.

- Capital assets, net totaled approximately $101.8 million as of June 30, 2018. A decrease of approximately $1.9 million from 2017 was the result of $9.9 million in new equipment and software acquisitions and the continuation of certain capital projects, offset by depreciation and amortization expense of $11.6 million.

- Current liabilities, totaling approximately $79.9 million as of June 30, 2018 reflect an increase of approximately $12.0 million compared to June 30, 2017. Current liabilities included $3.0 million in short-term debt related to the purchase of OSNC Clinic operations.

- Long-term debt net of current portion totaled approximately $84.0 million as of June 30, 2018 compared to $88.1 million as of June 30, 2017. The decrease is primarily related to the payments of principal on long-term debt.

- Workers' compensation and comprehensive liability insurance reserves classified as long-term liabilities increased by $184 thousand, based on actuarial analyses of open claims and estimates of claims incurred but not yet reported (IBNR). Actuarial studies are commissioned twice each year to determine the potential liabilities and required reserves.

Analysis of Changes in the Statement of Net Position (continued)

Changes from fiscal year 2016 to 2017

- Current assets totaling approximately $115.1 million in 2017 represent a decrease of $4.2 million from the prior year. Included in current assets is an increase of approximately $41.8 million in cash and cash equivalents and short-term investments, and a decrease in restricted cash and investments of approximately $51.0 million. The change in current assets is primarily the result of refinancing existing debt with a 25-year mortgage insured by HUD, which resulted in a reclassification of cash from restricted to unrestricted.

- Non-current assets totaling approximately $39.9 million in 2017 represent an increase of $18.4 million from the prior year. Included in non-current assets is approximately $6.6 million of mortgage reserve funds related to the newly acquired HUD guaranteed loan, and a $12.3 million deposit made to the state of California associated with a medical office building legal matter.

- Cash on hand, short-term investments, and unused availability from the revolving credit facility provide liquidity to the District. Cash and cash equivalents totaled approximately $15.0 million, short-term investments totaled approximately $38.0 million and the unused available revolving line of credit was approximately $11.1 million as of June 30, 2017. This results in total liquidity of $64.1 million, an improvement of $32.3 million over June 30, 2016.

- Net estimated third-party payor settlements of approximately $1.7 million increased by approximately $1.4 million from 2017. The majority of third-party settlements receivable as of June 30, 2018 pertains to current year cost report estimates.

- Capital assets, net of accumulated depreciation, decreased approximately $4.7 million, and totaled approximately $103.6 million as of June 30, 2017. A combination of cash payments and equipment financing were utilized to acquire approximately $9.2 million in equipment, software, and other capital improvement projects during the year.

- Working capital improved from $1.8 million as of June 30, 2016 to $47.3 million as of June 30, 2017 primarily due to the refinancing of debt.

- Current liabilities, totaling approximately $67.8 million as of June 30, 2017 reflect a decrease of approximately $49.6 million compared to June 30, 2016. Current liabilities in 2016 included $51.0 million in short-term debt related to the previous term loan.

- Long-term debt net of current portion totaled approximately $88.1million as of June 30, 2017. The increase of $58.6 million is primarily related to the refinancing of existing debt.

- Workers' compensation and comprehensive liability insurance reserves classified as long-term liabilities increased by $83 thousand, based on actuarial analyses of open claims and estimates of IBNR. Actuarial studies are commissioned twice each year to determine the potential liabilities and required reserves.

Condensed Statements of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30 (In Thousands):

	2018	2017	2016
Operating revenue	$ 365,142	$ 340,112	$ 334,596
Operating expenses	375,800	341,682	340,625
Loss from operations	(10,658)	(1,570)	(6,029)
Non-operating revenue	6,396	3,450	4,336
Change in net position before minority interest (EROE)	(4,262)	1,880	(1,693)
Minority interest distributions - net	(1,647)	(1,383)	(1,601)
Change in net position	(5,909)	497	(3,294)
Beginning net position	94,931	94,434	97,728
Ending net position	$ 89,022	$ 94,931	$ 94,434
Average daily census	175	180	192
Emergency room visits	60,935	62,555	65,828

Analysis of the Statement of Revenues, Expenses and Changes in Net Position

Changes from fiscal year 2017 to 2018

- The District reported EBITDA of approximately $11.3 million during fiscal 2018.

- The District experienced a decrease of 2.8% in inpatient volume in 2018. Total average daily census was 175 for the current year compared to 180 in the prior year. Total hospital outpatient visits increased by approximately 34.4% compared to 2017 due to the addition of the new OSNC service line. Emergency Department visits decreased approximately 2.6%.

- Operating revenue increased by approximately $25.0 million in 2018 compared to 2017. This increase is primarily due to revenue from OSNC clinic operations of $15.0 million and a $6.1 million increase in receipts from the PRIME and IGT programs throughout the year, offset by a decrease in patient volume. PRIME is a community centric population health pay for performance outcomes based initiative.

Analysis of the Statement of Revenues, Expenses and Changes in Net Position (continued)

- Operating expenses, which include patient care expenses, overhead and administrative expenses increased by approximately $34.1 million. The District experienced increases in professional and medical fees expenses, salaries and related expenses. Although salaries and related expenses increased by approximately $9.8 million, salaries and related expenses as a percentage of the total operating revenue was slightly lower at approximately 56% compared to 57% in 2017. The professional and medical fees expenses increased approximately $11.0 million primarily due to OSNC clinic physician fees. Supplies and pharmaceuticals expenses also increased approximately $7.4 million primarily due to shortages of drugs in high demand resulting in increased prices.

- Non-operating income and expense is comprised of the District’s share of property tax revenue collected by the County of San Diego, interest earned on invested monies, interest expense, and other non-operating items. Non-operating income and expenses increased by approximately $2.9 million in 2018. There was $3.4 million in closing costs related to the HUD financing included in 2017 non-operating expense.

Changes from fiscal year 2016 to 2017

- Operating revenues increased by approximately $5.5 million in 2017 compared to 2016. This increase is primarily due to receipts from the PRIME and IGT programs throughout the year, offset by a decrease in patient volume. PRIME is a community centric population health pay for performance outcomes based initiative. Focus on healthcare reform based programs along with increased acuity resulting in increased net revenue per day reimbursement more than offset a decrease in inpatient volume in 2017. Total average daily census was 180 for the current year compared to 192 in the prior year. Total hospital outpatient visits decreased by approximately 1.8% compared to 2016. Emergency treat and release visits decreased approximately 5.0%, while Outpatient Specialty Unit visits increased approximately 31.9% in 2017.

- EROE improved from a loss of $1.7 million in 2016 to a profit of $1.9 million in 2017. EROE in 2017, exclusive of the current year one-time financing cost of $3.4 million, is $5.3 million.

- EBITDA improved from $12.8 million in 2016 to $17.0 million in 2017. EBITDA, exclusive of the current year one-time financing cost of $3.4 million, is $20.4 million.

- Operating expenses, which include patient care expenses and overhead and administrative expenses, increased approximately $1.1 million. The largest single increase was experienced in salaries and related expenses. Although salaries and related expenses increased by approximately $1.9 million, salaries and related expenses as a percentage of total operating revenue remained constant at approximately 57% in both 2017 and 2016. Professional and medical fees expenses decreased by approximately $2.8 million as insurance recoveries for legal expenses were recognized in 2017.

Analysis of the Statement of Revenues, Expenses and Changes in Net Position (continued)

- Non-operating income and expense is comprised of the District's share of property tax revenue collected by the County of San Diego, interest earned on invested monies, interest expense, and other non-operating items. Non-operating expenses include $3.4 million in closing costs related to the HUD financing. The resulting net non-operating revenue totaled approximately $3.5 million in 2017 compared to approximately $4.3 million in 2016.

Statement of cash flows – The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operating, noncapital and capital financing, and investing activities.

