Reports of Independent Auditors in Accordance with
Audit Requirements for Federal Awards (Uniform Guidance) and
Financial Statements with Supplemental Schedules

Tri-City Healthcare District

June 30, 2023 and 2022

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"); and the Tri-City Medical Center Neuroscience Institute, LLC ("Neuro Institute").

ASCO, the Cardiovascular Institute, the Orthopedic Institute, and the Neuro Institute 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.

This section of the District's annual financial report presents an analysis of the District's financial performance for the years ended June 30, 2023, 2022, and 2021. 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

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 U.S. 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 require district hospitals conform to other governmental entities such as cities and counties, they may be less comparable to non-governmental hospitals due to GASB requirements.

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

Statements of net position – The statements of net position include the District's assets and liabilities and provide 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 statements of net position also provide the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

During the fiscal year ended June 30, 2023, the District adopted the provisions of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, retroactive to July 1, 2021. The 2021 amounts in the tables below have not been adjusted for the impact of GASB Statement No. 96.

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

	2023	2022 (As Restated)	2021
ASSETS			
ASSETS			
Current assets	$ 97,095	$ 118,128	$ 146,793
Capital assets, net	102,726	90,114	92,256
Right-of-use lease and SBITA assets	37,033	40,261	-
Other non-current assets	25,593	33,402	32,965
TOTAL ASSETS	$ 262,447	$ 281,905	$ 272,014
LIABILITIES AND NET POSITION			
LIABILITIES AND NET POSITION			
Current liabilities	$ 136,170	$ 116,851	$ 93,046
Long-term debt, net of current portion	70,115	73,279	76,314
Property lease, net of current portion	30,350	33,870	885
Medicare Accelerated payments, net of current portion	-	-	19,375
Workers' compensation and comprehensive liability, net of current portion	9,501	8,680	7,401
Total liabilities	246,136	232,680	197,021
Invested in capital assets, net of related debt	18,824	17,773	17,151
Restricted assets	10,721	10,451	9,900
Unrestricted	(13,234)	21,001	47,942
Total net position	16,311	49,225	74,993
TOTAL LIABILITIES AND NET POSITION	$ 262,447	$ 281,905	$ 272,014

Analysis of Changes in the Statements of Net Position

Changes from Fiscal Year 2022 to 2023

- Current assets totaling approximately $97.1 million as of June 30, 2023, represent a decrease of approximately $21.0 million from the prior year. Included in current assets is a decrease of approximately $18.5 million in cash and cash equivalents and short-term investments, primarily due to recoupments by the Centers for Medicare and Medicaid Services related to Medicare advance payments received in 2020, and a decrease of approximately of $3.1 million in patient accounts receivable, offset by an increase of $1.8 million in estimated third-party payer settlements.

- Capital assets, net totaled approximately $102.7 million as of June 30, 2023. An increase of approximately $12.6 million from fiscal year 2022 was the result of the transfer of approximately $14.1 million related to the medical office building (MOB) from other assets due to the legal settlement and transfer of title, $6.4 million in purchases of new equipment and software, and other capital improvement projects, offset by depreciation and amortization expense of approximately $9.9 million.

- Other non-current assets totaling approximately $25.6 million as of June 30, 2023, increased approximately $7.8 million, mainly due to approximately $5.1 million related to the on-campus MOB, offset by the transfer of the MOB cost of approximately $14.1 million to capital assets. Included in non-current assets is approximately $9.5 million deposited for mortgage reserve funds (MRFs) related to the U.S. Department of Housing and Urban Development (HUD) guaranteed loan.

- Current liabilities totaling approximately $136.2 million as of June 30, 2023, reflect an increase of approximately $19.3 million from fiscal year 2022, primarily due to an increase in accounts payable and accrued liabilities of approximately $30.5 million, off set by the recoupment of Medicare accelerated payments of approximately $19.3 million.

- The District has access to capital of approximately $15.4 million through a revolving line of credit. Balances when drawn are repaid with collections on patient accounts receivable. As of June 30, 2023, the District has approximately $12.1 million drawn on the line of credit.

- The District acquired a loan secured by HUD in 2017. Debt service payments are current on all debt including the funding of the MFR and Mortgage Insurance Premium.

- Long-term debt, net of current portion totaled approximately $70.1 million as of June 30, 2023, and $73.3 million as of June 30, 2022. The decrease is primarily related to scheduled repayments of principal on long-term debt.

- Property lease and subscription-based information technology arrangements (SBITAs) assets, net totaled approximately $37.0 million as of June 30, 2023, and approximately $40.3 million as of June 30, 2022. The decrease is primarily due to scheduled monthly payments.

- Workers' compensation and comprehensive liability insurance reserves classified as long-term liabilities totaled approximately $9.5 million as of June 30, 2023, reflecting an increase of approximately $822 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 estimated liabilities and required reserves.

Changes from Fiscal Year 2021 to 2022

- Current assets totaling approximately $118.1 million as of June 30, 2022, represent a decrease of approximately $28.7 million from the prior year primarily due to a decrease of approximately $39.5 million in cash and cash equivalents and short-term investments, offset by an increase in patient accounts receivable of approximately $7.8 million.

