REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS
WITH SUPPLEMENTAL SCHEDULES

TRI-CITY HEALTHCARE DISTRICT

June 30, 2020 and 2019

Table of Contents

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 that 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 ("ASCO"); 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 ("Neuro Institute"); the Tri-City Real Estate Holding and Management Company, LLC ("REHM"); and Tri-City Wellness, LLC ("Wellness Center").

ASCO, the Cardiovascular Institute, the Orthopedic Institute, the Neuro Institute, the REHM, and the Wellness Center are component units that have been blended for presentation purposes. The District has determined blended presentation is appropriate for ASCO 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 REHM and the Wellness Center, as management of the District has operational responsibility. The REHM was dissolved in 2018.

This section of the District's annual financial report presents an analysis of the District's financial performance for the years ended June 30, 2020, 2019, and 2018. 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. Management's Discussion and Analysis
2. Report of Independent Auditors
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, 2020, the District reported a reduction in net position before minority interest, also referred herein as Excess (Deficiency) of Revenue Over Expenses (EROE), of approximately $11.1 million.

The 2020 deficiency of revenue over expenses by entity was as follows:

Tri-City Medical Center	$ (12,759,578)
Ambulatory Surgery Center Operators	2,171,784
Tri-City Wellness Center	(9,109)
Cardiovascular Institute	414,456
Orthopedic Institute	18,896
Neuroscience Institute	(12,937)
Eliminations	(891,913)
Total deficiency of revenue over expenses	$ (11,068,401)

Contributing to the 2020 results were the following significant activities:

- The District's financial results were favorable to the business plan for the six months ended December 31, 2019, prior to the COVID-19 pandemic.

Executive Summary (continued)

- During the third quarter of fiscal year 2020 the COVID-19 pandemic resulted in unprecedented federal, state, and local health emergency declarations along with mandated restrictions to mitigate the spread of COVID-19. These restrictions, along with stay at home orders, resulted in significant decreases in surgical, inpatient, and outpatient volumes. Hospitals across the State prepared for an anticipated surge in COVID-19 patients. The District prepared a multi-stage surge plan to accommodate an increase in capacity of over 50% for a potential COVID-19 surge, while at the same time experiencing historically low patient volumes. Personal Protective Equipment (PPE) along with multiple additional safety and visitation protocols remain a priority in order to properly protect patients, families, workforce, physicians, and the greater community appropriately during this ongoing pandemic. Continued access to multiple testing platforms and reagents along with continued accessibility to adequate workforce and treatment resources in order to rapidly evaluate and appropriately care for patients in a timely manner resulting in favorable clinical outcomes also remains an absolute priority. The District continues to meet these priorities during this unprecedented pandemic. Direct COVID-19 additional expenses during the second half of fiscal year 2020 to meet these priorities including PPE, specialty equipment, pharmaceuticals, testing, and additional specialty labor exceeded $2 million. Patient revenue decreases attributable to COVID-19 during fiscal year 2020 exceeded $29 million as the District experienced historically low patient surgery, inpatient, and outpatient volumes. The direct additional costs and lost revenues attributable to COVID-19, totaling over $31 million, were partially offset by a government grant received under the Coronavirus Aid, Relief, and Economic Security (CARES) Act of approximately $7.1 million. In order to reduce the fiscal impact of COVID-19 amounting to over $24 million in net revenue losses and costs offset by the CARES Act grant, the District implemented workforce flex and furlough programs to appropriately match the workforce with patient volumes while maintaining flexibility to redeploy and increase the workforce as patient volumes rebound and/or a COVID-19 surge is encountered. This has served as an effective method to manage workforce expenses while continuing to staff appropriately for patient volumes. As patient volumes increase, furloughed workforce is being redeployed.

- Despite the net negative fiscal impact of COVID-19 exceeding $24 million, the District reported positive Earnings Before Interest Taxes Depreciation and Amortization (EBITDA) of $3.2 million during fiscal year 2020. EROE and EBITDA results have been improving since a low in March due to incremental increases in revenue combined with cost savings initiatives.

- The District improved its liquidity position versus the prior year to $60.4 million as of June 30, 2020. Liquidity remains a critical component during the unprecedented COVID-19 pandemic.

- The District recorded revenue totaling approximately $19.3 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.

Executive Summary (continued)

- The District participated in the Public Hospital Redesign and Incentives in Medi-Cal (PRIME) program in 2020. 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 $4.4 million to revenue in 2020.

- The District's strategic partnership in ASCO resulted in an EROE of approximately $2.2 million in 2020. Because the District owns 60% of ASCO and ASCO owns 52.8% of North Coast Surgery Center Ltd., the District's share of earnings was approximately $743 thousand.

- 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, 2020, the physician loan balance was $2.7 million. Approximately $1.5 million was forgiven during 2020.

- In July 2017, the District purchased Orthopedic Specialists of North County ("OSNC") clinic operations. The partnership between the District and the clinic combines the strength of the two organizations to provide 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. The associated transactions along with financial results are reported in the District's financial statements.

- The District opened two new clinics during fiscal year 2020. La Costa Urology, Inc. was opened in February 2020 and Pulmonary Specialists of North County, Inc. in April 2020. These clinics will provide needed specialty care for the community.

- During fiscal year 2020, supplies and pharmaceutical expenses decreased by $5.4 million, salaries and related expenses decreased by $10.4 million, and other operating expenses decreased by $2.1 million. The decreases of expenses were primarily due to the lower inpatient volumes and managing the workforce. Supplies and PPE are tracked and monitored daily. Multiple sources are used and new sources have been engaged to maintain the safety of patients and caregivers. Professional and medical fees include emergency department on call for multiple specialties. New contract rates for on call coverage were implemented during fiscal year 2020 resulting in an increase of $2.3 million.

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.

Executive Summary (continued)

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

ASSETS

	2020	2019	2018
ASSETS			
Current assets	$ 108,980	$ 114,193	$ 114,329
Capital assets – net	97,031	98,670	101,759
Non-current assets	32,624	38,721	44,710
TOTAL ASSETS	$ 238,635	$ 251,584	$ 260,798
LIABILITIES AND NET POSITION			
Current liabilities	$ 80,706	$ 80,016	$ 79,850
Long-term debt – net of current portion	79,547	80,654	83,988
Property lease – net of current portion	1,258	-	-
Workers' compensation and comprehensive liability – net of current portion	6,772	7,955	7,938
Total liabilities	168,283	168,625	171,776
Invested in capital assets – net of related debt	17,368	16,777	12,995
Restricted assets	9,700	9,124	8,670
Unrestricted	43,284	57,058	67,357
Total net position	70,352	82,959	89,022
TOTAL LIABILITIES AND NET POSITION	$ 238,635	$ 251,584	$ 260,798

Analysis of Changes in the Statement of Net Position

Changes from fiscal year 2019 to 2020

- Current assets totaling approximately $109.0 million in 2020 represent a decrease of $5.2 million from the prior year. Included in current assets is an increase of approximately $3.8 million in short-term investments, cash, and cash equivalents, offset with a decrease of approximately $6.5 million in patient accounts receivable and a decrease of approximately $2.4 million in estimated third-party settlements.