	2018	2017	2016
Net cash provided by (used in)			
Operating activities	$ 2,190	$ 12,301	$ 3,061
Noncapital financing activities	8,859	6,019	6,299
Capital and related financing activities	(17,352)	(21,121)	(13,934)
Investing activities	32,550	6,584	40
Net change in cash and cash equivalents	26,247	3,783	(4,534)
Cash and cash equivalents - Beginning of year	14,960	11,177	15,711
Cash and cash equivalents - End of year	$ 41,207	$ 14,960	$ 11,177

Cash flows arise from operating income adjusted for noncash expenditures such as depreciation expense and bad debt expense ("operating activities"), changes in investments and interest income received on investments ("investing activities"), purchase of new capital assets and payments of interest and principal on debt ("capital and related financing activities"), and county tax revenues ("noncapital financing activities").

Analysis of the Statement of Cash Flows

Cash and cash equivalents totaled approximately $41.2 million, $15.0 million and $11.2 million, as of June 30, 2018, 2017 and 2016, respectively. Net cash provided by operating activities in 2018 was $2.2 million, a decrease of approximately $10.1 million from prior year. In 2017, net cash provided by operating activities increased approximately $9.2 million compared to 2016. Cash provided by noncapital financing activities increased approximately $2.8 million compared to 2017. Cash used in capital and related financing activities decreased by approximately $3.8 million from prior year and increased by approximately $7.2 million from 2016 to 2017 primarily due to the payment of a $12.3 million deposit to the State of California associated with a medical office building legal matter. Cash provided by investing activities increased approximately $26.0 million in 2018. The District received approximately $1.2 million in 2018 and $1.3 million for both 2017 and 2016 from the Foundation and Auxiliary.

Capital Assets

As of June 30, 2018, 2017 and 2016, the District had $101.8 million, $103.6 million and $108.3 million, respectively in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. The District invested in new equipment which included information technology, surgical equipment, buildings improvements and other minor infrastructure projects costing $8.7 million in 2018, $7.2 million in 2017 and $5.9 million in 2016.

Capital lease payments were made timely. More detailed information about the District's debt is presented in Notes 8 and 9 to the financial statements.

Economic Factors

Over the next five years, the District will continue to face challenges in the evolving landscape of the healthcare industry. The industry is moving towards value-based care. As the industry migrates to a value-based system and new entrants force market innovation, the hospital-focused inpatient utilization rates continue to decline in many areas of the country. Other drivers of lower hospital utilization include focus on decreasing readmission rates, transitioning patients to observation status and increased use of care management teams.

Government payers have slowed on spending growth. On top of the 2% sequestration cuts that were put in place in 2013, Medicare is looking for additional ways to cut costs by focusing on quality-based reimbursement models which reward healthcare providers for their contributions to producing improved health and penalizing providers who are not able to improve quality outcomes and reduce readmission rates. The Medicare value-based purchasing program includes measuring process-of-care measures, patient experience measures, patient outcome measures and efficiency measures. The District is working diligently to improve upon these quality metrics which in turn will reduce the risk of reimbursement cuts.

On the State level, the Affordable Care Act (ACA) has significantly increased the coverage for the Medi-Cal population which in turn has reduced the amount of uncompensated/self-pay care for hospitals across the state including the District. Greater use of Medi-Cal managed care is likely to continue with the goals of improved quality and increased savings through reduced use of hospital services.

Despite some of the challenges the hospital is facing from government payers, the District has been actively negotiating its insurance contracts to ensure that it maintains competitive reimbursement rates over the coming years. Furthermore, the District is actively engaged in service line analysis to identify opportunities for growth in profitable services, as well as evaluating unprofitable services for cost and efficiency improvements.

Finance Contact

The District's financial statements are designed to present users with a general overview of the District's finances and to demonstrate the District's accountability. If you have any questions about the report or need additional financial information, please contact the Chief Financial Officer, Tri-City Healthcare District, 4002 Vista Way, Oceanside, California 92056.

ASSETS

	June 30, 2018	June 30, 2017
CURRENT ASSETS		
Cash and cash equivalents	$ 41,207,227	$ 14,959,815
Short-term investments	5,414,483	38,009,731
Restricted cash and investments	317,000	332,000
Patient accounts receivable - net of estimated uncollectible accounts of $19,351,418 and $19,182,808 in 2018 and 2017, respectively	46,195,877	44,016,641
Other receivables	2,446,519	4,777,119
Supplies inventory	9,013,015	8,590,391
Prepaid expenses and other assets	2,978,734	2,730,021
Estimated third-party payor settlements	6,755,695	1,658,990
Total current assets	114,328,550	115,074,708
NON-CURRENT INVESTMENTS		
Board-designated	401,227	395,943
CAPITAL ASSETS - net	101,758,785	103,649,591
OTHER ASSETS		
Notes receivable	4,387,497	4,942,714
Restricted mortgage reserve fund	7,039,024	6,550,114
Goodwill	9,529,430	4,629,430
Other	23,353,409	23,350,956
Total other assets	44,309,360	39,473,214
TOTAL ASSETS	$ 260,797,922	$ 258,593,456

See accompanying notes.

LIABILITIES AND NET POSITION

	June 30, 2018	June 30, 2017
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 44,130,100	$ 41,580,578
Accrued payroll and related expenses	19,232,710	18,079,312
Current maturities of long-term debt	3,827,098	4,146,391
Short-term debt	10,442,249	2,522,076
Other current liabilities	2,217,445	1,488,241
Total current liabilities	79,849,602	67,816,598
LONG-TERM DEBT - net of current portion	83,987,851	88,091,022
WORKERS' COMPENSATION AND COMPREHENSIVE LIABILITY - net of current portion	7,938,447	7,754,520
Total liabilities	171,775,900	163,662,140
NET POSITION		
Invested in capital assets - net of related debt	12,994,959	13,376,731
Restricted assets	8,669,677	7,965,983
Unrestricted	67,357,386	73,588,602
Total net position	89,022,022	94,931,316
TOTAL LIABILITIES AND NET POSITION	$ 260,797,922	$ 258,593,456

See accompanying notes.

	Years Ended June 30, 2018	Years Ended June 30, 2017
OPERATING REVENUE		
Net patient service revenue	$ 340,128,328	$ 314,126,561
Premium revenue	18,033,694	18,715,819
Other revenue	6,979,912	7,269,495
Total operating revenue	365,141,934	340,111,875
OPERATING EXPENSES		
Salaries and related expenses	204,066,033	194,225,771
Supplies	75,411,889	68,006,034
Purchased services	20,407,603	18,564,204
Depreciation and amortization	11,577,114	11,412,968
Other operating expense	22,677,794	21,137,708
Professional and medical fees	24,876,541	13,888,157
Maintenance, rent & utilities	16,783,117	14,447,187
Total operating expenses	375,800,091	341,682,029
LOSS FROM OPERATIONS	(10,658,157)	(1,570,154)
NON-OPERATING REVENUE (EXPENSE)		
District tax revenue	10,245,197	9,638,130
Interest income	576,581	311,391
Interest expense	(4,554,127)	(4,063,634)
Other non-operating income (expense)	128,200	(2,435,317)
Total non-operating revenue, net	6,395,851	3,450,570
CHANGE IN NET POSITION BEFORE MINORITY INTEREST ((DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES)	(4,262,306)	1,880,416
MINORITY INTEREST DISTRIBUTIONS - NET	(1,646,988)	(1,383,200)
Change in net position	(5,909,294)	497,216
NET POSITION - Beginning of year	94,931,316	94,434,100
NET POSITION - End of year	$ 89,022,022	$ 94,931,316

