REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS
WITH SUPPLEMENTAL SCHEDULES

TRI-CITY HEALTHCARE DISTRICT

June 30, 2021 and 2020

MOSSADAMS

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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"); and Tri-City Wellness, LLC ("Wellness Center").

ASCO, 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 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 Wellness Center, as management of the District has operational responsibility. The Wellness Center LLC entity was dissolved in 2020.

This section of the District's annual financial report presents an analysis of the District's financial performance for the years ended June 30, 2021, 2020, and 2019. 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 non-operating income (expenses) including interest expense, which for non-governmental 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 non-governmental hospitals because of these GASB requirements.

References throughout to "fiscal year" refer to the District's fiscal year ended June 30.

Executive Summary

For fiscal year 2021, the District reported an increase in net position before minority interest, also referred to herein as Excess of Revenue Over Expenses (EROE), of approximately $6.1 million.

EROE for fiscal year 2021 by entity was as follows:

Tri-City Medical Center	$ 5,083,313
Ambulatory Surgery Center Operators	1,401,437
Cardiovascular Institute	169,739
Eliminations	(570,327)
Total excess of revenue over expenses	$ 6,084,162

Contributing to the results for fiscal year 2021 were the following significant activities:

- While the COVID-19 pandemic continued throughout fiscal year 2021, the District's financial results were favorable to budget for fiscal year 2021 and also favorable to the results for fiscal year 2020.

- The District reported positive Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) of $20.1 million during fiscal year 2021. This represents 6% of total operating revenue for fiscal year 2021 and an improvement of approximately $16.9 million over fiscal year 2020.

- EROE was approximately $6.1 million for fiscal year 2021, amounting to an improvement of approximately $17.2 million over fiscal year 2020.

- Throughout the pandemic, the District has continued to invest in multiple testing platforms, Personal Protective Equipment (PPE), specialty medical equipment, and pharmaceuticals along with implementing additional safety and visitation protocols as a priority in order to protect patients, families, workforce, physicians, and the greater community.

- The District experienced a COVID-19 surge that began in November 2020 and peaked in January 2021 when the number of COVID-19 positive inpatients exceeded 100 on a single day. During this surge the District's patient care costs increased exponentially.

- Surgical procedures and patient volumes increased during fiscal year 2021 from pandemic lows encountered during fiscal year 2020. The District's revenue increased over the prior year; however, overall patient volumes and revenue remained below pre-pandemic levels. The hospital also experienced a higher level of acuity for its patient population during fiscal year 2021. The decrease in revenue due to the ongoing pandemic was partially offset by a grant received in April 2021 as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act of approximately $4.6 million.

- Throughout the pandemic, the District has implemented programs to appropriately match the workforce with patient volumes while maintaining flexibility as patient volumes fluctuate and COVID-19 surges are encountered.

- The District improved its liquidity position versus the prior year to approximately $86.8 million as of June 30, 2021. This improvement included the receipt of approximately $30.6 million during fiscal year 2021 from the Centers for Medicare and Medicaid Services (CMS) under the COVID-19 Acceleration and Advance Payment program (CAAP).

- The District recorded revenue of approximately $23.2 million during fiscal year 2021 through the continuation of the Intergovernmental Transfer (IGT) program. This program reimbursed the District for a portion of the difference between the cost of treating Medi-Cal patients and the amount reimbursed through pre-existing Medi-Cal contracts.

- The District participated in the Public Hospital Redesign and Incentives in Medi-Cal ("PRIME") program during fiscal year 2021. 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 PRIME program contributed approximately $5.3 million to revenue during fiscal year 2021.

- The District's strategic partnership in ASCO resulted in an EROE of approximately $1.4 million during fiscal year 2021. 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 $570 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, 2021, the physician loan balance was approximately $3.0 million. Approximately $1.2 million was forgiven during fiscal year 2021.

- In July 2020, the District purchased an Oncology clinic to expand and provide end-to-end oncology care inclusive of hospital and ambulatory medical services in conjunction with the already existing infusion services that are being offered to the community.

- Supplies and pharmaceutical expenses increased by approximately $7.2 million in fiscal year 2021 as compared to the prior year primarily due to the high cost of pharmaceuticals for COVID-19 patients. Salaries and related expenses decreased by approximately $9.8 million and purchased services decreased by approximately $2.2 million. These expense decreases were primarily due to lower patient volumes and managing of workforce in lower volume non-COVID-19 care and administrative areas. Professional and medical fees, including emergency department and on-call for multiple specialties, increased approximately $4.4 million due to the contract rate increases and the addition of new clinics.

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

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

ASSETS

	2021	2020	2019
ASSETS			
Current assets	$ 146,793	$ 108,980	$ 114,193
Capital assets – net	92,256	97,031	98,670
Non-current assets	32,965	32,624	38,721
TOTAL ASSETS	$ 272,014	$ 238,635	$ 251,584
LIABILITIES AND NET POSITION			
Current liabilities	$ 93,046	$ 80,706	$ 80,016
Long-term debt – net of current portion	76,314	79,547	80,654
Property lease – net of current portion	885	1,258	-
Medicare Accelerated payments – net of current portion	19,375	-	-
Workers' compensation and comprehensive liability – net of current portion	7,401	6,772	7,955
Total liabilities	197,021	168,283	168,625
Invested in capital assets – net of related debt	17,151	17,368	16,777
Restricted assets	9,900	9,700	9,124
Unrestricted	47,942	43,284	57,058
Total net position	74,993	70,352	82,959
TOTAL LIABILITIES AND NET POSITION	$ 272,014	$ 238,635	$ 251,584

Analysis of Changes in the Statement of Net Position

Changes from fiscal year 2020 to 2021

- Current assets totaling approximately $146.8 million as of June 30, 2021, represent an increase of approximately $37.8 million from the prior year. Included in current assets is an increase of approximately $21.9 million in short-term investments, cash, and cash equivalents, primarily due to the receipt of Medicare advance payments and an increase of approximately $13.5 million in patient accounts receivable.