- Non-current assets totaling approximately $32.6 million in 2020 represent a decrease of $6.1 million from the prior year, primarily due to receiving a $7.9 million refund from the State related to an on-campus medical office building deposit. See Note 14 – Commitments and Contingencies. Included in non-current assets is approximately $8.0 million deposited for mortgage reserve funds related to the HUD guaranteed loan.

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

- 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 $48.3 million, short-term investments totaled approximately $6.4 million, and the unused available revolving line of credit was approximately $5.7 million as of June 30, 2020. This resulted in total liquidity of approximately $60.4 million, representing a $5.9 million increase in total liquidity over the prior year.

- The District has access to capital of $15.4 million through a revolving line of credit. Balances when drawn are repaid with collections. All covenants are being met and the District maintains good relations with the lender.

- The District acquired a loan secured by the U.S. Department of Housing and Urban Development (HUD) in 2017. Debt service payments are current on all debt including the funding of a Mortgage Reserve Fund and Mortgage Insurance Premium.

- Net estimated third-party payer settlements of approximately $1.4 million decreased by approximately $2.4 million from 2019 due to the payments received for prior year balances. IGT and PRIME settlements are administrated by the government. Amount and settlement dates are not predictable. The majority of the third-party settlements balance as of June 30, 2020, pertains to outstanding receivables from the PRIME program and current year cost report estimates.

- Capital assets, net total approximately $97.0 million as of June 30, 2020. A decrease of approximately $1.6 million from 2019 was the result of $10.5 million in new equipment, software acquisitions, and other capital improvement projects, offset by depreciation and amortization expense of $10.8 million and $1.3 million in disposal of retired assets.

- Current liabilities totaling approximately $80.7 million as of June 30, 2020, reflect an increase of approximately $691 thousand from 2019.

- Long-term debt net of current portion totaled approximately $79.5 million as of June 30, 2020, and $80.7 million as of June 30, 2019. The decrease is primarily related to repayments of principal on long-term debt.

- Property leases increased by $1.9 million due to the adoption by ASCO of Financial Accounting Standards Board (FASB) Topic 842, *Leases*, with $1.3 million classified as non-current and the amount due within one year included in current liabilities. ASCO recognized a corresponding right-of-use asset, included in non-current assets.

- Workers' compensation and comprehensive liability insurance reserves classified as long-term liabilities totaled approximately $6.8 million as of June 30, 2020, reflecting a decrease of $1.2 million 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

Changes from fiscal year 2018 to 2019

- Current assets totaling approximately $114.2 million in 2019 remained relatively unchanged with a slight decrease of $136 thousand from the prior year. Included in current assets is an increase of approximately $4.3 million in short-term investments, cash, and cash equivalents, offset with a decrease of approximately $2.2 million in patient accounts receivable and a decrease of approximately $2.9 million in estimated third-party settlements.

- Non-current assets totaling approximately $38.7 million in 2019 represent a decrease of $6.0 million from the prior year, primarily due to recording a $5.1 million offset resulting from a court ruling related to the on-campus medical office building. See Note 14 – Commitments and Contingencies. Included in non-current assets is approximately $7.5 million deposited for mortgage reserve funds related to the HUD guaranteed loan.

- 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 $45.0 million, short-term investments totaled approximately $5.9 million, and the unused available revolving line of credit was approximately $3.5 million as of June 30, 2019. This resulted in total liquidity of approximately $54.5 million. This represents a $1.7 million increase in total liquidity over the prior year.

- Net estimated third-party payer settlements of approximately $3.9 million decreased by approximately $2.9 million from 2018 due to the payments received for prior year balances. The majority of the third-party settlements balance as of June 30, 2019, pertains to outstanding receivables from the PRIME program and current year cost report estimates.

- Capital assets net totaled approximately $98.7 million as of June 30, 2019. A decrease of approximately $3.1 million from 2018 was the result of $9.1 million in new equipment, software acquisitions, and other capital improvement projects, offset by depreciation and amortization expense of $12.2 million.

- Current liabilities totaling approximately $80.0 million for both years ended June 30, 2019 and 2018.

- Long-term debt net of current portion totaled approximately $80.7 million as of June 30, 2019, compared to $84.0 million as of June 30, 2018. 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 totaled approximately $8.0 million for both years ended June 30, 2019 and 2018, based on actuarial analyses of open claims and estimates of claims 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):

	2020	2019	2018
Operating revenue	$ 317,757	$ 356,874	$ 365,142
Operating expenses	345,288	363,294	375,800
Loss from operations	(27,531)	(6,420)	(10,658)
Non-operating revenue	16,463	2,201	6,396
Change in net position before minority interest (EROE)	(11,068)	(4,219)	(4,262)
Minority interest distributions – net	(1,539)	(1,844)	(1,647)
Change in net position	(12,607)	(6,063)	(5,909)
Beginning net position	82,959	89,022	94,931
Ending net position	$ 70,352	$ 82,959	$ 89,022
Average daily census	143	153	175
Emergency room visits	51,170	56,437	60,935

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

Changes from fiscal year 2019 to 2020

- The District experienced a decrease of 5.7% in inpatient volume in 2020. Total average daily census was 143 for the current year compared to 153 in the prior year. Total hospital outpatient visits decreased by approximately 10.0% compared to 2019. During the third quarter of fiscal year 2020 the COVID-19 pandemic resulted in unprecedented federal, state, and local health emergency declarations along with mandated restrictions to mitigate the spread of COVID-19. These restrictions along with stay at home orders resulted in significant decreases in surgical, inpatient, and outpatient volumes.

- Operating revenue decreased by approximately $39.1 million in 2020 compared to 2019. This decrease is primarily due to lost patient revenue attributable to the COVID-19 pandemic.

- Operating expenses, which include patient care expenses, overhead, and administrative expenses, decreased by approximately $18.0 million. The decrease was comprised of $10.4 million in salaries and related expenses due to lower volumes attributable to the COVID-19 pandemic and voluntary and mandatory labor flex plans and furlough programs to appropriately match the workforce with patient volumes, $5.4 million in supplies and pharmaceuticals, and $2.1 million in other operating expenses offset with an increase of $2.3 million in professional and medical fees.

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

Changes from fiscal year 2019 to 2020 (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 income and expenses increased by approximately $14.3 million in 2020. The increase was primarily due to a government grant received under the CARES Act of approximately $7.1 million in addition to a $5.1 million non-operating charge incurred during 2019.

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

Changes from fiscal year 2018 to 2019

- The District recorded a $5.1 million non-operating charge related to an on-campus medical office building legal matter during fiscal year 2019. See Note 14 – Commitments and Contingencies.

- Excluding the one-time charge noted above, the District reported EBITDA of $16.7 million during fiscal 2019. This represents a $5.4 million favorable improvement over fiscal 2018.