- The District did not receive an annual Voluntary Rate Range Intergovernmental Transfer (IGT) program payment during fiscal year 2022 to help offset the cost of caring for underinsured patients. The payment was delayed and was received during fiscal year 2023. The District received approximately $12.9 million during fiscal year 2021. The delay in IGT receipts combined with retraction payments of approximately $11.3 million from Medicare for the COVID-19 Accelerated and Advance Payments program contributed significantly to the decrease in short-term investments, cash, and cash equivalents.

- Capital assets, net totaled approximately $90.1 million as of June 30, 2022. A decrease of approximately $2.1 million from fiscal year 2021 was the result of approximately $7.0 million in purchases of new equipment, software acquisitions, and other capital improvement projects, offset by an increase in depreciation and amortization expense of approximately $9.2 million.

- Other non-current assets totaling approximately $33.4 million as of June 30, 2022, increased by approximately $857 thousand from the prior year, primarily due to an additional deposit to the MRFs. Included in non-current assets is approximately $9.0 million deposited for MFRs related to the HUD guaranteed loan.

- Current liabilities totaling approximately $116.9 million as of June 30, 2022, reflect an increase of approximately $23.8 million from fiscal year 2021, primarily due to an increase in the current portion of Medicare accelerated payments scheduled during the next fiscal year along with increases in current accrued liabilities and payables.

- Long-term debt, net of current portion totaled approximately $73.3 million as of June 30, 2022, and approximately $76.3 million as of June 30, 2021. The decrease is primarily related to scheduled repayments of principal on long-term debt.

- Property lease and SBITA assets, net totaled approximately $33.9 million as of June 30, 2022, and approximately $885 thousand as of June 30, 2021. The increase is primarily due to implementation of GASB Statement No. 96 in fiscal year 2022 (retroactive to July 1, 2021), and the adoption of GASB Statement No. 87, *Leases* in fiscal year 2022, offset by scheduled monthly payments on rental properties.

- Workers' compensation and comprehensive liability insurance reserves classified as long-term liabilities totaled approximately $8.7 million as of June 30, 2022, reflecting an increase of approximately $1.3 million based on actuarial analyses of open claims and estimates of IBNR claims. Actuarial studies are commissioned twice each year to determine the estimated liabilities and required reserves.

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

	2023	2022 (As Restated)	2021
Operating revenue	$ 325,716	$ 335,766	$ 333,316
Operating expenses	372,546	369,220	344,076
Loss from operations	(46,830)	(33,454)	(10,760)
Non-operating revenue	15,058	8,896	16,844
Change in net position before minority interest (EROE*)	(31,772)	(24,558)	6,084
Minority interest distributions, net	(1,142)	(1,210)	(1,443)
Change in net position	(32,914)	(25,768)	4,641
Beginning net position	49,225	74,993	70,352
Ending net position	$ 16,311	$ 49,225	$ 74,993
Average daily census	118	157	149
Emergency room visits	50,578	50,667	41,350

**Excess of Revenue Over Expenses*

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

Changes from Fiscal Year 2022 to 2023

- The District experienced a decrease of 24.8% in patient volume. The average daily census was 118 for the current year compared to 157 in the prior year. This was attributable to payer contract realignment, particularly in women and newborn services.

- Operating revenue decreased by approximately $10.1 million in fiscal year 2023 compared to fiscal year 2022. This decrease is primarily due to the decrease in surgeries and deliveries.

- The District did not receive an annual Voluntary Rate Range IGT program payment during fiscal year 2022. The payment was delayed and the District received approximately $20.4 million during fiscal year 2023. The District also received approximately $7.1 million from the Quality Incentive Pool (QIP) program.

- Operating expenses, which include patient care expenses, overhead, and administrative expenses, increased by approximately $3.3 million. The increase was primarily due to increases of approximately $11.6 million in physician fees and $3.3 million in other operating expenses offset by decreases of approximately $7.9 million in salaries and related labor expenses and $3.8 million in supplies and pharmaceuticals.

- Non-operating revenue 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 revenue and expenses, net increased by approximately $6.2 million. The increase was primarily due to the reversal of accrued damages of approximately $5.1 million recorded in fiscal year 2019 due to the favorable MOB settlement that occurred in fiscal year 2023.

Changes from Fiscal Year 2021 to 2022

- The average daily census was 157 for the current year compared to 149 in the prior year, representing an increase in inpatient volume of approximately 5.4%.

- Operating revenue increased by approximately $2.5 million in fiscal year 2022 compared to fiscal year 2021. This increase is primarily due to an increase in patient volumes.

- The District did not receive an annual Voluntary Rate Range IGT program payment during fiscal year 2022. The payment was delayed and was received during fiscal year 2023. The District received approximately $12.9 million during fiscal year 2021. The revenue recognized pertaining to this IGT program amounted to approximately $12.9 million during fiscal year 2021 and $0 during fiscal year 2022. The delay in IGT receipts related to this program directly impacts operating revenue recognized.

- Operating expenses, which include patient care expenses, overhead, and administrative expenses, increased by approximately $25.1 million. The increase was primarily due to approximately $22.0 million in salaries and related labor expenses and $5.0 million in supplies and pharmaceuticals, offset by a decrease in purchased services of approximately $1.1 million. Pandemic surges during fiscal year 2022 increased supplies and pharmaceuticals costs and exacerbated workforce shortages experienced throughout the healthcare industry, driving labor costs higher. Contract labor was obtained in order to staff appropriately to manage patient volumes and continue high quality care. The cost of contract labor increased significantly.