- Non-current assets (excluding capital assets – net) totaling approximately $33.0 million as of June 30, 2021 remained consistent with the prior year. Included in non-current assets is approximately $8.5 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 $69.9 million, short-term investments totaled approximately $6.7 million, and the unused available revolving line of credit was approximately $10.2 million as of June 30, 2021. This resulted in total liquidity of approximately $86.8 million, representing a $26.4 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 $1.7 million as of June 30, 2021, includes approximately $2.2 million related to fiscal year 2021, offset by approximately $450 thousand for cost report settlements related to prior years.

- Capital assets – net totaled approximately $92.3 million as of June 30, 2021. A decrease of approximately $4.8 million from fiscal year 2020 was the result of approximately $5.6 million in new equipment, software acquisitions, and other capital improvement projects, offset by depreciation and amortization expense of approximately $10.4 million.

- Current liabilities totaling approximately $93.0 million as of June 30, 2021, reflect an increase of approximately $12.3 million from fiscal year 2020, primarily due to Medicare advance payments.

- Long-term debt – net of current portion totaled approximately $76.3 million as of June 30, 2021, and $79.5 million as of June 30, 2020. The decrease is primarily related to scheduled repayments of principal on long-term debt.

- Property leases – net of current portion totaled approximately $885 thousand as of June 30, 2021, and $1.3 million as of June 30, 2020. The decrease is primarily due to the scheduled monthly payments on the rental properties.

- Workers’ compensation and comprehensive liability insurance reserves classified as long-term liabilities totaled approximately $7.4 million as of June 30, 2021, reflecting an increase of approximately $629 thousand based on actuarial analyses of open claims and estimates of claims incurred but not yet reported (IBNR). Actuarial studies are commissioned twice each year to determine the potential liabilities and required reserves.

Analysis of Changes in the Statement of Net Position

Changes from fiscal year 2019 to 2020

- Current assets totaling approximately $109.0 million in fiscal year 2020 represent a decrease of approximately $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 fiscal year 2020 represent a decrease of $6.1 million from the prior year, primarily due to receiving a refund of approximately $7.9 million from the state related to an on-campus medical office building deposit. Included in non-current assets is approximately $8.0 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 $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 totaled approximately $97.0 million as of June 30, 2020. A decrease of approximately $1.6 million from fiscal year 2019 was the result of approximately $10.5 million in new equipment, software acquisitions, and other capital improvement projects, offset by depreciation and amortization expense of approximately $10.8 million and approximately $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 fiscal year 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 scheduled repayments of principal on long-term debt.

- Property lease – net 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 approximately $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.

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

	2021	2020	2019
Operating revenue	$ 333,316	$ 317,757	$ 356,874
Operating expenses	344,076	345,288	363,294
Loss from operations	(10,760)	(27,531)	(6,420)
Non-operating revenue	16,844	16,463	2,201
Change in net position before minority interest (EROE)	6,084	(11,068)	(4,219)
Minority interest distributions – net	(1,443)	(1,539)	(1,844)
Change in net position	4,641	(12,607)	(6,063)
Beginning net position	70,352	82,959	89,022
Ending net position	$ 74,993	$ 70,352	$ 82,959
Average daily census	149	143	153
Emergency room visits	41,350	51,170	56,437

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

Changes from fiscal year 2020 to 2021

- The District experienced an increase of 3.6 percent in inpatient volume in fiscal year 2021. Total average daily census was 149 for the current year compared to 143 in the prior year.

- Operating revenue increased by approximately $15.6 million in fiscal year 2021 compared to fiscal year 2020. This increase is primarily due to an increase in surgeries and procedures and an increase in receipts from PRIME and IGT programs.

- Operating expenses, which include patient care expenses, overhead, and administrative expenses, decreased by approximately $1.2 million. The decrease was comprised of approximately $9.8 million in salaries and related expenses, approximately $2.4 million in purchased services due to lower volumes attributable to the COVID-19 pandemic and matching the workforce with patient volumes, offset with an increase of approximately $7.2 million in supplies and pharmaceuticals, and approximately $4.4 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. During fiscal year 2021, the District received a grant of approximately $4.6 million from the CARES Act and was awarded an additional grant of approximately $1.6 million from the California Health Facilities Financing Authority through the Children's Hospital Program.

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 fiscal year 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 percent compared to fiscal year 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 fiscal year 2020 compared to fiscal year 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 approximately $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, approximately $5.4 million in supplies and pharmaceuticals, and approximately $2.1 million in other operating expenses offset with an increase of approximately $2.3 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 increased by approximately $14.3 million in fiscal year 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 fiscal year 2019.