- EROE also reflects a positive bottom line when the one-time non-operating expense is excluded and represents an improvement over fiscal 2018 of over $5 million.

- The District experienced a decrease of 12.7% in inpatient volume in 2019. Total average daily census was 153 for the current year compared to 175 in the prior year. Total hospital outpatient visits decreased by approximately 3.9% compared to 2018. The decrease was primarily due to lower volume in general and the suspension of the Behavioral Health Unit (BHU) and Crisis Stabilization Unit (CSU). Emergency Department visits decreased approximately 7.4%.

- Operating revenue decreased by approximately $8.3 million in 2019 compared to 2018. This decrease is primarily due to lower volume in general and the suspension of BHU and CSU.

- Operating expenses, which include patient care expenses, overhead, and administrative expenses, decreased by approximately $12.5 million. The decrease was approximately $9.2 million in salaries and related expenses partly due to suspension of BHU and CSU, $1.3 million in supplies and pharmaceuticals, and $2.4 million in professional and medical fees.

- 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 decreased by approximately $4.2 million in 2019. There was a $5.1 million non-operating expense related to a medical office building legal matter in 2019. See Note 14 – Commitment and Contingencies.

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

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.

	2020	2019	2018
Net cash provided by (used in)			
Operating activities	$ (850)	$ 12,075	$ 2,190
Noncapital financing activities	18,698	9,446	8,859
Capital and related financing activities	(14,577)	(17,716)	(17,352)
Investing activities	-	12	32,550
Net change in cash and cash equivalents	3,271	3,817	26,247
Cash and cash equivalents – Beginning of year	45,024	41,207	14,960
Cash and cash equivalents – End of year	$ 48,295	$ 45,024	$ 41,207

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 and federal grants ("noncapital financing activities").

Analysis of the Statement of Cash Flows

Cash and cash equivalents totaled approximately $48.3 million, $45.0 million, and $41.2 million, as of June 30, 2020, 2019, and 2018, respectively. Net cash provided by operating activities decreased by $12.9 million in 2020, mainly due to the decrease in net patient revenue as a result of COVID-19. In 2019, net cash provided by operating activities increased approximately $9.9 million compared to 2018. Cash provided by noncapital financing activities increased approximately $9.3 million compared to 2019. The major component of this increase was a CARES Act grant of $7.1 million. Cash used in capital and related financing activities decreased by approximately $3.1 million from prior year and increased by approximately $364 thousand from 2018 to 2019. Cash provided by investing activities remained relatively unchanged for both years.

The District received approximately $1.3 million from the Tri-City Hospital Foundation (the "Foundation") during 2020.

Capital Assets

As of June 30, 2020, 2019, and 2018, the District had $97.0 million, $98.7 million, and $101.8 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, building improvements, and other minor infrastructure projects costing $6.3 million in 2020, $9.0 million in 2019, and $8.7 million in 2018.

Capital Assets (continued)

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

On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by the novel coronavirus, a pandemic. Soon afterward, the District (along with hospitals in the United States) cancelled elective surgical cases, resulting in a significant loss of net patient revenue. The pandemic has resulted in the District incurring additional costs to maintain patient volume as well as to provide care to patients specifically affected by the virus. The duration and intensity of disruption from the pandemic are uncertain, and therefore the long-term impact, if any, cannot be predicted.

Over the next five years, the District will continue to face challenges in the evolving landscape of the healthcare industry. The industry continues 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 seeking to cut costs by focusing on quality-based reimbursement models that 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 continue improving 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 performance-based programs such as PRIME along with service line analysis to identify opportunities for growth in profitable services, as well as evaluating unprofitable services for cost and efficiency improvements while maintaining the highest quality of care and clinical outcomes.

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.

Report of Independent Auditors

To 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, 2020 and 2019, 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, 2020 and 2019, 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 1 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, 2020, and schedule of revenues, expenses, and changes in net position for the year ended June 30, 2020, 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, 2020, and schedule of revenues, expenses, and changes in net position for the year ended June 30, 2020, 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, 2020, and schedule of revenues, expenses, and changes in net position for the year ended June 30, 2020, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Moss Adams LLP

Irvine, California
October 28, 2020

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Tri-City Healthcare District
Statements of Net Position

ASSETS

	June 30, 2020	June 30, 2019
CURRENT ASSETS		
Cash and cash equivalents	$ 48,295,295	$ 45,023,745
Short-term investments	6,418,925	5,930,724
Restricted cash and investments	298,000	298,000
Patient accounts receivable	37,506,279	44,012,687
Other receivables	1,444,197	2,019,202
Supplies inventory	10,124,401	9,421,046
Prepaid expenses and other assets	3,451,812	3,636,938
Estimated third-party payer settlements	1,441,225	3,850,532
Total current assets	108,980,134	114,192,874
NON-CURRENT INVESTMENTS		
Board-designated	417,122	407,795
CAPITAL ASSETS – net	97,030,667	98,670,226
OTHER ASSETS		
Notes receivable	2,671,910	3,015,138
Restricted mortgage reserve fund	8,028,118	7,530,972
Goodwill	9,529,430	9,529,430
Other	11,978,105	18,237,261
Total other assets	32,207,563	38,312,801
Total assets	$ 238,635,486	$ 251,583,696

See accompanying notes.

LIABILITIES AND NET POSITION

	June 30, 2020	June 30, 2019
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 45,129,877	$ 44,643,030
Accrued payroll and related expenses	20,697,286	19,805,596
Current maturities of long-term debt	3,762,949	3,381,447
Short-term debt	9,665,744	10,075,123
Other current liabilities	1,450,208	2,110,349
Total current liabilities	80,706,064	80,015,545
LONG-TERM DEBT – net of current portion	79,546,600	80,653,772
PROPERTY LEASE – net of current portion	1,257,824	-
WORKERS' COMPENSATION AND COMPREHENSIVE LIABILITY – net of current portion	6,772,615	7,955,184
Total liabilities	168,283,103	168,624,501
NET POSITION		
Invested in capital assets – net of related debt	17,367,571	16,776,513
Restricted assets	9,700,213	9,124,319
Unrestricted	43,284,599	57,058,363
Total net position	70,352,383	82,959,195
Total liabilities and net position	$ 238,635,486	$ 251,583,696

Tri-City Healthcare District
Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended June 30,	
	2020	2019
OPERATING REVENUE		
Net patient service revenue	$ 295,205,853	$ 329,873,288
Premium revenue	16,290,405	18,934,440
Other revenue	6,261,357	8,066,194
Total operating revenue	317,757,615	356,873,922
OPERATING EXPENSES		
Salaries and related expenses	184,471,149	194,907,096
Supplies	68,659,626	74,085,888
Purchased services	20,030,608	20,807,688
Depreciation and amortization	10,809,868	12,103,066
Other operating expense	19,101,969	21,187,961
Professional and medical fees	24,807,507	22,487,086
Maintenance, rent, and utilities	17,407,641	17,714,924
Total operating expenses	345,288,368	363,293,709
LOSS FROM OPERATIONS	(27,530,753)	(6,419,787)
NON-OPERATING REVENUE (EXPENSE)		
District tax revenue	11,691,525	10,927,012
Interest income	838,244	764,984
Interest expense	(4,271,558)	(4,554,654)
CARES Act grant income	7,111,036	-
Other non-operating income (expense)	1,093,105	(4,936,364)
Total non-operating revenue, net	16,462,352	2,200,978
CHANGE IN NET POSITION BEFORE MINORITY INTEREST (DEFICIENCY OF REVENUE OVER EXPENSES)	(11,068,401)	(4,218,809)
MINORITY INTEREST DISTRIBUTIONS – NET	(1,538,411)	(1,844,018)
Change in net position	(12,606,812)	(6,062,827)
NET POSITION – Beginning of year	82,959,195	89,022,022
NET POSITION – End of year	$ 70,352,383	$ 82,959,195

See accompanying notes.