- Non-operating revenue and expense is comprised of the District's share of property tax revenue collected by the county of San Diego, grant revenue and interest earned on invested monies offset by interest expense. During fiscal year 2022, the District received a grant of approximately $1.1 million from the Coronavirus Aid, Relief, and Economic Security (CARES) Act Program, while during fiscal year 2021, the District received a grant of approximately $4.6 million.

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

Statements of cash flows – The statements of cash flows report cash receipts, cash payments, and net changes in cash resulting from operating, noncapital and capital financing, and investing activities.

	2023	2022 (As Restated)	2021
Net cash (used in) provided by			
Operating activities	$ (15,770)	$ (31,197)	$ 20,582
Noncapital financing activities	14,806	13,201	19,205
Capital and related financing activities	(22,527)	(21,225)	(18,002)
Investing activities	2,175	(379)	(205)
Net change in cash and cash equivalents	(21,316)	(39,600)	21,580
Cash and cash equivalents, beginning of year	30,275	69,875	48,295
Cash and cash equivalents, end of year	$ 8,959	$ 30,275	$ 69,875

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 Statements of Cash Flows

Cash and cash equivalents totaled approximately $9.0 million, $30.3 million, and $69.9 million, as of June 30, 2023, 2022, and 2021, respectively.

Net cash used in operating activities decreased by approximately $15.4 million in fiscal year 2023 compared to the prior year. The decrease is primarily related to decrease in operating payments, offset by an increase in the recoupment of Medicare accelerated payments. During fiscal years 2023 and 2022, Medicare accelerated payments of approximately $19.3 million and $11.3 million were recouped, respectively, due to an obligation of approximately $30.6 million funded in fiscal year 2021. Cash provided by noncapital financing activities increased approximately $1.6 million compared to 2022. The major component of this increase was an increase of approximately $1.3 million in property tax revenue collected. Cash used in capital and related financing activities increased approximately $1.3 million from prior year and increased by approximately $1.2 to fiscal year 2021 due to repayments of short-term debt. Cash provided by investing activities increased approximately $2.6 million compared to the prior year, primarily due to transfers from the investment account to the checking account to fund operating activities.

Capital Assets

As of June 30, 2023, 2022, and 2021, the District had approximately $102.7 million, $90.1 million, and $92.3 million, respectively, in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. The District invested in new equipment, which included information technology, surgical equipment, laboratory equipment, building improvements, and other minor infrastructure projects costing approximately $6.4 million in 2023, $7.0 million in 2022, and $5.7 million in 2021. Additionally, the District transferred approximately $14.1 million in fiscal year 2023 from other assets to capital assets as a result of the MOB legal settlement and transfer of title.

Debt Activity

The District's debt is comprised of a HUD loan with an outstanding balance as of June 30, 2023, 2022, and 2021, of approximately $72.3 million, $74.8 million, and $77.1 million, respectively. Additionally, the District has a $15.4 million revolving line of credit with a bank with an outstanding balance as of June 30, 2023, 2022, and 2021, of approximately $12.1 million, $5.6 million, and $5.2 million, respectively. Scheduled principal payments on long-term debt and finance lease payments were made timely.

The District applied for and received a $33.2 million loan from the California Distressed Hospital Loan Program subsequent to June 30, 2023, which was funded in November 2023. This loan provides relief with interest-free loans to California's not-for-profit and public hospitals experiencing financial distress or at risk of closure. The loan is a 0% interest loan with a term of 72 months, and an initial 18-month deferment period at the beginning of the term loan.

More detailed information about the District's debt is presented in Notes 8 and 9 to the financial statements.

Change in Net Position

The District's total change in net position was a net decrease for the year ended June 30, 2023. Total net position (assets plus deferred outflows minus liabilities minus deferred inflows) is classified by the District's ability to use these assets to meet operating needs. Unrestricted net position may be used to meet all operating needs of the District. A portion of the District's net position may be restricted as to use by sponsoring agencies, donors, or other nonhospital entities. The restricted net position is further classified as to the purpose for which the funds must be used. Restricted net position represents funds generated by contributions, gifts, and grants, as well as funds restricted for use in accordance with the trust indenture and debt agreements. Net position decreased approximately $32.9 million in fiscal year 2023. The decrease in net position is due to net non-operating revenue of approximately $15.1 million offset by an operating loss of approximately $46.8 million and minority interest distributions, net of approximately $1.2 million.

Liquidity

As of June 30, 2023, the District had negative working capital of approximately $39.1 million compared to positive working capital as of June 30, 2022 and 2021, of approximately $1.3 million and $53.7 million, respectively. The District also experienced operating losses of approximately $46.8 million, $33.5 million, and $10.8 million during fiscal years 2023, 2022, and 2021, respectively. The District has taken steps to improve its liquidity, including applying for and receiving $33.2 million from the California Distressed Hospital Loan Program, suspension of women's services in August 2023, and targeted efforts to reduce the cost of labor.

Factors Impacting Future Periods

On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by the novel coronavirus, a pandemic. Pandemic surges have increased supplies and pharmaceuticals costs and exacerbated workforce shortages, driving labor costs higher. The pandemic declaration officially ended May 11, 2023. The duration of workforce shortages and higher labor costs and the long-term impact cannot yet be predicted.

While government payers continue to present reimbursement challenges for healthcare providers, the District actively negotiates its insurance contracts to maintain competitive reimbursement rates. The District also actively participates in quality driven patient-centric clinical outcomes performance-based programs such as the QIP program.