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.

	2021	2020	2019
Net cash provided by (used in)			
Operating activities	$ 20,581	$ (850)	$ 12,075
Noncapital financing activities	19,205	18,698	9,446
Capital and related financing activities	(18,001)	(14,577)	(17,716)
Investing activities	(205)	-	12
Net change in cash and cash equivalents	21,580	3,271	3,817
Cash and cash equivalents – Beginning of year	48,295	45,024	41,207
Cash and cash equivalents – End of year	$ 69,875	$ 48,295	$ 45,024

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 $69.9 million, $48.3 million, and $45.0 million, as of June 30, 2021, 2020, and 2019, respectively. Net cash provided by operating activities increased by $21.4 million in fiscal year 2021 compared to the prior year, primarily due to the receipt of Medicare advance payments. In fiscal year 2020, net cash provided by operating activities decreased by approximately $12.9 million compared to the prior year, mainly due to the decrease in net patient revenue as a result of COVID-19. Cash provided by noncapital financing activities increased approximately $507 thousand during fiscal year 2021 compared to fiscal year 2020. Cash used in capital and related financing activities increased by approximately $3.4 million during fiscal year 2021 as compared to the prior year due to the payment of short-term debt and decreased by approximately $3.1 million from fiscal year 2019 to fiscal year 2020. Cash provided by investing activities slightly decreased due to the decrease in interest rates on investments from fiscal year 2020 to fiscal year 2021.

The District received approximately $1.8 million from the Tri-City Hospital Foundation (the "Foundation") and Auxiliary during fiscal year 2021.

Capital Assets

As of June 30, 2021, 2020, and 2019, the District had $92.3 million, $97.0 million, and $98.7 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, laboratory equipment, building improvements, and other minor infrastructure projects costing approximately $5.7 million in 2021, $6.3 million in 2020, and $9.0 million in 2019.

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

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, 2021 and 2020, and the related statements of revenues, expenses, and 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 opinions 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 1132.2, State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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, 2021 and 2020, 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 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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.

Supplementary Information

The HUD Required Financial Information as of June 30, 2021, schedule of net position as of June 30, 2021, and schedule of revenues, expenses, and changes in net position for the year ended June 30, 2021, 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 HUD Required Financial Information, schedule of net position as of June 30, 2021, and schedule of revenues, expenses, and changes in net position for the year ended June 30, 2021, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information – Compliance with Contractual Agreements

In connection with our audit, nothing came to our attention that caused us to believe that Tri-City Healthcare District failed to comply with the terms, covenants, provision, or conditions of sections 1 to 49, inclusive, of the HUD Regulatory Agreement dated March 1, 2017, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Tri-City Healthcare District's noncompliance with the above-referenced terms, covenants, provision, or conditions of the HUD Regulatory Agreement, insofar as they relate to accounting matters.

Restricted Use Relating to the Other Matter – Compliance with Contractual Agreements

The communication related to compliance with the aforementioned HUD Regulatory Agreement described in the Other Matters paragraph is intended solely for the information and use of the Board of Directors and management of Tri-City Healthcare District and HUD and is not intended to be, and should not be, used by anyone other than these specified parties.

Moss Adams LLP

Irvine, California
September 27, 2021

Tri-City Healthcare District
Statements of Net Position

	June 30, 2021	June 30, 2020
CURRENT ASSETS		
Cash and cash equivalents	$ 69,874,882	$ 48,295,295
Short-term investments	6,699,589	6,418,925
Restricted cash and investments	298,000	298,000
Patient accounts receivable	50,962,684	37,506,279
Other receivables	2,263,279	1,444,197
Supplies inventory	11,109,665	10,124,401
Prepaid expenses and other assets	3,848,719	3,451,812
Estimated third-party payer settlements	1,735,820	1,441,225
Total current assets	146,792,638	108,980,134
NON-CURRENT INVESTMENTS		
Board-designated	421,069	417,122
CAPITAL ASSETS – net	92,256,101	97,030,667
OTHER ASSETS		
Notes receivable	2,960,372	2,671,910
Restricted mortgage reserve fund	8,517,275	8,028,118
Goodwill	9,529,430	9,529,430
Other	11,537,286	11,978,105
Total other assets	32,544,363	32,207,563
Total assets	$ 272,014,171	$ 238,635,486

See accompanying notes.

LIABILITIES AND NET POSITION

	June 30, 2021	June 30, 2020
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 51,924,606	$ 45,129,877
Accrued payroll and related expenses	20,429,055	20,697,286
Current maturities of long-term debt	3,232,206	3,762,949
Short-term debt	5,189,737	9,665,744
Other current liabilities	1,020,436	1,450,208
Medicare accelerated payments	11,250,000	-
Total current liabilities	93,046,040	80,706,064
LONG-TERM DEBT – net of current portion	76,313,529	79,546,600
PROPERTY LEASE – net of current portion	885,210	1,257,824
MEDICARE ACCELERATED PAYMENTS - net of current portion	19,374,863	-
WORKERS' COMPENSATION AND COMPREHENSIVE LIABILITY – net of current portion	7,401,407	6,772,615
Total liabilities	197,021,049	168,283,103
NET POSITION		
Invested in capital assets – net of related debt	17,150,748	17,367,571
Restricted assets	9,900,065	9,700,213
Unrestricted	47,942,309	43,284,599
Total net position	74,993,122	70,352,383
Total liabilities and net position	$ 272,014,171	$ 238,635,486