Tri-City Healthcare District
Statements of Cash Flows

	Years Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from patients, insurers, and other payors	$ 353,216,681	$ 327,663,600
Payments to vendors	(156,569,411)	(130,098,606)
Payments for salaries, wages, and related benefits	(202,912,635)	(195,970,495)
Other receipts and payments, net	8,455,526	10,706,210
Net cash provided by operating activities	2,190,161	12,300,709
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Minority interest distributions, net	(1,646,988)	(1,383,200)
Receipt of District taxes	10,245,197	9,638,130
Other non-operating income (expense)	261,251	(2,235,725)
Net cash provided by noncapital financing activities	8,859,460	6,019,205
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(8,686,308)	(7,249,653)
Medical office building deposit	-	(12,260,667)
Proceeds from revolving line of credit	405,520,641	348,250,484
Principal repayments on revolving line of credit	(400,600,468)	(350,207,877)
Proceeds from debt	-	85,825,000
Principal repayments on debt	(9,031,815)	(81,414,613)
Interest payments on debt	(4,554,127)	(4,063,634)
Net cash used in capital and related financing activities	(17,352,077)	(21,120,960)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of short-term investments	(21,404,752)	(46,009,731)
Proceeds from sales of short-term investments	54,000,000	8,000,000
Proceeds from restricted cash and investments	-	51,032,107
Payments to mortgage reserve fund	(488,910)	(6,550,114)
Interest on investments	443,530	111,799
Net cash provided by investing activities	32,549,868	6,584,061
NET CHANGE IN CASH AND CASH EQUIVALENTS	26,247,412	3,783,015
CASH AND CASH EQUIVALENTS - Beginning of year	14,959,815	11,176,800
CASH AND CASH EQUIVALENTS - End of year	$ 41,207,227	$ 14,959,815

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

	2018	2017
Capital assets financed with long-term debt and capital lease obligations	$ -	$ 1,929,000
Capital assets and supplies inventory assumed related to acquisition of OSNC clinic	$ 1,100,000	$ -
Promissory note related to acquisition of OSNC clinic	$ 6,000,000	$ -

See accompanying notes.

RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	Years Ended June 30,	
	2018	2017
Loss from operations	$ (10,658,157)	$ (1,570,154)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Provision for bad debt	46,418,835	50,892,627
Depreciation and amortization	11,577,114	11,412,968
Changes in assets and liabilities		
Patient accounts receivable	(48,598,072)	(52,512,513)
Other receivables	2,330,600	(2,130,095)
Estimated third-party payor settlements	(5,096,705)	(1,428,799)
Other - net	2,513,629	4,834,662
Accounts payable and accrued liabilities	2,549,519	4,546,737
Accrued payroll and related expenses	1,153,398	(1,744,724)
Net cash provided by operating activities	$ 2,190,161	$ 12,300,709

See accompanying notes.

Note 1 – Organization

Organization – Tri-City Healthcare District (the "District" or TCMC) is a political subdivision of the state of California organized as a special district. The District provides comprehensive medical services at its facility located in Oceanside, California. The financial statements of the District include the accounts of the District, Tri-City Medical Center ASC Operators, LLC (ASCO), North Coast Surgery Center Ltd. (NCSC), the Cardiovascular Health Institute, LLC (CVI), the Orthopedic Institute, LLC (Ortho), the Neuroscience Institute, LLC (Neuro), Tri-City Real Estate Holding and Management Co, LLC (REHM) and Tri-City Wellness, LLC ("Tri-City Wellness"). CVI, Ortho and Neuro are hereafter collectively referred to as "The Institutes."

ASCO, NCSC, CVI, Ortho, Neuro, REHM and Tri-City Wellness are component units that have been blended for presentation purposes. The District owns a 60% interest in ASCO, which provides management services to NCSC. ASCO owns a 52.8% interest in NCSC. NCSC provides outpatient surgical services to the surrounding communities of Oceanside, California. The District has determined blended presentation is appropriate as it appoints a voting majority of ASCO's governing body. The District owns 61.4% of CVI, 50% of Ortho and 68% of Neuro. These Institutes were established to align the goals of independent physician practices and specialty services with the goals of the hospital. Key goals are to improve quality outcome reporting and improve financial and operational performance of the respective service lines. The District has determined blended presentation is appropriate for CVI, Ortho, and Neuro as the component units provide services almost entirely to the District. The District owns 99% of REHM. The District has determined blended presentation is appropriate for REHM as management of the District has operational responsibility for REHM. The District owns 99.9% of Tri-City Wellness. The District has determined blended presentation is appropriate for Tri-City Wellness as management of the District has operational responsibility for Tri-City Wellness. All intercompany transactions have been eliminated in the District's financial statements.

Note 1 – Organization (continued)

Condensed component information for each of the District's blended component units is as follows:

Condensed Statement of Net Position
As of June 30, 2018

	ASCO	REHM & Tri-City Wellness	"The Institutes"
ASSETS			
Current assets	$ 1,847,060	$ 229,363	$ 998,624
Capital assets - net	619,793	2,264,931	-
Non-current assets	-	-	175,087
TOTAL ASSETS	$ 2,466,853	$ 2,494,294	$ 1,173,711
LIABILITIES AND NET POSITION			
Current liabilities	$ 717,439	$ 7,500	$ 163,902
Total liabilities	717,439	7,500	163,902
Invested in capital assets - net related debt	619,793	2,264,931	-
Restricted assets	1,195,200	23,243	412,210
Unrestricted	(65,579)	198,620	597,599
Total net position	1,749,414	2,486,794	1,009,809
TOTAL LIABILITIES AND NET POSITION	$ 2,466,853	$ 2,494,294	$ 1,173,711

Note 1 – Organization (continued)

Condensed Statement of Net Position
As of June 30, 2017

	ASCO	REHM & Tri-City Wellness	"The Institutes"
ASSETS			
Current assets	$ 1,407,759	$ 1,931,944	$ 798,729
Capital assets - net	688,479	2,264,930	-
Non-current assets	-	-	187,269
TOTAL ASSETS	$ 2,096,238	$ 4,196,874	$ 985,998
LIABILITIES AND NET POSITION			
Current liabilities	$ 537,908	$ 7,500	$ 179,039
Total liabilities	537,908	7,500	179,039
Invested in capital assets - net related debt	688,478	2,264,931	-
Restricted assets	1,064,651	29,461	321,757
Unrestricted	(194,799)	1,894,982	485,202
Total net position	1,558,330	4,189,374	806,959
TOTAL LIABILITIES AND NET POSITION	$ 2,096,238	$ 4,196,874	$ 985,998

Note 1 – Organization (continued)

Condensed Statements of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2018

	ASCO	REHM & Tri-City Wellness	"The Institutes"
Operating revenue	$ 10,811,452	$ 106,041	$ 944,939
Operating expenses	8,557,509	8,621	187,035
GAIN FROM OPERATIONS	2,253,943	97,420	757,904
Non-operating revenue	2,742	-	-
CHANGE IN NET POSITION BEFORE MINORITY INTEREST	2,256,685	97,420	757,904
MINORITY INTEREST DISTRIBUTIONS - NET	(2,065,601)	(1,800,000)	(555,054)
Change in net position	191,084	(1,702,580)	202,850
NET POSITION - Beginning of year	1,558,330	4,189,374	806,959
NET POSITION - End of year	$ 1,749,414	$ 2,486,794	$ 1,009,809

Condensed Statements of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

	ASCO	REHM & Tri-City Wellness	"The Institutes"
Operating revenue	$ 9,602,166	$ 2,189,115	$ 717,876
Operating expenses	7,849,235	552,186	314,382
GAIN FROM OPERATIONS	1,752,931	1,636,929	403,494
Non-operating revenue	4,737	(1,620,448)	1,000
CHANGE IN NET POSITION BEFORE MINORITY INTEREST	1,757,668	16,481	404,494
MINORITY INTEREST DISTRIBUTIONS - NET	(1,746,271)	(10,058,144)	(444,839)
Change in net position	11,397	(10,041,663)	(40,345)
NET POSITION - Beginning of year	1,546,933	14,231,037	847,304
NET POSITION - End of year	$ 1,558,330	$ 4,189,374	$ 806,959

Note 1 – Organization (continued)

Condensed Statement of Cash Flows
For the Year Ended June 30, 2018

	ASCO	REHM & Tri-City Wellness	"The Institutes"
Net cash provided by (used in)			
Operating activities	$ 2,482,015	$ 104,075	$ 528,781
Noncapital financing activities	(2,301,123)	(1,800,000)	(555,054)
Capital and related financing activities	15,662	-	-
Investing activities	2,950	-	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	199,504	(1,695,925)	(26,273)
CASH AND CASH EQUIVALENTS - Beginning of year	303,149	1,911,371	233,621
CASH AND CASH EQUIVALENTS - End of year	$ 502,653	$ 215,446	$ 207,348