In January 2018, the Centers for Medicare and Medicaid Services (CMS) reset Medicare payments for drugs obtained under the 340b program from the average sales price (ASP) plus 6% to ASP minus 22.5%. CMS has continued this payment policy through 2022. On June 15, 2022, the U.S. Supreme Court issued a unanimous decision in the case of American Hospital Association et al. v. Becerra, Secretary of Health and Human Services et al. finding these Medicare payment cuts to hospitals participating in the 340b drug pricing program illegal. The Court's decision is limited to payment policies for 2018 and 2019 which were the basis of the lawsuits. The Court did not directly address subsequent years. CMS announced on October 13, 2022, that Medicare Administrative Contractors (MACs) would reprocess claims for 340b acquired drugs paid under the Outpatient Prospective Payment System (OPPS) for claims paid on or after September 28, 2022. Claims paid prior to September 28, 2022, for calendar year (CY) 2022 dates of service, would need to be re-submitted by providers to the MACs for adjustment. CMS issued a proposed rule on July 7, 2023, proposing to make a lump sum payment to providers affected by the payment reduction related to 340b acquired drugs the time period of CY2018 through third quarter of CY2022. CMS also proposed a budget neutrality adjustment to offset the 340b lumpsum payments. This adjustment would reduce future non-drug item and service payments by adjusting the OPPS conversion factor by minus 0.5% starting in CY2025 and continuing this adjustment until the full amount is offset, which CMS estimates to be 16 years. The financial impact of this is not known at this time.

CMS requires hospital price transparency to help patients know the cost of a hospital item or service before receiving it. Starting January 1, 2021, hospitals operating in the United States were required to provide accessible pricing information online about the items and services they provide in two ways:

1. As a comprehensive machine-readable file with all items and services.

2. In a display of shoppable services in a consumer-friendly format.

CMS has proposed that hospitals be required to display the standard charges data using a CMS template, beginning in 2024. Hospitals would also have to encode all standard charge information, as applicable, that corresponds to a set of required data elements. CMS may require submission of certification by an authorized hospital official as to the accuracy and completeness of the data in the machine-readable file and require the submission of additional documentation it deems necessary to determine hospital compliance.

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.

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Report of Independent Auditors

The Board of Directors
Tri-City Healthcare District

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Tri-City Healthcare District, which comprise the statements of net position as of June 30, 2023 and 2022, 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.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Tri-City Healthcare District as of June 30, 2023 and 2022, and the changes in net position and flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements for California Special Districts*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Tri-City Healthcare District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Substantial Doubt About Tri-City Healthcare District's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that Tri-City Healthcare District will continue as a going concern. As discussed in Note 1 to the financial statements, Tri-City Healthcare District has suffered recurring losses from operations, has a net working capital deficiency, and has stated that substantial doubt exists about Tri-City Healthcare District's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Emphasis of Matter – Adoption of Accounting Standard

As discussed in Notes 2 and 10 to the financial statements, in 2023, Tri-City Healthcare District adopted the accounting requirements of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements* as of July 1, 2021. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Tri-City Healthcare District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Tri-City Healthcare District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Tri-City Healthcare District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 10 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the GASB 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

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of net position as of June 30, 2023, schedule of revenues, expenses, and changes in net position for the year ended June 30, 2023, and HUD Required Financial Information as of June 30, 2023, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and the California Code of Regulations, Title 2, Section 1131.2, State Controller's Minimum Audit Requirements for California Special Districts. In our opinion, the schedule of net position as of June 30, 2023, schedule of revenues, expenses, and changes in net position for the year ended June 30, 2023, and HUD Required Financial Information as of June 30, 2023, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2023, on our consideration of Tri-City Healthcare District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Tri-City Healthcare District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tri-City Healthcare District's internal control over financial reporting and compliance.

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
December 14, 2023

Financial Statements

Tri-City Healthcare District
Statements of Net Position
June 30, 2023 and 2022

	2023	2022 (As Restated)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 8,957,966	$ 30,274,440
Short-term investments	9,491,155	6,807,413
Restricted cash and investments	298,000	298,000
Patient accounts receivable	55,725,241	58,802,376
Other receivables	524,867	470,087
Supplies inventory	11,751,375	12,300,641
Prepaid expenses and other assets	4,097,242	4,730,676
Estimated third-party payer settlements	6,249,053	4,444,723
Total current assets	97,094,899	118,128,356
CAPITAL ASSETS, net	102,725,511	90,114,247
RIGHT-OF-USE LEASE AND SBITA ASSETS, net	37,032,617	40,260,710
OTHER NON-CURRENT ASSETS		
Board-designated	423,317	422,359
Notes receivable	2,383,004	2,580,223
Restricted mortgage reserve fund	9,515,176	9,005,216
Goodwill	9,529,430	9,529,430
Other	3,743,370	11,864,248
Total other assets	25,594,297	33,401,476
Total assets	$ 262,447,324	$ 281,904,789

See accompanying notes.