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

	Years Ended June 30, 2021	Years Ended June 30, 2020
OPERATING REVENUE		
Net patient service revenue	$ 314,964,663	$ 295,205,853
Premium revenue	15,350,665	16,290,405
Other revenue	3,000,355	6,261,357
Total operating revenue	333,315,683	317,757,615
OPERATING EXPENSES		
Salaries and related expenses	174,657,481	184,471,149
Supplies	75,874,286	68,659,626
Purchased services	17,787,757	20,030,608
Depreciation and amortization	10,447,087	10,809,868
Other operating expense	19,285,149	19,101,969
Professional and medical fees	29,193,516	24,807,507
Maintenance, rent, and utilities	16,830,358	17,407,641
Total operating expenses	344,075,634	345,288,368
LOSS FROM OPERATIONS	(10,759,951)	(27,530,753)
NON-OPERATING REVENUE (EXPENSE)		
District tax revenue	12,366,122	11,691,525
Interest income	547,424	838,244
Interest expense	(4,088,711)	(4,271,558)
CARES Act grant income	4,603,148	7,111,036
Other non-operating income (expense)	3,416,130	1,093,105
Total non-operating revenue, net	16,844,113	16,462,352
CHANGE IN NET POSITION BEFORE MINORITY INTEREST (DEFICIENCY OF REVENUE OVER EXPENSES)	6,084,162	(11,068,401)
MINORITY INTEREST DISTRIBUTIONS – NET	(1,443,423)	(1,538,411)
Change in net position	4,640,739	(12,606,812)
NET POSITION – Beginning of year	70,352,383	82,959,195
NET POSITION – End of year	$ 74,993,122	$ 70,352,383

See accompanying notes.

	Years Ended June 30, 2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from patients, insurers, and other payers	$ 315,460,635	$ 320,986,978
Payments to vendors	(153,558,508)	(150,038,733)
Payments for salaries, wages, and related benefits	(174,925,712)	(183,579,459)
Other receipts and payments, net	33,603,981	11,781,327
Net cash provided by (used in) operating activities	20,580,396	(849,887)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Minority interest distributions, net	(1,443,423)	(1,538,411)
Receipt of District taxes	12,366,122	11,691,525
CARES Act grant income	4,603,148	7,111,036
Other non-operating income	3,678,943	1,433,821
Net cash provided by noncapital financing activities	19,204,790	18,697,971
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(5,672,521)	(6,255,860)
Proceeds from revolving line of credit	279,694,119	334,007,441
Principal repayments on revolving line of credit	(284,170,126)	(334,416,820)
Principal repayments on debt	(3,763,814)	(3,640,119)
Interest payments on debt	(4,088,711)	(4,271,558)
Net cash used in capital and related financing activities	(18,001,053)	(14,576,916)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of short-term investments	(60,000,000)	(54,000,000)
Proceeds from sales of short-term investments	60,000,000	54,000,000
Payments to mortgage reserve fund	(489,157)	(497,146)
Interest on investments	284,611	497,528
Net cash (used in) provided by investing activities	(204,546)	382
Net change in cash and cash equivalents	21,579,587	3,271,550
CASH AND CASH EQUIVALENTS – Beginning of year	48,295,295	45,023,745
CASH AND CASH EQUIVALENTS – End of year	$ 69,874,882	$ 48,295,295
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Capital financing (See Note 9)	$ -	$ 2,914,449
Operating lease obligations (See Note 11)	$ -	$ 1,923,582

Tri-City Healthcare District
Statement of Cash Flows (Continued)

	Years Ended June 30, 2021	Years Ended June 30, 2020
Loss from operations	$ (10,759,951)	$ (27,530,753)
Adjustments to reconcile loss from operations to net cash provided by (used in) operating activities		
Provision for bad debt	27,815,538	42,519,731
Depreciation and amortization	10,447,087	10,809,868
Changes in assets and liabilities		
Patient accounts receivable	(41,271,943)	(36,013,323)
Other receivables	(819,082)	575,005
Estimated third-party payer settlements	(294,595)	2,409,307
Other – net	(1,688,019)	5,001,741
Accounts payable and accrued liabilities	6,794,729	486,847
Accrued payroll and related expenses	(268,231)	891,690
Medicare accelerated payments	30,624,863	-
Net cash provided by (used in) operating activities	$ 20,580,396	$ (849,887)

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 the Wellness Center LLC entity 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, 2021

	ASCO	The Institutes
ASSETS		
Current assets	$ 2,072,271	$ 541,336
Capital assets – net	736,110	-
Non-current assets	1,274,956	148,285
Total assets	$ 4,083,337	$ 689,621
LIABILITIES AND NET POSITION		
Current liabilities	$ 1,573,677	$ -
Property lease – net of current portion	885,210	-
Total liabilities	2,458,887	-
Invested in capital assets – net of related debt	736,110	
Restricted assets	1,109,823	272,967
Unrestricted	(221,483)	416,654
Total net position	1,624,450	689,621
Total liabilities and net position	$ 4,083,337	$ 689,621

Note 1 – Organization (continued)

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 Statements of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2021