	Years Ended June 30, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from patients, insurers, and other payers	$ 320,986,978	$ 354,323,398
Payments to vendors	(150,038,733)	(156,836,852)
Payments for salaries, wages, and related benefits	(183,579,459)	(194,334,210)
Other receipts and payments, net	11,781,327	8,922,288
Net cash (used in) provided by operating activities	(849,887)	12,074,624
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Minority interest distributions, net	(1,538,411)	(1,844,018)
Receipt of District taxes	11,691,525	10,927,012
CARES Act grant income	7,111,036	-
Other non-operating income	1,433,821	363,056
Net cash provided by noncapital financing activities	18,697,971	9,446,050
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(6,255,860)	(9,014,507)
Proceeds from revolving line of credit	334,007,441	404,138,227
Principal repayments on revolving line of credit	(334,416,820)	(401,505,353)
Principal repayments on debt	(3,640,119)	(6,779,730)
Interest payments on debt	(4,271,558)	(4,554,654)
Net cash used in capital and related financing activities	(14,576,916)	(17,716,017)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of short-term investments	(54,000,000)	(60,019,000)
Proceeds from sales of short-term investments	54,000,000	60,000,000
Payments to mortgage reserve fund	(497,146)	(491,948)
Interest on investments	497,528	522,809
Net cash provided by investing activities	382	11,861
Net change in cash and cash equivalents	3,271,550	3,816,518
CASH AND CASH EQUIVALENTS – Beginning of year	45,023,745	41,207,227
CASH AND CASH EQUIVALENTS – End of year	$ 48,295,295	$ 45,023,745
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Non-operating legal damages and related fees (See Note 14)	$ -	$ 5,057,245
Capital financing (See Note 9)	$ 2,914,449	$ -
Operating lease obligations (See Note 11)	$ 1,923,582	$ -

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

	Years Ended June 30,	
	2020	2019
Loss from operations	$ (27,530,753)	$ (6,419,787)
Adjustments to reconcile loss from operations		
to net cash (used in) provided by operating activities		
Provision for bad debt	42,519,731	37,829,703
Depreciation and amortization	10,809,868	12,103,066
Changes in assets and liabilities		
Patient accounts receivable	(36,013,323)	(35,646,513)
Other receivables	575,005	427,317
Estimated third-party payer settlements	2,409,307	2,905,163
Other – net	5,001,741	(210,141)
Accounts payable and accrued liabilities	486,847	512,930
Accrued payroll and related expenses	891,690	572,886
Net cash (used in) provided by operating activities	$ (849,887)	$ 12,074,624

See accompanying notes.

Note 1 – Organization

Organization – Tri-City Healthcare District (the “District”) 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 Ambulatory Surgery Center Operators, LLC (“ASCO”); North Coast Surgery Center Ltd. (“NCSC”); the Cardiovascular Health Institute, LLC (the “Cardiovascular Institute”); the Orthopedic Institute, LLC (the “Orthopedic Institute”); the Neuroscience Institute, LLC (the “Neuro Institute”); and Tri-City Wellness, LLC (the “Wellness Center”). The Cardiovascular Institute, the Orthopedic Institute, and the Neuro Institute are hereafter collectively referred to as “The Institutes.”

ASCO, NCSC, the Cardiovascular Institute, the Orthopedic Institute, the Neuro Institute, and the Wellness Center 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 the Cardiovascular Institute, 50% of the Orthopedic Institute, and 68% of the Neuro Institute. 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 the Cardiovascular Institute, the Orthopedic Institute, and the Neuro Institute, as the component units provide services almost entirely to the District. The District owns 99.9% of the Wellness Center and dissolved Wellness Center during fiscal year 2020. 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, 2020

	ASCO	Wellness Center	The Institutes
ASSETS			
Current assets	$ 2,062,414	$ -	$ 576,413
Capital assets – net	768,678	-	-
Non-current assets	1,680,803	-	157,219
Total assets	$ 4,511,895	$ -	$ 733,632
LIABILITIES AND NET POSITION			
Current liabilities	$ 1,231,058	$ -	$ -
Property lease – net of current portion	1,257,824	-	-
Total liabilities	2,488,882	-	-
Invested in capital assets – net of related debt	768,678	-	
Restricted assets	1,382,121	-	289,974
Unrestricted	(127,786)	-	443,658
Total net position	2,023,013	-	733,632
Total liabilities and net position	$ 4,511,895	$ -	$ 733,632

Note 1 – Organization (continued)

Condensed Statement of Net Position
As of June 30, 2019

	ASCO	REHM & Wellness Center	The Institutes
ASSETS			
Current assets	$ 2,201,944	$ 289,698	$ 603,466
Capital assets – net	708,757	-	-
Non-current assets	-	-	166,153
TOTAL ASSETS	$ 2,910,701	$ 289,698	$ 769,619
LIABILITIES AND NET POSITION			
Current liabilities	$ 926,623	$ 7,500	$ 163,901
Total liabilities	926,623	7,500	163,901
Invested in capital assets – net of related debt	708,757	-	-
Restricted assets	1,355,522	282	237,543
Unrestricted	(80,201)	281,916	368,175
Total net position	1,984,078	282,198	605,718
TOTAL LIABILITIES AND NET POSITION	$ 2,910,701	$ 289,698	$ 769,619

Note 1 – Organization (continued)

Condensed Statements of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2020

	ASCO	Wellness Center	The Institutes
OPERATING REVENUE	$ 10,827,191	$ -	$ 397,252
OPERATING EXPENSES	8,647,794	9,109	(23,163)
Gain (loss) from operations	2,179,397	(9,109)	420,415
NON-OPERATING EXPENSES, net	(7,613)	-	-
Change in net position before minority interest	2,171,784	(9,109)	420,415
MINORITY INTEREST DISTRIBUTIONS – NET	(2,132,849)	(273,089)	(292,501)
Change in net position	38,935	(282,198)	127,914
NET POSITION – Beginning of year	1,984,078	282,198	605,718
NET POSITION – End of year	$ 2,023,013	$ -	$ 733,632