Tri-City Healthcare District
Statements of Net Position (Continued)
June 30, 2023 and 2022

	2023	2022 (As Restated)
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Line of credit	$ 12,116,733	$ 5,613,145
Accounts payable and accrued liabilities	90,674,755	60,190,177
Accrued payroll and related expenses	20,708,183	19,862,891
Current maturities of long-term debt	3,163,841	3,032,695
Lease and SBITA liabilities, current	7,278,134	6,456,418
Other current liabilities	2,228,062	2,361,395
Medicare accelerated payments	-	19,334,749
Total current liabilities	136,169,708	116,851,470
LONG-TERM DEBT, net of current portion	70,115,091	73,278,972
LEASE AND SBITA LIABILITIES, net of current portion	30,350,064	33,869,721
WORKERS' COMPENSATION AND COMPREHENSIVE LIABILITY, net of current portion	9,501,402	8,679,700
Total liabilities	246,136,265	232,679,863
NET POSITION		
Invested in capital assets, net of related debt	18,824,515	17,773,237
Restricted assets	10,720,593	10,450,413
Unrestricted	(13,234,049)	21,001,276
Total net position	16,311,059	49,224,926
Total liabilities and net position	$ 262,447,324	$ 281,904,789

Tri-City Healthcare District
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2023 and 2022

	2023	2022 (As Restated)
OPERATING REVENUE		
Net patient service revenue	$ 311,249,852	$ 320,439,213
Premium revenue	11,267,183	12,193,638
Other revenue	3,198,627	3,133,638
Total operating revenue	325,715,662	335,766,489
OPERATING EXPENSES		
Salaries and related expenses	188,768,600	196,662,021
Supplies	76,985,637	80,801,391
Purchased services	16,101,726	16,668,071
Depreciation and amortization	15,048,194	15,708,256
Other operating expense	17,793,198	14,538,333
Professional and medical fees	40,632,121	29,015,336
Maintenance, rent, and utilities	17,216,569	15,826,822
Total operating expenses	372,546,045	369,220,230
LOSS FROM OPERATIONS	(46,830,383)	(33,453,741)
NON-OPERATING REVENUE (EXPENSE)		
District tax revenue	14,310,378	13,063,078
Interest income	539,255	336,523
Interest expense	(6,131,708)	(5,624,677)
CARES Act grant income	-	1,063,261
Other non-operating income	6,340,800	57,786
Total non-operating revenue, net	15,058,725	8,895,971
CHANGE IN NET POSITION BEFORE MINORITY INTEREST (DEFICIENCY OF REVENUE OVER EXPENSES)	(31,771,658)	(24,557,770)
MINORITY INTEREST DISTRIBUTIONS, NET	(1,142,209)	(1,210,426)
Change in net position	(32,913,867)	(25,768,196)
NET POSITION, beginning of year	49,224,926	74,993,122
NET POSITION, end of year	$ 16,311,059	$ 49,224,926

See accompanying notes.

Tri-City Healthcare District
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from patients, insurers, and other payers	$ 323,735,060	$ 323,877,448
Payments to vendors	(128,964,430)	(149,651,988)
Payments for salaries, wages, and related benefits	(187,923,308)	(197,228,185)
Other receipts and payments, net	(22,617,509)	(8,194,730)
Net cash used in operating activities	(15,770,187)	(31,197,455)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Minority interest distributions, net	(1,142,209)	(1,210,426)
Receipt of District taxes	14,310,378	13,063,078
CARES Act grant income	-	1,063,261
Other non-operating income	1,638,110	285,195
Net cash provided by noncapital financing activities	14,806,279	13,201,108
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(13,554,766)	(6,978,856)
Proceeds from revolving line of credit	336,411,809	289,652,253
Principal repayments on revolving line of credit	(329,908,221)	(289,228,845)
Cash payments for property leases and SBITA liabilities	(8,097,543)	(7,538,091)
Principal repayments on debt	(2,875,505)	(2,906,992)
Interest payments on debt	(4,503,080)	(4,224,737)
Net cash used in capital and related financing activities	(22,527,306)	(21,225,268)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of short-term investments	(25,500,000)	(60,000,000)
Proceeds from sales of short-term investments	28,000,000	60,000,000
Payments to mortgage reserve fund	(509,960)	(487,941)
Interest on investments	184,700	109,114
Net cash provided by (used in) investing activities	2,174,740	(378,827)
Net change in cash and cash equivalents	(21,316,474)	(39,600,442)
CASH AND CASH EQUIVALENTS, beginning of year	30,274,440	69,874,882
CASH AND CASH EQUIVALENTS, end of year	$ 8,957,966	$ 30,274,440
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
On-Campus Medical Office Building (See Note 14)	$ 14,104,692	$ 10,432,350

See accompanying notes.

Tri-City Healthcare District
Statements of Cash Flows (Continued)
Years Ended June 30, 2023 and 2022

	2023	2022
Loss from operations	$ (46,830,383)	$ (33,453,741)
Adjustments to reconcile loss from operations to net cash used in operating activities		
Provision for bad debt	(9,977,336)	18,373,595
Depreciation and amortization	15,048,194	15,708,256
Changes in assets and liabilities		
Patient accounts receivable	13,054,471	(26,213,283)
Other receivables	(54,780)	1,793,192
Estimated third-party payer settlements	(1,804,330)	(2,708,903)
Other, net	2,798,856	(293,227)
Accounts payable and accrued liabilities	30,484,578	7,452,934
Accrued payroll and related expenses	845,292	(566,164)
Medicare accelerated payments	(19,334,749)	(11,290,114)
Net cash used in operating activities	$ (15,770,187)	$ (31,197,455)

See accompanying notes.