	ASCO	The Institutes
OPERATING REVENUE	$ 10,677,352	$ 314,552
OPERATING EXPENSES	9,273,156	144,813
Gain from operations	1,404,196	169,739
NON-OPERATING EXPENSES, net	(2,759)	-
Change in net position before minority interest	1,401,437	169,739
MINORITY INTEREST DISTRIBUTIONS – NET	(1,800,000)	(213,750)
Change in net position	(398,563)	(44,011)
NET POSITION – Beginning of year	2,023,013	733,632
NET POSITION – End of year	$ 1,624,450	$ 689,621

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 Statement of Cash Flows
For the Year Ended June 30, 2021

	ASCO	The Institutes
NET CASH PROVIDED BY (USED IN)		
Operating activities	$ 1,972,420	$ 192,302
Noncapital financing activities	(1,799,999)	(213,750)
Capital and related financing activities	(181,184)	
Investing activities	2,137	
Net change in cash and cash equivalents	(6,626)	(21,448)
CASH AND CASH EQUIVALENTS – Beginning of year	878,237	193,676
CASH AND CASH EQUIVALENTS – End of year	$ 871,611	$ 172,228

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

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 (U.S. 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, 2021 and 2020.

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

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 were recorded in the years ended June 30, 2021 and 2020.

Note 2 – Summary of Significant Accounting Policies (continued)

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 portion of 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 $1.4 million as of June 30, 2021 and $1.7 million as of June 30, 2020, as well as MRF deposits required under the Hospital Regulatory Agreement between the District and HUD of approximately $8.5 and $8.0 million as of June 30, 2021 and 2020, 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.

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.

Note 2 – Summary of Significant Accounting Policies (continued)

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 $973 thousand and $1.3 million are included in accounts payable and accrued liabilities in the accompanying statements of net position as of June 30, 2021 and June 30, 2020, 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 preceding the fiscal year for which the taxes are levied. See Note 3 – Non-Operating Revenue.

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

Risk management – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. The District is self-insured for a portion of its exposure to risk of loss from workers' compensation and malpractice claims. Annual estimated provisions are accrued based on actuarially determined amounts and include an estimate of the ultimate costs for both reported claims and IBNR claims.

Note 2 – Summary of Significant Accounting Policies (continued)

Compensated absences – The District's benefits-eligible employees earn vacation leave at varying rates based upon qualifying service hours. Employees may accumulate vacation leave up to a specified maximum. Accrued vacation leave is paid to the employee upon termination of employment or upon conversion to non-benefits-eligible status. The estimated amount of vacation leave payable to employees of approximately $10.6 and $9.5 million as of June 30, 2021 and 2020, 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. The District adopted the provisions of this statement July 1, 2020. The adoption of this statement did not have an impact on the District's 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 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, 2021. 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 67% and 66% of the District's gross patient service revenue for the years ended June 30, 2021 and 2020, respectively.

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

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 2017. Results of cost report settlements, as well as the District's estimates for settlements, of all fiscal years through 2021 are reflected in the accompanying financial statements.

Estimated net third-party settlements consisted of a net receivable of approximately $1.7 million and $1.4 million as of June 30, 2021 and 2020, respectively. During the years ending June 30, 2021 and 2020, 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 $146 thousand and $958 thousand to net patient service revenue in the years ended June 30, 2021 and 2020, 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.

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

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 is as follows:

	2021	2020
HMO/PPO	22%	26%
Medicare plans	35%	31%
Medi-Cal plans	12%	14%
Others	31%	29%
Total	100%	100%

Non-operating revenue includes District tax revenue and other non-patient service revenue. District tax revenue totaled approximately $12.4 and $11.7 million for the years ended June 30, 2021 and 2020, respectively. Grant income totaling approximately $4.6 million for the year ended June 30, 2021 relates to CARES Act Grant funds (see Note 14). Other non-operating income (expense) includes approximately $1.8 million in donations from the Tri-City Hospital Foundation (the "Foundation") and Tri-City Hospital Auxiliary ("Auxiliary") for both years ended June 30, 2021 and 2020, and reimbursement for capital expenditures during the year ended June 30, 2021, of approximately $1.6 million from the California Health Facilities Financing Authority through the Children's Hospital Program.

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.

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, 2021 and 2020, the District held approximately $7.1 million and $6.8 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.

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

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, 2021 and 2020, the District's bank balances totaled approximately $70.2 and $48.6 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 with, 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.

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

	2021	2020
Cash and cash equivalents	$ 69,874,882	$ 48,295,295
Short-term investments	6,699,589	6,418,925
Restricted cash and investments –		
Non-negotiable certificates of deposit	298,000	298,000
Board-designated	421,069	417,122
Total	$ 77,293,540	$ 55,429,342

Note 5 – Capital Assets

Capital assets consisted of the following as of June 30:

	2021				
	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Land and land improvements	$ 24,686,017	$ -	$ -	$ -	$ 24,686,017
Buildings and improvements	205,693,424	11,110	-	-	205,704,534
Equipment	173,880,524	3,640,064	-	4,139,834	181,660,422
Assets under lease	6,068,834	-	-	(4,139,834)	1,929,000
Construction in progress	7,830,422	1,984,643	-	-	9,815,065
	418,159,221	5,635,817	-	-	423,795,038
Less: accumulated depreciation and amortization	(321,128,554)	(10,410,383)	-	-	(331,538,937)
Capital assets – net	$ 97,030,667	$ (4,774,566)	$ -	$ -	$ 92,256,101

	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

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, 2021 and 2020. OSNC represents approximately $5.0 million of the total.