Note 1 – Organization (continued)

Condensed Statements of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2019

	ASCO	REHM & Wellness Center	The Institutes
OPERATING REVENUE	$ 11,180,776	$ 108,835	$ 58,197
OPERATING EXPENSES	8,450,083	7,113	109,197
Gain (loss) from operations	2,730,693	101,722	(51,000)
NON-OPERATING REVENUE, net	(996)	-	-
Change in net position before minority interest	2,729,697	101,722	(51,000)
MINORITY INTEREST DISTRIBUTIONS – NET	(2,495,033)	(2,306,318)	(353,091)
Change in net position	234,664	(2,204,596)	(404,091)
NET POSITION – Beginning of year	1,749,414	2,486,794	1,009,809
NET POSITION – End of year	$ 1,984,078	$ 282,198	$ 605,718

Note 1 – Organization (continued)

Condensed Statement of Cash Flows
For the Year Ended June 30, 2020

	ASCO	Wellness Center	The Institutes
NET CASH PROVIDED BY (USED IN)			
Operating activities	$ 2,214,651	$ (9,548)	$ 309,270
Noncapital financing activities	(2,132,850)	(273,089)	(292,500)
Capital and related financing activities	(74,084)	-	-
Investing activities	6,550	-	-
Net change in cash and cash equivalents	14,267	(282,637)	16,770
CASH AND CASH EQUIVALENTS – Beginning of year	863,970	282,637	176,906
CASH AND CASH EQUIVALENTS – End of year	$ 878,237	$ -	$ 193,676

Condensed Statement of Cash Flows
For the Year Ended June 30, 2019

	ASCO	REHM & Wellness Center	The Institutes
NET CASH PROVIDED BY (USED IN)			
Operating activities	$ 2,946,310	$ 108,578	$ 322,647
Noncapital financing activities	(2,495,033)	(41,387)	(353,089)
Capital and related financing activities	(99,001)	-	-
Investing activities	9,041	-	-
Net change in cash and cash equivalents	361,317	67,191	(30,442)
CASH AND CASH EQUIVALENTS – Beginning of year	502,653	215,446	207,348
CASH AND CASH EQUIVALENTS – End of year	$ 863,970	$ 282,637	$ 176,906

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, 2020 and 2019.

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, 2020 and 2019.

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 the 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, the Cardiovascular Institute, the Orthopedic Institute, the Neuro Institute, and the Wellness Center not owned by the District in the amount of approximately $1.7 million as of June 30, 2020, and $1.6 million for June 2019, as well as MRF deposits required under the Hospital Regulatory Agreement between the District and HUD of approximately $8.0 million and $7.5 million as of June 30, 2020 and 2019, 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.

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, government grants, 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 payer 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 $1.3 million and $1.5 million are included in accounts payable and accrued liabilities in the accompanying statements of net position as of June 30, 2020 and June 30, 2019, respectively.

Grants and contributions – From time to time, the District receives grants and contributions from various governmental agencies, private organizations and individuals. 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.

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.

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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 $9.1 million as of June 30, 2020 and 2019, 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.

Recent accounting pronouncements – In January 2017, the GASB issued Statement No. 84, Fiduciary Activities. This statement establishes fiduciary criteria and requires the District to report separate fiduciary funds financial statements within the District's financial statements. This statement is effective July 1, 2021. The District is evaluating the impact of adopting this statement on the financial statements.

In June 2017, the GASB issued Statement No. 87, Leases, establishing a single approach to the accounting for and reporting of leases by state and local governments requiring that all leases be considered as financing. Under the new guidance, the District must recognize a lease liability and an intangible asset in the financial statements. The statement is effective July 1, 2021. The District is evaluating the impact of adopting this statement on the financial statements.

In February 2016, Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2016-02, *Leases* (Topic 842). The amendments in this ASU include revisions to lessee accounting, requiring lessees to recognize a lease liability and a right-of-use asset for substantially all leases with lease terms in excess of twelve months. ASCO, a FASB reporter, adopted the amendments in this ASU as of July 1, 2019, using a modified retrospective transition approach for leases existing at, or entered into after, the adoption date with a cumulative effective adjustment. The impact of this guidance resulted in recognition of approximately $1.9 million to net right-of-use assets and approximately $1.9 million net lease liabilities as of July 1, 2019. The net right-of-use asset is included in Other assets and the net lease liabilities are included in Other current liabilities and Property lease – net of current portion on the accompanying consolidated statements of net position.

Note 2 – Summary of Significant Accounting Policies (continued)

In June 2018, the GASB issued Statement No. 89, Accounting for Interest Cost Before the End of a Construction Period. This statement requires that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest costs incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement is effective July 1, 2020. The District is evaluating the impact of adopting this statement on the financial statements.

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 (DRGs), 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 66% and 65% of the District's gross patient service revenue for the years ended June 30, 2020 and 2019, 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 the Public Hospital Redesign and Incentives in Medi-Cal (PRIME) program, 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 recognizes revenue from the PRIME program when certainty of receiving the funds is assured.

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 2016. Results of cost report settlements, as well as the District's estimates for settlements, of all fiscal years through 2020 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 $1.4 million and $3.9 million as of June 30, 2020 and 2019, respectively. During the years ending June 30, 2020 and 2019, 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 a reduction of approximately $958 thousand and an increase of approximately $2.2 million to net patient service revenue in the years ended June 30, 2020 and 2019, 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 whom are local residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers as of June 30:

	2020	2019
HMO/PPO	26%	23%
Medicare plans	31%	32%
Medi-Cal plans	14%	15%
Others	29%	30%
Total	100%	100%

Non-operating revenue includes District tax revenue and other non-patient service revenue. District tax revenue totaled approximately $11.7 million and $10.9 million for the years ended June 30, 2020 and 2019, respectively. Grant income totaled approximately $7.1 million for the year ended June 30, 2020, and relates to CARES Act Grant funds (see Note 14). Other non-operating income (expense) includes approximately $1.8 million and $656 thousand in donations from the Tri-City Hospital Foundation (the “Foundation”) and Tri-City Hospital Auxiliary (“Auxiliary”) for the years ended June 30, 2020 and 2019, 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 LAIF through which local governments may pool investments. Each governmental entity may invest up to $75.0 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, 2020 and 2019, the District held approximately $6.8 million and $6.3 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, 2020 and 2019, the District's bank balances totaled approximately $48.6 million and $45.3 million, respectively, and were not exposed to custodial credit risk, as the uninsured deposits are with financial institutions that 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 amounts of cash and investments are included in the following statements of net position captions as of June 30:

	2020	2019
Cash and cash equivalents	$ 48,295,295	$ 45,023,745
Short-term investments	6,418,925	5,930,724
Restricted cash and investments –		
Non-negotiable certificates of deposit	298,000	298,000
Board-designated	417,122	407,795
Total	$ 55,429,342	$ 51,660,264