Condensed Statement of Cash Flows
For the Year Ended June 30, 2017

	ASCO	REHM & Tri-City Wellness	"The Institutes"
Net cash provided by (used in)			
Operating activities	$ 2,079,835	$ 2,644,498	$ 449,139
Noncapital financing activities	(2,192,074)	(418,725)	(443,838)
Capital and related financing activities	(15,337)	(1,040,869)	-
Investing activities	491	-	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	(127,085)	1,184,904	5,301
CASH AND CASH EQUIVALENTS - Beginning of year	430,234	726,467	228,320
CASH AND CASH EQUIVALENTS - End of year	$ 303,149	$ 1,911,371	$ 233,621

Note 2 – Summary of Significant Accounting Policies

Basis of presentation – The financial statements have been prepared in accordance with the applicable provisions of the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Health Care Organizations*, and pronouncements of the Governmental Accounting Standards Board (GASB) and the California Code of Regulations, Title 2, Section 1131, *State Controller's Minimum Audit Requirements and Reporting Guidelines for California Special Districts*. The District uses proprietary (enterprise) fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Note 2 – Summary of Significant Accounting Policies (continued)

Accounting estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Cash equivalents – For purposes of the financial statements, the District considers highly liquid debt instruments (excluding non-current cash and investments) purchased with a maturity of three months or less to be cash equivalents.

Investments – Investments are primarily held in Local Agency Investment Fund (LAIF), a highly liquid fund. Deposits and withdrawals can be made daily upon demand without penalty. Investment income is reported in non-operating income (expense) in the statements of revenues, expenses, and changes in net position.

Supplies inventory – Supplies inventory is reported at the lower of cost (first-in, first-out) or market value.

Goodwill – Goodwill represents the excess of purchase price of an acquired business over the net tangible and identifiable intangible assets acquired. The District evaluates goodwill for impairment at least annually or whenever events or changes in circumstances require an interim impairment assessment. The District compares the fair value of each reporting unit to its carrying amount to determine if there is potential goodwill impairment. If the fair value of a reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than the carrying value of its goodwill. Management determined that there was no impairment of goodwill as of June 30, 2018 and 2017.

Capital assets – Capital assets are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful life of each class of depreciable asset (the shorter of the estimated useful life or the lease term for leasehold improvements) as follows:

Land improvements	15 years
Buildings and building improvements	10-40 years
Leasehold improvements	3-15 years

Note 2 – Summary of Significant Accounting Policies (continued)

Capital assets are evaluated for impairment when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is dependent upon the event or circumstance in which the impairment occurred. Impairment losses, if any, are recorded in the statements of revenues, expenses, and changes in net position. No impairment losses are recorded in the years ended June 30, 2018 and 2017.

Mortgage reserve fund – A mortgage reserve fund (MRF) related to the $85.8 million mortgage is required under the Hospital Regulatory Agreement between the District and United States Department of Housing and Urban Development (HUD). The District makes deposits into the MRF trust account in accordance with the Mortgage Reserve Fund Agreement.

Net position – Net position of the District is classified into three components. “Invested in capital assets – net of related debt” consists of capital assets, net of accumulated depreciation and is reduced by the balances of any outstanding borrowing used to finance the purchase or construction of those assets. “Restricted assets” net position represents the net position of ASCO, CVI, Ortho, Neuro, REHM and Tri-City Wellness not owned by the District in the amount of approximately $1.6 million as of June 30, 2018 compared to $1.4 million as of June 30, 2017, as well as mortgage reserve fund deposits required under the Hospital Regulatory Agreement between the District and HUD of approximately $7.0 million and $6.6 million as of June 30, 2018 and 2017, respectively. “Unrestricted” net position is the remaining net position that does not meet the definition of invested in capital assets – net of related debt or restricted assets.

Grants and contributions – From time to time, the District receives grants and contributions from individuals or private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Operating revenues and expenses – The District’s statements of revenues, expenses, and changes in net position distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services – the District’s principal activity. Operating expenses include all expenses incurred to directly provide healthcare services. Non-operating income and expenses consist of those revenues and expenses that result from non-exchange transactions, such as District taxes, financing costs, interest expense, and investment income.

Note 2 – Summary of Significant Accounting Policies (continued)

Net patient service revenue – Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The District estimates net collectible accounts receivable and the corresponding impact on net patient services revenue by applying historical collection realization percentages to outstanding gross accounts receivable by payor class. Normal estimation differences between subsequent cash collections on patient accounts receivable and net patient accounts receivable estimated in the prior year are reported as adjustments to net patient service revenue during the collection period.

Premium revenue – The District has agreements with various health maintenance organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the District receives monthly capitation payments based on the number of each HMO's participants, regardless of services actually performed by the District. The District recognizes premium revenue in the period the District is obligated to provide services, which is generally in the month capitation payments are received. In addition, the HMOs make fee-for-service payments to the District for certain covered services based upon discounted fee schedules. Under some of these agreements, the District also participates in shared-risk pools with medical groups, through which it could receive additional reimbursement or pay additional amounts to the medical groups. In conjunction with the risk pools, the District estimates incurred but not reported (IBNR) claims for medical services provided to patients at other facilities. See Note 14 – Commitments and Contingencies.

IBNR liabilities of approximately $1.5 million and $4.2 million are included in accounts payable and accrued liabilities in the accompanying statements of net position as of June 30, 2018 and 2017, respectively.

Property taxes – The District receives financial support from property taxes and the funds are used to support operations. Property taxes are levied annually by the County of San Diego (the "County") on behalf of the District and are intended to finance the District's activities. The County's fiscal year is from July 1 through June 30. Taxes levied are based on assessed property values as of the first day of January proceeding the fiscal year for which the taxes are levied. See Note 3 – Non-operating Revenue.

Income taxes – The District is a governmental subdivision of the state of California and is exempt from federal income and state franchise taxes.

Risk management – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. The District is self-insured for a portion of its exposure to risk of loss from workers' compensation and malpractice claims. Annual estimated provisions are accrued based on actuarially determined amounts and includes an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Note 2 – Summary of Significant Accounting Policies (continued)

Compensated absences – The District's benefits-eligible employees earn vacation leave at varying rates based upon qualifying-service hours. Employees may accumulate vacation leave up to a specified maximum. Accrued vacation leave is paid to the employee upon termination of employment or upon conversion to non-benefits-eligible status. The estimated amount of vacation leave payable to employees of approximately $9.5 million and $8.8 million as of June 30, 2018 and 2017, respectively, is reported as a current liability within accrued payroll and related expenses in the accompanying statements of net position. Sick time is also earned at a specific rate per qualified-service hour. However, no payment is made for accrued sick time when employment is terminated.

Reclassifications – Prior period accounts have been reclassified to conform to the current period presentation, which have no effect on change in net position.

Note 3 – Patient Service Revenue, Third-Party Reimbursement Programs and Non-Operating Revenue

The District renders services to patients under contractual arrangements with the Medicare and Medi-Cal programs and various HMOs and preferred provider organizations (PPOs). The Medicare program generally pays the District a prospectively determined rate per discharge for services rendered to Medicare inpatients. Additionally, Medicare reimburses the District for certain capital related costs and psychiatric services on the basis of costs incurred.

The District is reimbursed for hospital inpatient services provided to Medi-Cal beneficiaries based upon Diagnosis Related Groups (DRG"), excluding rehabilitative services and behavioral health services. Rehabilitative services and behavioral health services are reimbursed on a per diem basis. Revenue from the Medicare and Medi-Cal programs accounted for approximately 64% and 66% of the District's gross patient service revenue for the years ended June 30, 2018 and 2017, respectively.

The District participates in the Intergovernmental Transfer (IGT) program, which reimburses the District for a portion of the difference between the cost of treating Medi-Cal patients and the amount reimbursed through pre-existing Medi-Cal contracts. The District recognizes revenue from the IGT program when certainty of receiving the funds is assured.

The District participates in PRIME, a pay-for-performance Medi-Cal program in which California's public health care systems and District and Municipal Hospitals are using evidence-based quality improvement methods to achieve performance targets and improve health outcomes for patients. All funding for this program is contingent on meeting these targets and demonstrating continued improvement.