Note 7 – Other Assets

Other assets consisted of the following as of June 30:

	2021	2020
Medical office building deposits	$ 9,047,447	$ 9,047,447
Right-of-use asset	1,274,956	1,680,803
Other	1,214,883	1,249,855
Total	$ 11,537,286	$ 11,978,105

Medical office building deposits of approximately $9.0 million for both years ended June 30, 2021 and 2020 relate to legal matters involving a medical office building dispute. During fiscal 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 percent subject to a LIBOR floor of 1 percent. 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.

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

	2021			
	Beginning Balance	Additions	Payments	Ending Balance
Line of credit	$ 9,665,744	$ 279,694,119	$(284,170,126)	$ 5,189,737
Total short-term debt	$ 9,665,744	$ 279,694,119	$(284,170,126)	$ 5,189,737

	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

Note 9 – Long-Term Debt

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

- Lument, formerly Lancaster Pollard Mortgage Company, HUD insured loan, interest rate of 4.32 percent, with principal balance outstanding of approximately $77.1 million and $79.3 million as of June 30, 2021 and 2020, 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 and capital financing with interest rates varying between 3.00 and 3.92 percent. Principal and interest payments are due monthly commencing and expiring on various dates ranging from June 2022 through January 2025. Principal balances due totaled approximately $2.4 million and $3.9 million as of June 30, 2021 and 2020, respectively.

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

	2021				
	Beginning Balance	Additions	Payments	Ending Balance	Due Within 1 Year
HUD insured loan	$ 79,348,549	$ -	$ (2,235,874)	$ 77,112,675	$ 2,334,400
Capital financing	2,656,616	-	(550,633)	2,105,983	570,730
Total long-term debt	82,005,165	-	(2,786,507)	79,218,658	2,905,130
Capital lease obligations	1,304,384	-	(977,307)	327,077	327,076
Total long-term debt	$ 83,309,549	$ -	$ (3,763,814)	$ 79,545,735	$ 3,232,206

	2020				
	Beginning Balance	Additions	Payments	Ending Balance	Due Within 1 Year
HUD insured loan	$ 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

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, 2021, is as follows:

	Principal	Interest	Total
Years Ending June 30,			
2022	$ 3,232,206	$ 3,362,618	$ 6,594,824
2023	3,034,558	3,231,988	6,266,546
2024	3,163,841	3,100,842	6,264,683
2025	2,975,585	2,966,659	5,942,244
2026	2,773,872	2,845,933	5,619,805
2027-2031	15,814,200	12,284,828	28,099,028
2032-2036	19,619,430	8,479,598	28,099,028
2037-2041	24,340,278	3,758,750	28,099,028
2042	4,591,765	91,407	4,683,172
Total	$ 79,545,735	$ 40,122,623	$ 119,668,358

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

	2021	2020
Equipment under capital lease	$ 1,929,000	$ 6,068,834
Accumulated amortization	(1,575,351)	(4,871,284)
Total	$ 353,649	$ 1,197,550

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, 2021, there were a total of 1,047 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 $5.4 million and $5.5 million for the years ended June 30, 2021 and 2020, 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, 2021 and 2020, forfeitures reduced the District's expenses and contributions under the plan by approximately $270 thousand and $51 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 percent of each participating employee's annual compensation up to approximately $96 thousand and $92 thousand for the years ended June 30, 2021 and 2020, respectively.

The District's contributions to NSRP totaled approximately $1.8 million and $1.9 million for the years ended June 30, 2021 and 2020, 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, 2021 and 2020.

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, 2021 and 2020, the balance of capital accumulation funds was approximately $492 thousand and $431 thousand, respectively, which is included in prepaid expenses and other assets on the accompanying statements of net position. The corresponding compensation liabilities of approximately $612 and $538 thousand as of June 30, 2021 and 2020, 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 August 2033. Operating lease expense for all operating leases totaled approximately $3.4 million and $3.8 million for the years ended June 30, 2021 and 2020, respectively.

Note 11 – Operating Leases (continued)

As of June 30, 2021, future minimum lease payments under non-cancelable operating leases are as follows:

Years Ending June 30, 2021	
2022	$ 3,443,201
2023	2,333,348
2024	1,835,067
2025	1,647,955
2026	1,666,606
Thereafter	2,917,724
Total	$ 13,843,901

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 $459 thousand and $474 thousand in the years ended June 30, 2021 and 2020, respectively.

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

	2021	2020
Tri-City Hospital Foundation		
Assets	$ 4,201,482	$ 4,519,252
Liabilities	$ 241,148	$ 63,773
Net Assets	$ 3,960,334	$ 4,455,479
Tri-City Hospital Auxiliary		
Assets	$ 264,868	$ 260,880
Liabilities	$ -	$ -
Net Assets	$ 264,868	$ 260,880

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.

The District also formed the Cardiovascular Institute during the year ended June 30, 2010. 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.

The portion of the change in net position attributable to minority interests in these entities totaled approximately $1.4 million and $1.7 million for the years ended June 30, 2021 and 2020, respectively.