Note 5 – Capital Assets

Capital assets consisted of the following as of June 30:

2020	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Land and land improvements	$ 24,686,017	$ -	$ -	$ -	$ 24,686,017
Buildings and improvements	204,891,472	749,995	(12,904)	64,861	205,693,424
Equipment	169,194,404	5,625,532	(1,332,700)	393,288	173,880,524
Assets under lease	6,462,122	-	-	(393,288)	6,068,834
Construction in progress	3,810,171	4,085,112	-	(64,861)	7,830,422
	409,044,186	10,460,639	(1,345,604)	-	418,159,221
Less accumulated depreciation and amortization	(310,373,960)	(10,807,314)	52,720	-	(321,128,554)
Capital assets - net	$ 98,670,226	$ (346,675)	$ (1,292,884)	$ -	$ 97,030,667

2019	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Land and land improvements	$ 19,930,612	$ -	$ -	$ 4,755,405	$ 24,686,017
Buildings and improvements	205,014,551	249,834	-	(372,913)	204,891,472
Equipment	162,343,531	4,887,558	(243,510)	2,206,825	169,194,404
Assets under lease	7,320,305	-	-	(858,183)	6,462,122
Construction in progress	5,577,832	3,963,473	-	(5,731,134)	3,810,171
	400,186,831	9,100,865	(243,510)	-	409,044,186
Less accumulated depreciation and amortization	(298,428,046)	(11,952,631)	6,717	-	(310,373,960)
Capital assets - net	$ 101,758,785	$ (2,851,766)	$ (236,793)	$ -	$ 98,670,226

Note 6 – Goodwill

On July 1, 2017, the District acquired 100% of the ownership of Orthopedic Specialists of North County ("OSNC"). The transaction was accounted for as a business combination. Total goodwill was approximately $9.5 million for both years ended June 30, 2020 and 2019. OSNC represents approximately $5.0 million of the total.

Note 7 – Other Assets

Other assets consisted of the following as of June 30:

	2020	2019
Medical office building deposits	$ 9,047,447	$ 16,908,114
Right of use asset	1,680,803	-
Other	1,249,855	1,329,147
Total	$ 11,978,105	$ 18,237,261

Medical office building deposits of approximately $9.0 million and $16.9 million as of June 30, 2020 and 2019, respectively, relate to legal matters involving a medical office building dispute. In fiscal year 2019 the District recorded a $5.1 million non-operating charge related to damages and related fees resulting from a Court of Appeals decision. In November 2020, the District received $7.9 million from the state of California related to prior year deposits. See Note 14 – Commitments and Contingencies.

Note 8 – Short-Term Debt

Line of credit – The District amended its revolving line of credit with Mid Cap, LLC in August 2019, extending the term maturity date to August 31, 2022, increasing the amount available to $15.4 million and reducing the interest rate to the London Interbank Offered Rate (LIBOR) plus 3.0% subject to a LIBOR floor of 1%. The amount available under this revolving line of credit is fully collateralized by certain assets of the District.

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.

Note 8 – Short-Term Debt (continued)

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

	2020			
	Beginning Balance	Additions	Payments	Ending Balance
Line of credit	$ 10,075,123	$ 334,007,441	$ (334,416,820)	$ 9,665,744
Total short-term debt	$ 10,075,123	$ 334,007,441	$ (334,416,820)	$ 9,665,744

	2019			
	Beginning Balance	Additions	Payments	Ending Balance
Line of credit	$ 7,442,249	$ 404,138,227	$ (401,505,353)	$ 10,075,123
Promissory note	3,000,000	-	(3,000,000)	-
Total short-term debt	$ 10,442,249	$ 404,138,227	$ (404,505,353)	$ 10,075,123

Note 9 – Long-Term Debt

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

- ORIX Real Estate Capital, formerly Lancaster Pollard Mortgage Company, HUD insured loan, interest rate of 4.32%, with principal balance outstanding of approximately $79.3 million and $81.5 million as of June 30, 2020 and 2019, respectively. Principal and interest payments of approximately $468 thousand are due monthly with the remaining aggregate unpaid amount due April 2042. An 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.

- Various capital equipment leases with interest rates varying between 2.73% and 4.83%. Principal and interest payments are due monthly commencing and expiring on various dates ranging from October 2020 through June 2022. Principal balances due totaled approximately $1.3 million and $2.5 million as of June 30, 2020 and 2019, respectively.

Note 9 – Long-Term Debt (continued)

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

	2020				
	Beginning Balance	Additions	Payments	Ending Balance	Due Within 1 Year
Lancaster (HUD) mortgage debt	$ 81,490,056	$ -	$ (2,141,507)	$ 79,348,549	$ 2,235,874
Capital financing	-	2,914,449	(257,833)	2,656,616	550,633
Bank of the West notes payable	39,217	-	(39,217)	-	-
Total long-term debt	81,529,273	2,914,449	(2,438,557)	82,005,165	2,786,507
Capital lease obligations	2,505,946	-	(1,201,562)	1,304,384	976,442
Total long-term debt	$ 84,035,219	$ 2,914,449	$ (3,640,119)	$ 83,309,549	$ 3,762,949

	2019				
	Beginning Balance	Additions	Payments	Ending Balance	Due Within 1 Year
Lancaster (HUD) mortgage debt	$ 83,541,179	$ -	$ (2,051,123)	$ 81,490,056	$ 2,141,507
Bank of the West notes payable	501,982	-	(462,765)	39,217	39,217
Total long-term debt	84,043,161	-	(2,513,888)	81,529,273	2,180,724
Capital lease obligations	3,771,788	-	(1,265,842)	2,505,946	1,200,723
Total long-term debt	$ 87,814,949	$ -	$ (3,779,730)	$ 84,035,219	$ 3,381,447

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, 2020, is as follows:

	Principal	Interest	Total
Years Ending June 30,			
2021	$ 3,762,949	$ 3,502,727	$ 7,265,676
2022	3,234,069	3,362,618	6,596,687
2023	3,032,695	3,231,988	6,264,683
2024	3,163,841	3,100,842	6,264,683
2025	2,975,585	2,966,659	5,942,244
2026-2030	15,146,748	12,952,280	28,099,028
2031-2035	18,791,374	9,307,653	28,099,027
2036-2040	23,312,975	4,786,052	28,099,027
2041-2042	9,889,313	414,530	10,303,843
Total	$ 83,309,549	$ 43,625,349	$ 126,934,898

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

	2020	2019
Equipment under capital lease	$ 6,068,834	$ 6,462,122
Accumulated amortization	(4,871,284)	(4,037,198)
Total	$ 1,197,550	$ 2,424,924

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, 2020, there were a total of 1,171 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 $5.5 million and $5.7 million for years ended June 30, 2020 and 2019, respectively.

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, 2020 and 2019, forfeitures reduced the District's expenses and contributions under the plan by approximately $51 thousand and $96 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 $92 thousand and $89 thousand for years ended June 30, 2020 and 2019, respectively.