The District is reimbursed for serving a disproportionate share of low income patients, reimbursable Medicare bad debt and certain other items at a tentative rate with final settlement determined after the District's submission of annual cost reports and audits thereof by State and Federal agencies and their intermediaries. Cost reports for the Medicare programs have been final settled for all years through 2015. Results of cost report settlements, as well as the District's estimates for settlements, of all fiscal years through 2018 are reflected in the accompanying financial statements.

Note 3 – Patient Service Revenue, Third-Party Reimbursement Programs and Non-Operating Revenue (continued)

Estimated net third-party settlements consisted of a net receivable of approximately $6.8 million and $1.7 million as of June 30, 2018 and 2017, respectively. During the years ending June 30, 2018 and 2017, the District settled various prior-year cost reports, appeal issues and adjusted prior-year settlement estimates. Prior year settlements and changes in estimates resulted in approximately $3.6 million and $1.5 million of additional net patient service revenue in the years ended June 30, 2018 and 2017, respectively, and are included in net patient service revenue in the accompanying statements of revenue, expenses, and changes in net position.

The District has also entered into payment agreements with certain commercial insurance carriers, HMOs, and PPOs. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

The District grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors as of June 30:

	2018	2017
HMO/PPO	29 %	35 %
Medicare plans	27	32
Medi-Cal plans	18	15
Others	26	18
Total	100 %	100 %

Non-operating revenue includes District tax revenue and other non-patient service revenue. District tax revenue totaled approximately $10.2 million and $9.6 million for the years ended June 30, 2018 and 2017, respectively. Other non-operating income (expense) includes approximately $403 thousand and $810 thousand in donations from the Foundation and Auxiliary for the years ended June 30, 2018 and 2017, respectively.

Note 4 – Cash and Cash Equivalents and Investments

The State of California Government Code (the “Code”) generally authorizes the District to invest unrestricted and Board-designated assets in obligations of the U.S. Treasury and certain U.S. government agencies, obligations of the state of California and local government entities, bankers’ acceptances, commercial paper, certificates of deposit, repurchase agreements, and mortgage securities. Certain investments may be purchased only in limited amounts, as defined in the Code.

Note 4 – Cash and Cash Equivalents and Investments (continued)

Short-term investments – The California State Treasurer's Office makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to $65.0 million in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash daily without penalty. The District is a voluntary participant in the LAIF. As of June 30, 2018 and 2017 the District held approximately $5.8 million and $38.4 million in LAIF, respectively.

There are many factors that can affect the value of investments. Some, such as credit risk, custodial credit risk, and concentration of credit risk and interest rate risk, may affect both equity and fixed income securities. Equity and debt securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

Credit risk – Fixed income securities are subject to credit risk, which is the chance that an issuer will fail to pay interest or principal in a timely manner or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk. The District invests primarily in obligations of the U.S. government.

Concentration of credit risk – Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the District to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. Investments issued or guaranteed by the U.S. government and investments in external investment pools, such as LAIF, are not considered subject to concentration of credit risk. In accordance with state law, no more than 5% of total investments may be invested in the securities of any one issuer, except obligations of the U.S. government, no more than 10% may be invested in any one mutual fund, and no more than 30% may be invested in bankers' acceptances of any one commercial bank. The District's investment in LAIF is not rated by a nationally recognized statistical rating organization since amounts invested in LAIF are protected by certain statutes.

Custodial credit risk – deposits – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2018 and 2017, the District's bank balances totaled approximately $41.5 million and $15.3 million, respectively, and were not exposed to custodial credit risk, as the uninsured deposits are with financial institutions which are individually required by state law to have government deposits collateralized at a rate of 110% of the deposits. Such collateral is considered to be held in the District's name.

Custodial credit risk – investments – District policy requires that all investments be insured or registered, or be held by the District's agent in the agent's nominee name, with subsidiary records listing the District as the legal owner. For these reasons, the District is not exposed to custodial credit risk for its investments.

Note 4 – Cash and Cash Equivalents and Investments (continued)

The carrying amount of cash and investments are included in the following statements of net position captions as of June 30:

	2018	2017
Cash and cash equivalents	$ 41,207,227	$ 14,959,815
Short-term investments	5,414,483	38,009,731
Restricted cash and investments -		
Nonnegotiable certificates of deposit	317,000	332,000
Board-designated	401,227	395,943
Total	$ 47,339,937	$ 53,697,489

Note 5 – Capital Assets

Capital assets consisted of the following as of June 30:

2018	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Land and land improvements	$ 19,840,144	$ 6,614	$ -	$ 83,854	$ 19,930,612
Buildings and improvements	203,063,469	209,755	-	1,741,327	205,014,551
Equipment	160,294,398	4,233,501	(2,767,495)	583,127	162,343,531
Assets under lease	7,327,323	-	(7,018)	-	7,320,305
Construction in progress	2,567,733	5,418,407	-	(2,408,308)	5,577,832
	393,093,067	9,868,277	(2,774,513)	-	400,186,831
Less accumulated depreciation and amortization	(289,443,476)	(11,563,253)	2,578,683	-	(298,428,046)
Capital assets - net	$ 103,649,591	$ (1,694,976)	$ (195,830)	$ -	$ 101,758,785

2017	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Land and land improvements	$ 19,877,710	$ 8,500	$ (901,259)	$ 855,193	$ 19,840,144
Buildings and improvements	204,818,748	338,590	(1,492,184)	(601,685)	203,063,469
Equipment	155,204,730	3,597,569	(1,852,334)	3,344,433	160,294,398
Assets under lease	8,436,858	1,939,869	-	(3,049,404)	7,327,323
Construction in progress	2,721,983	3,296,998	-	(3,451,248)	2,567,733
	391,060,029	9,181,526	(4,245,777)	(2,902,711)	393,093,067
Less accumulated depreciation and amortization	(282,753,114)	(11,415,841)	1,822,768	2,902,711	(289,443,476)
Capital assets - net	$ 108,306,915	$ (2,234,315)	$ (2,423,009)	$ -	$ 103,649,591

Note 6 – Goodwill

On July 1, 2017, the District acquired 100% of the ownership of Orthopedic Specialists of North County ("OSNC") financed through the issuance of a promissory note of $6.0 million. The transaction was accounted for as a business combination. As of the acquisition date, OSNC had a fair value of tangible assets of $1.1 million with no liabilities. The excess of purchase price less tangible assets acquired totaling $4.9 million was recorded as goodwill. As of June 30, 2018 and 2017, total goodwill was approximately $9.5 million and $4.6 million, respectively.

Note 7 – Other Assets

Other assets consisted of the following as of June 30:

	2018	2017
Medical office building deposits	21,965,359	21,965,359
Other	1,388,050	1,385,597
Total	$ 23,353,409	$ 23,350,956

Medical office building deposits of approximately $22.0 million as of June 30, 2018 and 2017, are reflected in other assets in the accompanying statements of net position. Included in medical office building deposits are payments of approximately $5.0 million to the developer of an on-campus medical office building and $17.0 million to the State of California Treasurer. See Note 14 – Commitments and Contingencies.

Note 8 – Short-Term Debt

Term loan – In March 2017, the District replaced the existing $51.0 million term loan with a 25-year mortgage financing through Lancaster Pollard Mortgage Company and insured by HUD. See Note 9 – Long-Term Debt.

Promissory note – In July 2017, in conjunction with the purchase of OSNC clinic operations, the District entered into a promissory note for $6.0 million. The terms of the note included 2 equal payments of $3 million each without interest. As of June 30, 2018 the balance of the note was $3.0 million. The promissory note was repaid in full in July 2018.

Line of credit – In July 2013, a new revolving line of credit was obtained from Mid Cap, LLC. The amount available under this line of credit was up to $25.0 million, subject to a borrowing base calculation, as defined within the Credit and Security Agreement. The interest rate is the London Interbank Offered Rate ("LIBOR") plus 3.50% subject to a LIBOR floor of 1%. The initial term of this line of credit was three years. The revolving line of credit agreement was amended in March 2017, extending the term maturity date to August 31, 2019 and reducing the line of credit to $13.6 million. The borrowings on the credit facility are fully collateralized by certain assets of the District. Amounts outstanding under the line of credit are approximately $7.4 million and $2.5 million as of June 30, 2018 and 2017, respectively.