Note 14 – Commitments and Contingencies

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

In April 2014, the District commenced eminent domain proceedings against the developer of an on-campus medical office building seeking to maintain a condemnation action under which it took possession of 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 approximately $16.8 million. The District deposited approximately $4.7 million in 2015 and an additional approximately $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 judgment and from the order setting aside the abandonment. During fiscal year 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 approximately $5.1 million as a non-operating charge in fiscal year 2019 for the damages and related fees portion of the judgment and pursued recovery of deposits made prior to the Court of Appeal's decision. In November 2019, the District received approximately $7.9 million of deposits back from the state of California in accordance with the lawfully abandoned condemnation. See Note 7 – Other Assets.

Note 14 – Commitments and Contingencies

During fiscal year 2021, the superior court issued a decision ruling that damages proximately caused by the District's condemnation action were zero. The developer is appealing the superior court decision. Disputes remain between the Developer and the District and both contend entitlement to damages. While the ultimate outcome is unknown at this time, the District believes the amounts recognized in the financial statements are based on the most recent information available and the court decisions made to date.

Seismic compliance – The California Office of Statewide Health Planning and Development (OSHPD) revised its SB 1953 compliance standards by considering the HAZUS zones (FEMA Hazards – U.S.) in which each hospital is located. 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, 2021, the District maintains non-negotiable 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 2021. Such reserves were approximately $7.2 million for both June 30, 2021 and 2020. Amounts classified as current liabilities are included in accrued payroll and related expenses in the statements of net position of approximately $2.0 million and $2.2 million as of June 30, 2021 and 2020, respectively.

Comprehensive liability insurance coverage – The District is insured for comprehensive liability (professional liability, general liability, personal injury, and advertising liability, and employee benefits administration) under an occurrence general liability policy and professional claims-made policy, which covers asserted claims and incidents reported to the insurance carrier, and has a per-claim retention of $2.0 million. The District has reserved for estimated IBNR claims through June 30, 2021. Such reserves were approximately $3.1 million and $2.7 million, respectively. Amounts classified as current liabilities are included in accounts payable and accrued liabilities in the statements of net position of approximately $846 thousand and $844 thousand as of June 30, 2021 and 2020, respectively.

Note 14 – Commitments and Contingencies

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, 2019	$ 11,334,345
Additions	773,180
Payments	(2,264,461)
Balance as of June 30, 2020	9,843,064
Additions	2,979,165
Payments	(2,537,184)
Balance as of June 30, 2021	10,285,045
Less: amounts classified as current liabilities	2,883,638
Workers' compensation and comprehensive liability non-current portion	$ 7,401,407

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, 2019	$ 1,467,775
Additions	7,031,257
Payments	(7,164,643)
Balance as of June 30, 2020	1,334,389
Additions	4,994,238
Payments	(5,355,843)
Balance as of June 30, 2021	$ 972,784

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 $3.0 million and $2.7 million as of June 30, 2021 and 2020, respectively. The balance is included in other long-term assets in the accompanying statements of net position.

Note 14 – Commitments and Contingencies (continued)

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 – The District received funds of approximately $4.6 million and $7.1 million during the years ended June 30, 2021 and 2020, respectively, 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. Anti-fraud monitoring and auditing will be conducted by HHS and the Office of the Inspector General.

Medicare advance payments – During September 2020, the District received approximately $30.6 million from Medicare under the COVID-19 Accelerated and Advance Payments (CAAP) Program, administered by the Centers for Medicare and Medicaid Services. 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%. Amounts estimated to be recouped within one year after the statement of net position date are classified as current.

Supplemental Schedules

Tri-City Healthcare District
Schedule of Net Position
June 30, 2021

	Tri-City Medical Center	ASCO	Cardiovascular Institute	Orthopedic Institute	Neuro Institute	Eliminations	TOTAL
ASSETS							
CURRENT ASSETS							
Cash and cash equivalents	$ 68,831,043	$ 871,611	$ 117,225	$ 54,923	$ 80	$ -	$ 69,874,882
Short-term investments	6,699,589	-	-	-	-	-	6,699,589
Restricted cash and investments	298,000	-	-	-	-	-	298,000
Patient accounts receivable, net	49,835,195	1,127,489	-	-	-	-	50,962,684
Other receivables	1,932,271	-	339,998	6,414	22,696	(38,100)	2,263,279
Supplies inventory	11,108,772	893	-	-	-	-	11,109,665
Prepaid expenses and other assets	3,776,441	72,278	-	-	-	-	3,848,719
Estimated third-party payor settlements	1,735,820	-	-	-	-	-	1,735,820
Total current assets	144,217,131	2,072,271	457,223	61,337	22,776	(38,100)	146,792,638
NON-CURRENT INVESTMENTS							
Board-designated	421,069	-	-	-	-	-	421,069
CAPITAL ASSETS – net	91,519,991	736,110	-	-	-	-	92,256,101
OTHER ASSETS							
Notes receivable	2,960,372	-	-	-	-	-	2,960,372
Restricted mortgage reserve fund	8,517,275	-	-	-	-	-	8,517,275
Goodwill	9,529,430	-	-	-	-	-	9,529,430
Other	10,114,045	1,274,956	65,798	36,220	46,267		11,537,286
Total other assets	31,121,122	1,274,956	65,798	36,220	46,267	-	32,544,363
Total assets	$ 267,279,313	$ 4,083,337	$ 523,021	$ 97,557	$ 69,043	$ (38,100)	$ 272,014,171