Note 1 – Organization and Going Concern

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); Tri-City Medical Center Cardiovascular Health Institute, LLC (“Cardiovascular Institute”); Tri-City Medical Center Orthopedic Institute, LLC (“Orthopedic Institute”); and Tri-City Medical Center Neuroscience Institute, LLC (“Neuro Institute”). 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, and the Neuro Institute, 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. All intercompany transactions have been eliminated in the District’s financial statements.

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

Condensed Statements of Net Position
As of June 30, 2023

	ASCO	The Institutes
ASSETS		
Current assets	$ 1,667,642	$ 525,538
Capital assets, net	563,311	-
Non-current assets	545,581	47,931
Total assets	$ 2,776,534	$ 573,469
LIABILITIES AND NET POSITION		
Current liabilities	$ 1,289,950	$ -
Property lease, net of current portion	46,554	-
Total liabilities	1,336,504	-
Invested in capital assets, net of related debt	563,311	-
Restricted assets	983,828	221,589
Unrestricted	(107,109)	351,880
Total net position	1,440,030	573,469
Total liabilities and net position	$ 2,776,534	$ 573,469

Condensed Statements of Net Position
As of June 30, 2022

	ASCO	The Institutes
ASSETS		
Current assets	$ 1,968,384	$ 517,415
Capital assets, net	706,098	-
Non-current assets	955,393	139,352
Total assets	$ 3,629,875	$ 656,767
LIABILITIES AND NET POSITION		
Current liabilities	$ 1,379,712	$ -
Property lease, net of current portion	515,790	-
Total liabilities	1,895,502	-
Invested in capital assets, net of related debt	706,098	-
Restricted assets	1,184,924	260,273
Unrestricted	(156,649)	396,494
Total net position	1,734,373	656,767
Total liabilities and net position	$ 3,629,875	$ 656,767

Condensed Statements of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2023

	ASCO	The Institutes
OPERATING REVENUE	$ 10,160,812	$ 319,942
OPERATING EXPENSES	9,125,552	146,161
Gain from operations	1,035,260	173,781
NON-OPERATING EXPENSES, net	9,937	-
Change in net position before minority interest	1,045,197	173,781
MINORITY INTEREST DISTRIBUTIONS, NET	(1,339,540)	(257,078)
Change in net position	(294,343)	(83,297)
NET POSITION, beginning of year	1,734,373	656,767
NET POSITION, end of year	$ 1,440,030	$ 573,470

Condensed Statements of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2022

	ASCO	The Institutes
OPERATING REVENUE	$ 10,785,819	$ 372,192
OPERATING EXPENSES	9,224,242	149,546
Gain from operations	1,561,577	222,646
NON-OPERATING EXPENSES, net	1,860	-
Change in net position before minority interest	1,563,437	222,646
MINORITY INTEREST DISTRIBUTIONS, NET	(1,453,514)	(255,500)
Change in net position	109,923	(32,854)
NET POSITION, beginning of year	1,624,450	689,621
NET POSITION, end of year	$ 1,734,373	$ 656,767

Condensed Statements of Cash Flows
For the Year Ended June 30, 2023

	ASCO	The Institutes
NET CASH PROVIDED BY (USED IN)		
Operating activities	$ 742,501	$ 827
Noncapital financing activities	(1,339,540)	(174,592)
Capital and related financing activities	(69,564)	-
Investing activities	9,937	-
Net change in cash and cash equivalents	(656,666)	(173,765)
CASH AND CASH EQUIVALENTS, beginning of year	1,193,813	192,695
CASH AND CASH EQUIVALENTS, end of year	$ 537,147	$ 18,930

Condensed Statements of Cash Flows
For the Year Ended June 30, 2022

	ASCO	The Institutes
NET CASH PROVIDED BY (USED IN)		
Operating activities	$ 1,965,279	$ 275,967
Noncapital financing activities	(1,453,513)	(255,500)
Capital and related financing activities	(191,425)	-
Investing activities	1,861	-
Net change in cash and cash equivalents	322,202	20,467
CASH AND CASH EQUIVALENTS, beginning of year	871,611	172,228
CASH AND CASH EQUIVALENTS, end of year	$ 1,193,813	$ 192,695

Going Concern – The District's financial statements are prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of obligations in the normal course of business. However, due to escalating costs and declining reimbursement, the District has a net working capital deficiency of approximately $39.1 million as of June 30, 2023, compared to a net working capital surplus as of June 2022 and 2021, of approximately $1.3 million and $53.7 million, respectively. The District also experienced operating losses during each of these periods. As a result, these conditions, among others, raise substantial doubt about the District's ability to continue as a going concern within one year after the statement of net position date. The District has used its line of credit, suspension of its services, and cost reduction strategies to help fund operations.

Continuation as a going concern is dependent upon continued operations of the District, which in turn is dependent upon the District's ability to meet its financial requirements and the success of its future operations. The financial statements do not include any adjustments to the amount and classification of assets and liabilities that may be necessary should the District not continue as a going concern.

The District's strategic plan to return to profitability includes applying for and receiving $33.2 million from the California Distressed Hospital Loan Program (see Note 15), the suspension of women's services in August 2023 (see Note 15), and targeted efforts to reduce the cost of labor. Additionally, in November 2023, the District Board voted to pursue affiliation with a health system and entered into an exclusive due diligence agreement. There is no definitive affiliation agreement in place as of the date these financial statements are issued. Management believes that this plan provides an opportunity for the District to continue as a going concern if they are able to successfully negotiate an affiliation agreement.