Note 8 – Short-Term Debt (continued)

The District's revolving line of credit facility is subject to compliance with certain debt covenants, including restrictions on additional indebtedness and a minimum fixed charge coverage ratio.

A schedule of changes in the District's short-term debt as of June 30 is as follows:

	2018			
	Beginning Balance	Additions	Payments	Ending Balance
Line of credit	$ 2,522,076	$ 405,520,641	$ (400,600,468)	$ 7,442,249
Insurance financing	-	1,609,351	(1,609,351)	-
Promissory note	-	6,000,000	(3,000,000)	3,000,000
Total short-term debt	$ 2,522,076	$ 413,129,992	$ (405,209,819)	$ 10,442,249

	2017			
	Beginning Balance	Additions	Payments	Ending Balance
Line of credit	$ 4,479,469	$ 348,250,484	$ (350,207,877)	$ 2,522,076
Term loan	51,000,000	-	(51,000,000)	-
Total short-term debt	$ 55,479,469	$ 348,250,484	$ (401,207,877)	$ 2,522,076

Note 9 – Long-Term Debt

The terms and due dates of the District's long-term debt are as follows:

- Lancaster Pollard Mortgage Company, HUD insured loan, interest rate of 4.32%, with principal balance outstanding of approximately $83.5 million and $85.5 million as of June 30, 2018 and 2017, respectively. Principal and interest payments of approximately $468 thousand are due monthly with the remaining aggregate unpaid amount due April 2042. A mortgage reserve fund (MRF) is required under the Hospital Regulatory Agreement between the District and HUD. The District makes deposits into the MRF trust account in accordance with the MRF agreement.

- Bank of the West note payable, interest rate of 2.91%, with principal balance outstanding of approximately $99 thousand as of June 30, 2017. The note was repaid in full during the year ending June 30, 2018.

- Bank of the West note payable, interest rate of 2.95%, with principal balance outstanding of approximately $331 thousand as of June 30, 2017. The note was repaid in full during the year ending June 30, 2018.

Note 9 – Long-Term Debt (continued)

- Bank of the West note payable, interest rate of 3.12%, with principal balance outstanding of approximately $502 thousand and $951 thousand as of June 30, 2018 and 2017, respectively. Principal and interest payments of approximately $39 thousand are due monthly commencing July 2016 with the remaining aggregate unpaid amount due April 2019. The note is collateralized by certain capital assets of the District.

- Various capital equipment leases with interest rates varying between 2.31% and 5.22%. Principal and interest payments due monthly commencing and expiring on various dates ranging from January 2019 through June 2022. Principal balances due totaled approximately $3.8 million and $5.4 million as of June 30, 2018 and 2017, respectively.

A schedule of changes in the District's long-term debt (including current portion) as of June 30:

	2018				
	Beginning Balance	Additions	Payments	Ending Balance	Due Within 1 Year
Lancaster (HUD) mortgage debt	$ 85,505,732	$ -	$ (1,964,553)	$ 83,541,179	$ 2,051,123
Bank of the West notes payable	1,380,944	-	(878,962)	$ 501,982	501,982
Total long-term debt	86,886,676	-	(2,843,515)	84,043,161	2,553,105
Capital lease obligations	5,350,737	-	(1,578,949)	3,771,788	1,273,993
Total long-term debt	$ 92,237,413	$ -	$ (4,422,464)	$ 87,814,949	$ 3,827,098

	2017				
	Beginning Balance	Additions	Payments	Ending Balance	Due Within 1 Year
Lancaster (HUD) mortgage debt	$ -	$ 85,825,000	$ (319,268)	$ 85,505,732	$ 1,964,553
Bank of the West notes payable	2,551,019	-	(1,170,075)	1,380,944	878,962
REHM notes payable	1,320,833	-	(1,320,833)	-	-
Wellness Center term loan	25,228,896	-	(25,228,896)	-	-
Total long-term debt	29,100,748	85,825,000	(28,039,072)	86,886,676	2,843,515
Capital lease obligations	4,514,688	1,929,000	(1,092,951)	5,350,737	1,302,876
Total long-term debt	$ 33,615,436	$ 87,754,000	$ (29,132,023)	$ 92,237,413	$ 4,146,391

Note 9 – Long-Term Debt (continued)

A schedule, by year, of future minimum payments under long-term debt and capital lease obligations as of June 30, 2018, is as follows:

Years Ending June 30,	Principal	Interest	Total
2019	$ 3,827,098	$ 3,682,321	$ 7,509,419
2020	3,334,918	3,542,874	6,877,792
2021	3,213,181	3,408,483	6,621,664
2022	2,661,476	3,290,333	5,951,809
2023	2,437,266	3,182,539	5,619,805
Thereafter	72,341,010	33,498,663	105,839,673
Total	$ 87,814,949	$ 50,605,213	$ 138,420,162

Assets acquired through capital leases as of June 30 are as follows:

	2018	2017
Equipment under capital lease	$ 7,320,305	$ 7,327,323
Accumulated amortization	(3,411,181)	(1,857,015)
Total	$ 3,909,124	$ 5,470,308

Note 10 – Retirement Plans

The District has a contributory money accumulation pension plan (MAPP) covering substantially all employees, under which benefits are limited to amounts accumulated from total contributions. As of June 30, 2018, there were a total of 1,284 plan members, including retirees. Active plan members are required to contribute 2% of covered salary. The District is required to contribute 6% of annual covered payroll. Plan provisions and contribution requirements are established and may be amended by the Board. The District's contribution expense related to the MAPP totaled approximately $6.0 million for both years ended June 30, 2018 and 2017.

Employees are immediately vested in their own contributions and earnings and become vested in the Employer contributions and earnings according to a five-year vesting schedule. Non-vested employer contributions are forfeited upon termination of employment. The forfeitures are used to reduce employer contributions under the Plan. For the years ended June 30, 2018 and 2017, forfeitures reduced the District's expenses and contributions under the Plan by approximately $106 thousand and $114 thousand, respectively.

Note 10 – Retirement Plans (continued)

Since 1983, the District has sponsored a retirement plan, the Tri-City Healthcare District National Security Retirement Program (NSRP), an alternative to the U.S. Social Security system. NSRP is administered by an insurance company and provides retirement and survivorship benefits. As a condition of participation, each employee makes contributions to NSRP. The District contributed 4.5% of each participating employee's annual compensation up to approximately $85 thousand for both years ended June 30, 2018 and 2017.

The District's contributions to NSRP totaled approximately $2.3 million and $2.4 million for the years ended June 30, 2018 and 2017, respectively. Effective January 1, 1992, the District provided its employees with the option of remaining in the NSRP program or transferring to the U.S. Social Security system. Statutes authorize NSRP to invest in group or individual insurance or annuity contracts or other funding vehicles as approved by the District's Board. Contributions to NSRP are deposited in one or more investment options as elected by the individual participant or in the qualified default investment alternative if no election is made.

The District also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. Employees who elect to participate in the plan make contributions through a reduction in salary. All employee contributions are invested by a funding agency selected by the District. The investments of the NSRP retirement plan and the Section 457 deferred compensation plan and earnings thereon are held by fiduciaries in trust for the benefit of the employees. The NSRP and the Section 457 deferred compensation plan assets are not subject to the claims of the District's general creditors. Accordingly, the plans' assets and the related liabilities are excluded from the accompanying statements of net position as of June 30, 2018 and 2017.

The District maintains a tax-deferred capital accumulation account for certain management personnel under which the District has contributed funds to mutual fund investments as directed by the participants. The contributions vest over a period of no less than two years. As of June 30, 2018 and 2017, the balance of capital accumulation funds was approximately $292 thousand and $334 thousand, respectively, which is included in prepaid expenses and other assets on the accompanying, statements of net position. The corresponding compensation liabilities of approximately $395 thousand and $388 thousand as of June 30, 2018 and 2017, respectively, are included in accrued payroll and related expenses on the accompanying statements of net position. The plan assets remain the property of the District until paid or made available to participants, subject only to claims of the District's general creditors.