Tri-City Healthcare District
Schedule of Net Position (Continued)
June 30, 2021

	Tri-City Medical Center	ASCO	Cardiovascular Institute	Orthopedic Institute	Neuro Institute	Eliminations	TOTAL
LIABILITIES AND NET POSITION							
CURRENT LIABILITIES							
Accounts payable and accrued liabilities	$ 51,191,303	$ 771,403	$ -	$ -	$ -	$ (38,100)	$ 51,924,606
Accrued payroll and related expenses	20,001,812	427,243	-	-	-	-	20,429,055
Current maturities of long-term debt	3,232,206	-	-	-	-	-	3,232,206
Short-term debt	5,189,737	-	-	-	-	-	5,189,737
Other current liabilities	645,405	375,031	-	-	-	-	1,020,436
Medicare accelerated payments	11,250,000	-	-	-	-	-	11,250,000
Total current liabilities	91,510,463	1,573,677	-	-	-	(38,100)	93,046,040
LONG-TERM DEBT – net of current position	76,313,529	-	-	-	-	-	76,313,529
PROPERTY LEASE – net of current portion	-	885,210	-	-	-	-	885,210
MEDICARE ACCELERATED PAYMENTS – net of current portion	19,374,863	-	-	-	-	-	19,374,863
WORKERS' COMPENSATION AND COMPREHENSIVE LIABILITY – net of current portion	7,401,407	-	-	-	-	-	7,401,407
Total liabilities	194,600,262	2,458,887	-	-	-	(38,100)	197,021,049
NET POSITION							
Invested in capital assets – net of related debt	16,414,638	736,110	-	-	-	-	17,150,748
Restricted assets	8,517,275	1,109,823	202,095	48,778	22,094	-	9,900,065
Unrestricted	47,747,138	(221,483)	320,926	48,779	46,949	-	47,942,309
Total net position	72,679,051	1,624,450	523,021	97,557	69,043	-	74,993,122
Total liabilities and net position	$ 267,279,313	$ 4,083,337	$ 523,021	$ 97,557	$ 69,043	$ (38,100)	$ 272,014,171

See accompanying report of independent auditors.

Tri-City Healthcare District
Schedule of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2021

	Tri-City Medical Center	ASCO	Cardiovascular Institute	Orthopedic Institute	Neuro Institute	Eliminations	Total
OPERATING REVENUE							
Net patient service revenue	$ 304,289,415	$ 10,675,248	$ -	$ -	$ -	$ -	$ 314,964,663
Premium revenue	15,350,665	-	-	-	-	-	15,350,665
Other revenue	3,765,078	2,104	314,552	-	-	(1,081,379)	3,000,355
Total operating revenue	323,405,158	10,677,352	314,552	-	-	(1,081,379)	333,315,683
OPERATING EXPENSES							
Salaries and related expenses	171,295,791	3,361,690	-	-	-	-	174,657,481
Supplies	72,523,545	3,350,741	-	-	-	-	75,874,286
Purchased services	17,542,654	756,155	-	-	-	(511,052)	17,787,757
Depreciation and amortization	10,229,298	208,856	8,933	-	-	-	10,447,087
Other operating expense	18,726,428	556,961	1,760	-	-	-	19,285,149
Professional and medical fees	28,968,266	91,130	134,120	-	-	-	29,193,516
Maintenance, rent and utilities	15,882,735	947,623	-	-	-	-	16,830,358
Total operating expenses	335,168,717	9,273,156	144,813	-	-	(511,052)	344,075,634
(LOSS) INCOME FROM OPERATIONS	(11,763,559)	1,404,196	169,739	-	-	(570,327)	(10,759,951)
NON-OPERATING REVENUE (EXPENSE)							
District tax revenue	12,366,122	-	-	-	-	-	12,366,122
Interest income	545,287	2,137	-	-	-	-	547,424
Interest expense	(4,083,815)	(4,896)	-	-	-	-	(4,088,711)
CARES Act grant income	4,603,148	-	-	-	-	-	4,603,148
Other non-operating income (expense)	3,416,130	-	-	-	-	-	3,416,130
Total non-operating revenue (expense)	16,846,872	(2,759)	-	-	-	-	16,844,113
CHANGE IN NET POSITION BEFORE MINORITY INTEREST (EROE)	5,083,313	1,401,437	169,739	-	-	(570,327)	6,084,162
Minority interest distributions – net	-	(1,229,673)	(106,875)	-	-		(1,336,548)
Distributions between related entities	-	(570,327)	(106,875)	-	-	570,327	(106,875)
CHANGE IN NET POSITION	5,083,313	(398,563)	(44,011)	-	-	-	4,640,739
NET POSITION – Beginning of year	67,595,738	2,023,013	567,032	97,557	69,043	-	70,352,383
NET POSITION – End of year	$ 72,679,051	$ 1,624,450	$ 523,021	$ 97,557	$ 69,043	$ -	$ 74,993,122

MORTGAGE RESERVE FUND		
Balance of the mortgage reserve fund at June 30, 2021	$	8,517,275
Amount required in the mortgage reserve fund at June 30, 2021		8,474,010
Excess fund balance	$	43,265