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 1131.2, 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.

Recent accounting pronouncements – GASB Statement No. 96, *Subscription-based Information Technology Arrangements,* was adopted effective July 1, 2022. The objective of this statement is to provide uniform guidance for accounting and financial reporting for transactions that meet the definition of subscription-based information technology arrangements (SBITAs). This statement defines a SBITA, established that a SBITA results in a right-to-use subscription asset and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments, and requires note disclosures regarding a SBITA.

During the year ended June 30, 2023, the District implemented GASB Statement No. 96 on a retroactive basis by restating June 30, 2022 balances. The District recognized approximately $35.8 million in a subscription liability as of July 1, 2021, due to the implementation of GASB Statement No. 96; however, this entire amount was offset by an intangible right to use subscription asset. The implementation of GASB Statement No. 96 had the following effect on the June 30, 2022 amounts previously reported:

	June 30, 2022 As Previously Reported	Impact of Adoption of GASB 96	June 30, 2022 As Restated
Statement of Net Position			
ROU LEASE and SBITA ASSETS, net	$ -	$ 40,260,710	$ 40,260,710
Other Non-current assets - other	21,277,607	(9,413,359)	11,864,248
Total other assets	42,392,476	(8,991,000)	33,401,476
Total assets	251,057,438	30,847,351	281,904,789
Accounts payable and accrued liabilities	59,377,540	812,637	60,190,177
Lease and SBITA liabilities, current	-	6,456,418	6,456,418
Other current liabilities	4,239,578	(1,878,183)	2,361,395
Total current liabilities	111,460,598	5,390,872	116,851,470
LEASE AND SBITA LIABILITIES, net of current portion	7,760,532	26,109,189	33,869,721
Total liabilities	201,179,802	31,500,061	232,679,863
Unrestricted net position	21,653,986	(652,710)	21,001,276
Total net position	49,877,636	(652,710)	49,224,926
Total liabilities and net position	251,057,438	30,847,351	281,904,789
Statement of Revenues, Expenses and Changes in Net Position			
Depreciation and amortization	10,735,355	4,972,901	15,708,256
Other operating expense	20,258,464	(5,720,131)	14,538,333
Total operating expenses	369,967,460	(747,230)	369,220,230
LOSS FROM OPERATIONS	(34,200,971)	747,230	(33,453,741)
Interest expense	(4,224,737)	(1,399,940)	(5,624,677)
Total non-operating revenue, net	10,295,911	(1,399,940)	8,895,971
CHANGE IN NET POSITION BEFORE MINORITY INTEREST (DEFICIENCY OF REVENUE OVER EXPENSES)	(23,905,060)	(652,710)	(24,557,770)
Change in net position	(25,115,486)	(652,710)	(25,768,196)
NET POSITION, end of year	49,877,636	(652,710)	49,224,926
Statement of Cash Flows			
Payments to vendors	(157,190,079)	7,538,091	(149,651,988)
Net cash used in operating activities	(38,735,546)	7,538,091	(31,197,455)
Cash payments for property leases and SBITA liabilities	-	(7,538,091)	(7,538,091)
Net cash used in capital and related financing activities	(13,687,177)	(7,538,091)	(21,225,268)
Loss from operations	(34,200,971)	747,230	(33,453,741)
Depreciation and amortization	10,735,355	4,972,901	15,708,256
Other, net	(2,111,187)	1,817,960	(293,227)
Net cash used in operating activities	(38,735,546)	7,538,091	(31,197,455)

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections*. An amendment to Statement 62, the standard clarifies practice by providing guidance for changes in the financial reporting entity, accounting principles, and estimates used to prepare financial information. The new standard also prescribes the treatment for the correction of errors in previously issued financial statements. The requirements of this statement apply to the financial statements of all GASB reporters. The statement is effective for fiscal years beginning after June 15, 2023, the standard will affect the year-end June 30, 2024. The District is evaluating the impact the standard will have on its financial statements.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objectives of this statement are to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statement apply to the financial statements of all GASB reporters. The requirements of this statement are effective for reporting periods beginning after December 15, 2023. The District is evaluating the impact the standard will have on its financial statements.

Accounting estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, 2023 and 2022.

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, 2023 and 2022.

Mortgage reserve fund – The District has established a Mortgage Reserve Fund (MRF) in accordance with the requirements and conditions of the United States Department of Housing and Urban Development (HUD) Regulatory Agreement. Notwithstanding any other provision in the HUD Regulatory Agreement, the MRF may be used by HUD if the District is unable to make a mortgage note payment on the due date. The District is required to make contributions to the fund based on the MRF schedule.

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 $1.2 million as of both June 30, 2023 and June 30, 2022, as well as MRF deposits required under the Hospital Regulatory Agreement between the District and HUD of approximately $9.5 and $9.0 million as of June 30, 2023 and 2022, 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.

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 yet reported (IBNR) claims for medical services provided to patients at other facilities. See Note 14 – Commitments and Contingencies.

IBNR liabilities of approximately $712 thousand and $944 thousand are included in accounts payable and accrued liabilities in the accompanying statements of net position as of June 30, 2023 and 2022, 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.