Note 11 – Operating Leases

The District leases certain building space and equipment under non-cancelable operating leases expiring between October 2018 and June 2027. Operating lease expense for all operating leases totaled approximately $4.1 million and $3.1 million for the years ended June 30, 2018 and 2017, respectively.

Note 11 – Operating Leases (continued)

As of June 30, 2018, future minimum lease payments under non-cancelable operating leases are as follows:

Years Ending June 30,		
2019	$	4,001,812
2020		3,247,363
2021		2,536,426
2022		1,530,603
2023		680,385
Thereafter		2,516,974
Total	$	14,513,563

Note 12 – Related Organizations

Tri-City Hospital Foundation (the “Foundation”) and Tri-City Hospital Auxiliary (the “Auxiliary”) are California nonprofit corporations organized to benefit the District. Both the Foundation and the Auxiliary have bylaws that govern their separate activities, and the Board members and officers of each of the two organizations are selected solely by the members themselves.

Donations to the District by the Foundation totaled approximately $1.1 million and $1.2 million for the years ended June 30, 2018 and 2017, respectively. The Auxiliary donated $80 thousand and $120 thousand in the years ended June 30, 2018 and 2017, respectively.

The District pays salaries and related costs for employees of the Foundation, provides facilities for the Auxiliary gift shop, and provides administrative office space to both organizations free of charge. Such costs totaled approximately $752 thousand and $753 thousand in the years ended June 30, 2018 and 2017, respectively.

Note 12 – Related Organizations (continued)

A summary of the organizations' assets, liabilities and net assets (unaudited) as of June 30:

	2018	2017
Tri-City Hospital Foundation		
Assets	$ 4,151,660	$ 4,081,147
Liabilities	$ 114,449	$ 102,535
Net Assets	$ 4,037,211	$ 3,978,612
Tri-City Hospital Auxiliary		
Assets	$ 516,220	$ 505,515
Liabilities	$ 2,792	$ 4,991
Net Assets	$ 513,428	$ 500,524

Note 13 – Partnerships

During the year ended June 30, 2010, the District entered into a general partnership with Surgical Care Affiliates of Oceanside to form Tri-City Medical Center ASCO, LLC. The partnership acquired controlling interest in NCSC, a partnership between ASCO, and several limited partners, primarily physicians. The primary purpose of the District's involvement in the venture is to relocate lower acuity outpatient surgeries to the surgery center in order to free up surgical suite time for surgeries requiring hospital surgical services. As described in Note 1, ASCO is considered to be blended component unit of the District. As a result, the financial results of ASCO have been included in the District's financial statements.

Also during the year ended June 30, 2010, the District formed CVI, LLC. The purpose of CVI is to further the District's mission and commitment to promote cardiovascular health and provide quality heart and vascular services for the residents of the District. The District and CVI entered into a co-management agreement under which CVI provides certain services to meet this mission.

During the year ended June 30, 2011, the District formed Ortho, LLC. The purpose of Ortho is to further the District's mission and commitment to promote orthopedic health and provide quality surgical, non-invasive and rehabilitation services for the residents of the District. The District and Ortho entered into a co-management agreement under which Ortho provides certain services to meet this mission.

During the year ended June 30, 2012, the District formed Tri-City REHM, LLC. The purpose of the REHM is to facilitate the acquisition and use of real estate properties to promote the District's mission.

Note 13 – Partnerships (continued)

During the year ended June 30, 2015, the District formed Tri-City Wellness, LLC, a California Limited Liability Company to purchase the Wellness Center which the District had previously operated under a capital lease.

During the year ended June 30, 2015, the District formed the Tri-City Medical Center Neuroscience Institute, LLC ("Neuro"), a California Limited Liability Company. The purpose of the Neuro Institute is to further the District's mission and commitment to promote neuroscience health and provide quality neurological, neurosurgical and non-invasive services for the residents of the District. The District and the Neuro Institute, entered into a co-management agreement under which the Neuro Institute provides certain services to meet this mission.

The portion of the change in net position attributable to minority interests in these entities total approximately $1.6 million and $1.4 million for the years ended June 30, 2018 and 2017, respectively.

Note 14 – Commitments and Contingencies

Legal actions – The District is involved in various legal matters arising from time to time in the ordinary course of business. The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; natural disasters; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

In April 2014, the District commenced eminent domain proceedings against the developer of an on-campus medical office building seeking to maintain a condemnation action under which it took possession of the medical office building. The developer filed a complaint against the District and District filed a cross complaint. In June 2016, the jury returned a verdict against the District awarding approximately $2.9 million in damages for breach of good faith and dealing under a related lease agreement.

In addition, under the condemnation action, the jury determined the value of the ground lease to be $16.8 million. The District deposited $4.7 million in 2015 and an additional $12.3 million in 2017 related to the verdict (see Note 7) and has not recorded a liability regarding this legal matter as of June 30, 2018 or 2017. The District has appealed the jury verdict and the ultimate financial impact remains uncertain.

Seismic compliance – The California Office of Statewide Health Planning and Development ("OSHPD") has revised its SB 1953 compliance standards by considering the HAZUS zones (FEMA Hazards – U.S.) in which each hospital is located.

Based on a waiver granted to the District by OSHPD during 2009, the District's buildings are considered in compliance with all SB 1953 requirements to the year 2030.

Self-insurance programs – The District is self-insured for unemployment benefits and dental PPO benefits.

Note 14 – Commitments and Contingencies (continued)

Workers' compensation – Prior to January 1, 1999, the District was also self-insured for workers' compensation, with stop-loss insurance coverage for individual claims of more than $250 thousand. For policy years 1999 through 2001, the District has reached maximum premium levels on its policies and has no further liability exposure on claims from those years. For policy year 2002, the District has a retrospective premium workers' compensation insurance coverage with a maximum premium. The maximum premium level has not been reached for the 2002 policy year and further liability exposure is unlikely. For policy years 2003 and 2004, the District had a large-deductible workers' compensation plan, with stop-loss insurance coverage for individual claims of more than $350 thousand. Under this insurance arrangement, as of June 30, 2018, the District maintains nonnegotiable certificates of deposit totaling $15 thousand for calendar year 2003 and $302 thousand for calendar year 2004. Beginning January 1, 2005, the District began a self-insured workers' compensation program. The District has fully reserved for estimated claims based on actuarial analyses of policy years prior to 1999, and 2002 through 2018. Such reserves were approximately $8.5 million and $8.4 million as of June 30, 2018 and 2017, respectively.

Comprehensive liability insurance coverage – The District is insured for comprehensive liability (professional liability, general liability, personal injury and advertising liability, and employee benefits administration) under an occurrence general liability policy and professional claims-made policy, which covers asserted claims and incidents reported to the insurance carrier, and has a per-claim retention of $1.0 million effective July 1, 2009. The District has reserved for estimated IBNR claims through June 30, 2018. Such reserves were approximately $2.9 million and $2.8 million as of June 30, 2018 and 2017, respectively.

The following is a summary of the changes in the self-insured and claims-made plan liabilities for the years ended June 30:

Balance as of June 30, 2016	$ 11,339,283
Additions	3,597,450
Payments	(3,724,600)
Balance as of June 30, 2017	11,212,133
Additions	3,384,926
Payments	(3,174,556)
Balance as of June 30, 2018	$ 11,422,503

Note 14 – Commitments and Contingencies (continued)

Medical services IBNR – The following is a summary of the changes in the medical services IBNR claims, included in account payable and accrued liabilities in the accompanying statement of net position for the years ended June 30:

Balance as of June 30, 2016	$ 1,498,189
Additions	9,675,689
Payments	(6,954,425)
Balance as of June 30, 2017	4,219,453
Additions	8,060,212
Payments	(10,770,462)
Balance as of June 30, 2018	$ 1,509,203

Physician loan agreements – Physician Recruitment Agreements are those under which the District has elected to loan practicing physicians up to a specified amount per month for a period of two or three years (the "loan distribution period"). At the end of the loan distribution period, each physician is obligated by a signed loan agreement to repay the outstanding loan balance. The loan can be repaid in cash or in-kind services. For repayment in-kind, the District forgives the loans monthly over the period defined in the loan agreement (up to 3 years), as long as the physician continues to practice in the defined service area. Loans to physicians accrue interest during the draw period and during the forgiveness period. The loan balances outstanding totaled approximately $4.4 million and $4.9 million as of June 30, 2018 and 2017, respectively. The balance is included in other long-term assets in the accompanying statements of net position.