The District’s contributions to NSRP totaled approximately $1.9 million and $2.1 million for the years ended June 30, 2020 and 2019, 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, 2020 and 2019.

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, 2020 and 2019, the balance of capital accumulation funds was approximately $431 thousand and $348 thousand, respectively, which is included in prepaid expenses and other assets on the accompanying statements of net position. The corresponding compensation liabilities of approximately $538 thousand and $445 thousand as of June 30, 2020 and 2019, 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 $3.8 million and $4.0 million for the years ended June 30, 2020 and 2019, respectively.

Note 11 – Operating Leases (continued)

As of June 30, 2020, future minimum lease payments under non-cancelable operating leases are as follows:

Years Ending June 30,	
2021	$ 3,118,524
2022	2,783,149
2023	1,260,397
2024	1,187,923
2025	766,803
Thereafter	1,287,928
Total	$ 10,404,724

Note 12 – Related Organizations

The Foundation and 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.

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 $474 thousand and $619 thousand in the years ended June 30, 2020 and 2019, respectively.

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

	2020	2019
Tri-City Hospital Foundation		
Assets	$ 4,519,252	$ 5,454,930
Liabilities	$ 63,773	$ 158,792
Net Assets	$ 4,455,479	$ 5,296,138
Tri-City Hospital Auxiliary		
Assets	$ 260,880	$ 498,616
Liabilities	$ -	$ 3,408
Net Assets	$ 260,880	$ 495,208

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 ASCO. 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 a 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 the Cardiovascular Institute. The purpose of the Cardiovascular Institute 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 the Cardiovascular Institute entered into a co-management agreement under which the Cardiovascular Institute provides certain services to meet this mission.

During the year ended June 30, 2011, the District formed the Orthopedic Institute. The purpose of the Orthopedic Institute 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 the Orthopedic Institute entered into a co-management agreement under which the Orthopedic Institute provides certain services to meet this mission.

During the year ended June 30, 2015, the District formed Tri-City Wellness Center, 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, 2020, the District dissolved Wellness Center, LLC and the assets were transferred to the District.

During the year ended June 30, 2015, the District formed the Tri-City Medical Center Neuroscience Institute, LLC ("Neuro Institute"), 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 totaled approximately $1.7 million and $1.6 million for the years ended June 30, 2020 and 2019, 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.

Note 14 – Commitments and Contingencies (continued)

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 an on-campus medical office building. The developer filed a complaint against the District and the 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. The District filed a notice of abandonment of its eminent domain claim subsequent to the verdict. The trial court set aside (nullified) the abandonment. The District appealed from the judgement and from the order setting aside the abandonment. During fiscal 2019, the Court of Appeal affirmed the award of damages but reversed the trial court's order setting aside the District's abandonment of the eminent domain claim and remanded the case to the superior court to effectuate the District's abandonment of the eminent domain proceeding. The District recorded a $5.1 million non-operating charge in 2019 related to the damages and related fees portion of the judgement and pursued recovery of deposits made prior to the Court of Appeal's decision. The $5.1 million charge is reflected as an offset to deposits as of June 30, 2019. See Note 7 – Other Assets. In November 2019, the District received $7.9 million of deposits back from the state of California in accordance with the lawfully abandoned condemnation. Disputes remain between the Developer and the District and both contend entitlement to damages.

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, dental PPO benefits, and pharmaceutical benefits.

Workers' compensation – 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, 2019, the District maintains nonnegotiable certificates of deposit totaling $15 thousand for calendar year 2003 and $283 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 2019. Such reserves were approximately $7.2 million and $8.1 million as of June 30, 2020 and 2019, respectively. Amounts classified as current liabilities are included in accrued payroll and related expenses in the statements of net position of approximately $2.2 million and $2.4 million as of June 30, 2020 and 2019, respectively.

Note 14 – Commitments and Contingencies (continued)

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 $2.0 million. The District has reserved for estimated IBNR claims through June 30, 2020. Such reserves were approximately $2.7 million and $3.2 million, respectively. Amounts classified as current liabilities are included in accounts payable and accrued liabilities in the statements of net position of approximately $844 thousand and $1.0 million as of June 30, 2020 and 2019, 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, 2018	$ 11,422,503
Additions	2,575,257
Payments	(2,663,415)
Balance as of June 30, 2019	11,334,345
Additions	773,180
Payments	(2,264,461)
Balance as of June 30, 2020	9,843,063
Less: amounts classified as current liabilities	3,070,448
Workers Compensation and Comprehensive Liability Non Current Portion	$ 6,772,615

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

Balance as of June 30, 2018	$ 1,509,203
Additions	6,396,496
Payments	(6,437,924)
Balance as of June 30, 2019	1,467,775
Additions	7,031,257
Payments	(7,164,643)
Balance as of June 30, 2020	$ 1,334,389

Note 14 – Commitments and Contingencies (continued)

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 $2.7 million and $3.0 million as of June 30, 2020 and 2019, respectively. The balance is included in other long-term assets in the accompanying statements of net position.

COVID-19 – On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by the novel coronavirus, a pandemic. Soon afterward, the District (along with hospitals in the United States) cancelled elective surgical cases, resulting in a significant loss of net patient revenue. The pandemic has resulted in the District incurring additional costs to maintain patient volume as well as to provide care to patients specifically affected by the virus. The duration and intensity of disruption from the pandemic are uncertain, and therefore the long-term impact, if any, cannot be predicted.

CARES Act Grant Funding – During April 2020, the District received funds of $7.1 million under the Provider Relief Fund, administered by the U.S. Department of Health & Human Services (HHS), under the CARES Act. The District was required to sign attestations agreeing to the terms and conditions of payment. Those terms and conditions include measures to prevent fraud and misuse. Documentation is required to ensure that these funds are to be used for healthcare-related expenses or lost revenue attributable to coronavirus, limitations of out of pocket payments from certain patients, and the acceptance of several other reporting and compliance requirements. Also anti-fraud monitoring and auditing will be done by HHS and the Office of the Inspector General. Management is currently assessing the compliance requirements of these funds. HHS may issue more specific guidance in the future on how the lost revenue and costs should be calculated, which may result in modification to management’s estimates in future periods.

Note 15 – Subsequent Events

In September 2020, the District received advances from Medicare under the Medicare Accelerated Payment Program, administered by the Centers for Medicare and Medicaid Services, of $30.6 million. This amount is treated as a loan bearing no interest and was scheduled to be recouped beginning 120 days following receipt of the accelerated payments and repaid in full not later than one year following payment receipt. On September 30, 2020, a new funding bill was enacted which delays recoupment of such funds. The recently finalized funding bill now gives hospitals one year before Medicare can claim payments to repay the loans. The District expects recoupment to begin in September 2021 and will have 29 months since the first payment to fully repay the loan if not recouped by Medicare at that time. Interest will accrue on outstanding payments after the 29-month period at 4%.

Supplemental Schedules

	Tri-City Medical Center	ASCO	Wellness Center	Cardiovascular Institute	Orthopedic Institute	Neuro Institute	Eliminations	TOTAL
ASSETS								
CURRENT ASSETS								
Cash and cash equivalents	$ 47,223,382	$ 878,237	$ -	$ 138,674	$ 54,922	$ 80	$ -	$ 48,295,295
Short-term investments	6,418,925	-	-	-	-	-	-	6,418,925
Restricted cash and investments	298,000	-	-	-	-	-	-	298,000
Patient accounts receivable, net	36,353,201	1,153,078	-	-	-	-	-	37,506,279
Other receivables	1,068,293	-	-	353,626	6,415	22,696	(6,833)	1,444,197
Supplies inventory	10,116,828	7,573	-	-	-	-	-	10,124,401
Prepaid expenses and other assets	3,428,286	23,526	-	-	-	-	-	3,451,812
Estimated third-party payor settlements	1,441,225	-	-	-	-	-	-	1,441,225
Total current assets	106,348,140	2,062,414	-	492,300	61,337	22,776	(6,833)	108,980,134
NON-CURRENT INVESTMENTS								
Board-designated	417,122	-	-	-	-	-	-	417,122
CAPITAL ASSETS - net	96,261,989	768,678	-	-	-	-	-	97,030,667
OTHER ASSETS								
Notes receivable	2,671,910	-	-	-	-	-	-	2,671,910
Restricted mortgage reserve fund	8,028,118	-	-	-	-	-	-	8,028,118
Goodwill	9,529,430	-	-	-	-	-	-	9,529,430
Other	10,140,083	1,680,803	-	74,732	36,220	46,267	-	11,978,105
Total other assets	30,369,541	1,680,803	-	74,732	36,220	46,267	-	32,207,563
Total Assets	$ 233,396,792	$ 4,511,895	$ -	$ 567,032	$ 97,557	$ 69,043	$ (6,833)	$ 238,635,486

Tri-City Healthcare District
Schedule of Net Position (Continued)
June 30, 2020

	Tri-City Medical Center	ASCO	Wellness Center	Cardiovascular Institute	Orthopedic Institute	Neuro Institute	Eliminations	TOTAL
LIABILITIES AND NET POSITION								
CURRENT LIABILITIES								
Accounts payable and accrued liabilities	$ 44,650,086	$ 486,624	$ -	$ -	$ -	$ -	$ (6,833)	$ 45,129,877
Accrued payroll and related expenses	20,375,831	321,455	-	-	-	-	-	20,697,286
Current maturities of long-term debt	3,762,949	-	-	-	-	-	-	3,762,949
Short-term debt	9,665,744	-	-	-	-	-	-	9,665,744
Other current liabilities	1,027,229	422,979	-	-	-	-	-	1,450,208
Total current liabilities	79,481,839	1,231,058	-	-	-	-	(6,833)	80,706,064
LONG-TERM DEBT - net of current position	79,546,600	-	-	-	-	-	-	79,546,600
PROPERTY LEASE - net of current portion	-	1,257,824	-	-	-	-	-	1,257,824
WORKERS' COMPENSATION AND COMPREHENSIVE LIABILITY - net of current portion	6,772,615	-	-	-	-	-	-	6,772,615
Total liabilities	165,801,054	2,488,882	-	-	-	-	(6,833)	168,283,103
NET POSITION								
Invested in capital assets - net of related debt	16,598,893	768,678	-	-	-	-	-	17,367,571
Restricted assets	8,028,118	1,382,121	-	219,101	48,779	22,094	-	9,700,213
Unrestricted	42,968,727	(127,786)	-	347,931	48,778	46,949	-	43,284,599
Total net position	67,595,738	2,023,013	-	567,032	97,557	69,043	-	70,352,383
Total liabilities and net position	$ 233,396,792	$ 4,511,895	$ -	$ 567,032	$ 97,557	$ 69,043	$ (6,833)	$ 238,635,486

Tri-City Healthcare District
Schedule of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2020

	Tri-City Medical Center	ASCO	Wellness Center	Cardiovascular Institute	Orthopedic Institute	Neuro Institute	Eliminations	Total
OPERATING REVENUE								
Net patient service revenue	$ 284,591,575	$ 10,614,278	$ -	$ -	$ -	$ -	$ -	$ 295,205,853
Premium revenue	16,290,405	-	-	-	-	-	-	16,290,405
Other revenue	6,888,357	212,913	-	397,252	-	-	(1,237,165)	6,261,357
Total operating revenue	307,770,337	10,827,191	-	397,252	-	-	(1,237,165)	317,757,615
OPERATING EXPENSES								
Salaries and related expenses	181,510,818	2,960,331	-	-	-	-	-	184,471,149
Supplies	65,597,166	3,062,460	-	-	-	-	-	68,659,626
Purchased services	19,516,238	859,622	-	-	-	-	(345,252)	20,030,608
Depreciation and amortization	10,598,807	202,128	-	8,933			-	10,809,868
Other operating expense	18,654,827	597,559	9,109	(129,617)	(32,011)	2,102	-	19,101,969
Professional and medical fees	24,629,021	51,056	-	103,480	13,115	10,835	-	24,807,507
Maintenance, rent & utilities	16,493,003	914,638	-	-	-	-	-	17,407,641
Total operating expenses	336,999,880	8,647,794	9,109	(17,204)	(18,896)	12,937	(345,252)	345,288,368
(LOSS) INCOME FROM OPERATIONS	(29,229,543)	2,179,397	(9,109)	414,456	18,896	(12,937)	(891,913)	(27,530,753)
NON-OPERATING REVENUE (EXPENSE)								
District tax revenue	11,691,525	-	-	-	-	-	-	11,691,525
Interest income	831,694	6,550	-	-	-	-	-	838,244
Interest expense	(4,257,395)	(14,163)	-	-	-	-	-	(4,271,558)
Grant income	7,111,036	-	-	-	-	-	-	7,111,036
Other non-operating income (expense)	1,093,105	-	-	-	-	-	-	1,093,105
Total non-operating revenue (expense)	16,469,965	(7,613)	-	-	-	-	-	16,462,352
CHANGE IN NET POSITION BEFORE MINORITY INTEREST (EROE)	(12,759,578)	2,171,784	(9,109)	414,456	18,896	(12,937)	(891,913)	(11,068,401)
Minority interest distributions - net	-	(1,389,573)	(4,974)	(143,864)	-	-	-	(1,538,411)
Distributions between related entities	268,115	(743,276)	(268,115)	(148,637)	-	-	891,913	-
CHANGE IN NET POSITION	(12,491,463)	38,935	(282,198)	121,955	18,896	(12,937)	-	(12,606,812)
NET POSITION - Beginning of year	80,087,201	1,984,078	282,198	445,077	78,661	81,980	-	82,959,195
NET POSITION - End of year	$ 67,595,738	$ 2,023,013	$ -	$ 567,032	$ 97,557	$ 69,043	$ -	$ 70,352,383