Note 15 – Subsequent Events

On August 21, 2018, the District took action to suspend the Inpatient Behavioral Health Unit (BHU) and Crisis Stabilization Unit (CSU) operations. The suspension of operations was scheduled to occur on August 3, 2018 for the CSU and October 2, 2018 for the BHU.

Supplemental Schedules

	TCMC	ASCO	REHM	WC	CVI	Ortho	Neuro	Eliminations	TOTAL
ASSETS									
CURRENT ASSETS									
Cash and cash equivalents	$ 40,281,780	$ 502,653	$ 41,387	$ 174,059	$ 118,172	$ 68,054	$ 21,122	$ -	$ 41,207,227
Short-term investments	5,414,483	-	-	-	-	-	-	-	5,414,483
Restricted cash and investments	317,000	-	-	-	-	-	-	-	317,000
Patient accounts receivable - net of estimated uncollectible accounts of $19,351,418 and $19,182,808 in 2018 and 2017, respectively	44,941,662	1,254,215	-	-	-	-	-	-	46,195,877
Other receivables	2,054,322	-	-	-	356,667	261,913	172,696	(399,079)	2,446,519
Supplies inventory	9,011,514	1,501	-	-	-	-	-	-	9,013,015
Prepaid expenses and other assets	2,876,126	88,691	-	13,917	-	-	-	-	2,978,734
Estimated third-party payor settlements	6,755,695	-	-	-	-	-	-	-	6,755,695
Total current assets	111,652,582	1,847,060	41,387	187,976	474,839	329,967	193,818	(399,079)	114,328,550
NON-CURRENT INVESTMENTS									
Board-designated	401,227	-	-	-	-	-	-	-	401,227
CAPITAL ASSETS - net	98,874,061	619,793	2,264,931	-	-	-	-	-	101,758,785
OTHER ASSETS									
Notes receivable	4,387,497	-	-	-	-	-	-	-	4,387,497
Restricted mortgage reserve fund	7,039,024	-	-	-	-	-	-	-	7,039,024
Goodwill	9,529,430	-	-	-	-	-	-	-	9,529,430
Other	24,403,324	-	-	-	92,597	36,222	46,268	(1,225,002)	23,353,409
Total other assets	45,359,275	-	-	-	92,597	36,222	46,268	(1,225,002)	44,309,360
TOTAL ASSETS	$ 256,287,145	$ 2,466,853	$ 2,306,318	$ 187,976	$ 567,436	$ 366,189	$ 240,086	$ (1,624,081)	$ 260,797,922

Tri-City Healthcare District
Schedule of Net Position (continued)
June 30, 2018

	TCMC	ASCO	REHM	WC	CVI	Ortho	Neuro	Eliminations	TOTAL
LIABILITIES AND NET POSITION									
CURRENT LIABILITIES									
Accounts payable and accrued liabilities	$ 44,037,906	$ 319,871	$ -	$ 7,500	$ 131,874	$ 32,028	$ -	$ (399,079)	$ 44,130,100
Accrued payroll and related expenses	18,997,724	234,986	-	-	-	-	-	-	19,232,710
Current maturities of long-term debt	3,827,098	-	-	-	-	-	-	-	3,827,098
Short-term debt	10,442,249	-	-	-	-	-	-	-	10,442,249
Other current liabilities	2,054,863	162,582	-	-	-	-	-	-	2,217,445
Total current liabilities	79,359,840	717,439	-	7,500	131,874	32,028	-	(399,079)	79,849,602
LONG-TERM DEBT - net of current position	83,987,851	-	-	-	-	-	-	-	83,987,851
WORKERS' COMPENSATION AND COMPREHENSIVE LIABILITY - net of current portion	7,938,447	-	-	-	-	-	-	-	7,938,447
Total liabilities	171,286,138	717,439	-	7,500	131,874	32,028	-	(399,079)	171,775,900
NET POSITION									
Invested in capital assets - net of related debt	10,110,235	619,793	2,264,931	-	-	-	-	-	12,994,959
Restricted assets	7,039,024	1,195,200	23,063	180	168,301	167,081	76,828	-	8,669,677
Unrestricted	67,851,748	(65,579)	18,324	180,296	267,261	167,080	163,258	(1,225,002)	67,357,386
Total net position	85,001,007	1,749,414	2,306,318	180,476	435,562	334,161	240,086	(1,225,002)	89,022,022
TOTAL LIABILITIES AND NET POSITION	$ 256,287,145	$ 2,466,853	$ 2,306,318	$ 187,976	$ 567,436	$ 366,189	$ 240,086	$ (1,624,081)	$ 260,797,922

See accompanying report of independent auditors.

Tri-City Healthcare District
Schedule of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2018

	TCMC	ASCO	REHM	WC	CVI	Ortho	Neuro	Eliminations	TOTAL
OPERATING REVENUE									
Net patient service revenue	$ 329,320,703	$ 10,807,625	$ -	$ -	$ -	$ -	$ -	$ -	$ 340,128,328
Premium revenue	18,033,694	-	-	-	-	-	-	-	18,033,694
Other revenue	8,134,407	3,827	-	106,041	531,068	131,756	282,115	(2,209,302)	6,979,912
Total operating revenue	355,488,804	10,811,452	-	106,041	531,068	131,756	282,115	(2,209,302)	365,141,934
OPERATING EXPENSES									
Salaries and related expenses	201,240,751	2,823,430	-	-	-	1,852	-	-	204,066,033
Supplies	72,212,556	3,199,333	-	-	-	-	-	-	75,411,889
Purchased services	20,579,684	772,858	-	-	-	148	-	(945,087)	20,407,603
Depreciation and amortization	11,302,517	262,416	-	-	8,189	3,992	-	-	11,577,114
Other operating expense	22,078,975	584,762	1,700	6,921	1,860	1,748	1,828	-	22,677,794
Professional and medical fees	24,654,745	54,378	-	-	99,807	7,697	59,914	-	24,876,541
Maintenance, rent & utilities	15,922,785	860,332	-	-	-	-	-	-	16,783,117
Total operating expenses	367,992,013	8,557,509	1,700	6,921	109,856	15,437	61,742	(945,087)	375,800,091
(LOSS) INCOME FROM OPERATIONS	(12,503,209)	2,253,943	(1,700)	99,120	421,212	116,319	220,373	(1,264,215)	(10,658,157)
NON-OPERATING REVENUE (EXPENSE)									
District tax revenue	10,245,197	-	-	-	-	-	-	-	10,245,197
Interest income	573,631	2,950	-	-	-	-	-	-	576,581
Interest expense	(4,553,919)	(208)	-	-	-	-	-	-	(4,554,127)
Other non-operating income (expense)	128,200	-	-	-	-	-	-	-	128,200
Total non-operating revenue (expense)	6,393,109	2,742	-	-	-	-	-	-	6,395,851
CHANGE IN NET POSITION BEFORE MINORITY INTEREST (EROE)	(6,110,100)	2,256,685	(1,700)	99,120	421,212	116,319	220,373	(1,264,215)	(4,262,306)
Minority interest distributions - net	-	(1,427,584)	(5,000)	(13)	(174,937)	-	(66,300)	26,846	(1,646,988)
Distributions between consolidating entities	-	(638,017)	(495,000)	(1,299,987)	(176,967)	-	(136,850)	2,746,821	-
Change in net position	(6,110,100)	191,084	(501,700)	(1,200,880)	69,308	116,319	17,223	1,509,452	(5,909,294)
NET POSITION - Beginning of year	91,111,107	1,558,330	2,808,018	1,381,356	366,254	217,842	222,863	(2,734,454)	94,931,316
NET POSITION - End of year	$ 85,001,007	$ 1,749,414	$ 2,306,318	$ 180,476	$ 435,562	$ 334,161	$ 240,086	$ (1,225,002)	$ 89,022,022