Nonoperating revenue and expenses – Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as appropriations, gifts, government levies and subsidies, interest, and other expenses related to issuing and servicing debt. Nonoperating revenues also include revenues earned outside the clinical operations of the hospital and their associated costs.

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 – Patient Service Revenue, Third-Party Reimbursement Programs, and 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.

Compensated absences – The District's benefits-eligible employees earn vacation leave at varying rates based upon qualifying service hours. Employees may accumulate vacation leave up to a specified maximum. Accrued vacation leave is paid to the employee upon termination of employment or upon conversion to non-benefits-eligible status. The estimated amount of vacation leave payable to employees of approximately $9.3 and $10.3 million as of June 30, 2023 and 2022, 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.

Leases – The District is a lessee for various noncancellable leases of buildings and equipment. For leases with a maximum possible term of 12 months or less at commencement, the District recognizes the expense based on the provisions of the lease contract. For all other leases, the District recognizes a lease liability.

At lease commencement, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, less lease payments made at or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized into lease expense on a straight-line basis over the shorter of the lease terms or the useful life of the underlying asset. If the Hospital is reasonably certain of exercising a purchase option contained in a lease, the lease asset will be amortized over the useful life of the underlying asset.

Key estimates and judgments include how the District determines the discount rate it uses to calculate the present value of the expected lease, lease term and lease payments.

The District generally uses its estimated incremental borrowing rate as the discount rate for leases unless the rate that the lessor charges is known. The District's incremental borrowing rate for leases is based on the rate of interest it would pay for any amounts borrowed for capital projects.

The lease term includes the noncancellable period of the lease plus any additional periods covered by either a District or lessor option to extend for which it is reasonably certain to be exercised or terminate for which it is reasonably certain not to be exercised.

Payments are evaluated by the District to determine if they should be included in the measurement of the lease liability, including those payments that require a determination of whether they are reasonably certain of being made, such as residual value guarantees, purchase options, payments for termination penalties and other payments.

The District monitors changes in circumstances that may require remeasurement of a lease arrangement. When certain changes occur that are expected to significantly affect the amount of the lease, the liability is remeasured, and a corresponding adjustment is made to the lease.

Lease assets are reported with long-term assets and lease liabilities are reported with short and long-term liabilities in the statements of net position.

SBITAs – The District is the end user for various SBITAs. Short-term SBITAs, which have a maximum possible term of 12 months or less, are recognized as an outflow of resources when payment is made. For SBITAs with subscription terms extending beyond one year, the District recognizes an intangible subscription asset and a corresponding subscription liability.

Initial measurement of the subscription asset/liability is calculated at the present value of payments expected to be paid during the subscription term, discounted using the incremental borrowing rate. The subscription asset is amortized on a straight-line basis over the subscription term.

There have been no outflows of resources recognized in the reporting periods for variable payments not previously included in the measurement of the SBITA liability, or other payments such as termination penalties.

Reclassifications – Certain reclassifications were made to the prior year amounts to conform with the current year presentation.

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, 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 69% and 67% of the District's gross patient service revenue for years ended June 30, 2023 and 2022, respectively.

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

The District participates in the Quality Incentive Pool (QIP) program. The QIP program shares the goals of 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 QIP program when certainty of receiving the funds is reasonably 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 settled for all years through 2020. Results of cost report settlements, as well as the District's estimates for settlements, of all fiscal years through 2023 are reflected in the accompanying financial statements.

Estimated net third-party settlements consisted of a net receivable of approximately $6.2 million and $4.4 million as of June 30, 2023 and 2022, respectively. During the years ended June 30, 2023 and 2022, 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 an increase of approximately $176 thousand and $680 thousand to net patient service revenue in the years ended June 30, 2023 and 2022, respectively, and are included in net patient service revenue in the accompanying statements of revenue, expenses, and changes in net position.

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

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers as of June 30 is as follows:

	2023	2022
HMO/PPO	20%	15%
Medicare plans	37%	30%
Medi-Cal plans	8%	10%
Others	35%	45%
Total	100%	100%

Non-operating revenue includes District tax revenue and other non-patient service revenue. District tax revenue totaled approximately $14.3 million and $13.1 million for the years ended June 30, 2023 and 2022, respectively. See Note 14 – Commitments and Contingencies. Other non-operating income (expense) includes approximately $1.2 million and $528 thousand in donations from the Tri-City Hospital Foundation (the "Foundation") and Tri-City Hospital Auxiliary ("Auxiliary") for the years ended June 30, 2023 and 2022, respectively.

Note 4 – Cash and Cash Equivalents and Investments

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

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, 2023 and 2022, the District held approximately $9.9 million and $7.2 million in LAIF, respectively.

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

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

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

Custodial credit risk – deposits – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2023 and 2022, the District's bank balances totaled approximately $9.3 million and $30.6 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:

	2023	2022
Cash and cash equivalents	$ 8,957,966	$ 30,274,440
Short-term investments	9,491,155	6,807,413
Restricted cash and investments, non-negotiable certificates of deposit	298,000	298,000
Board-designated	423,317	422,359
Total	$ 19,170,438	$ 37,802,212

Note 5 – Capital Assets

Capital assets consisted of the following as of June 30:

	2023				
	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Land and land improvements	$ 24,686,017	$ -	$ -	$ -	$ 24,686,017
Buildings and improvements	205,830,808	14,104,692	-	-	219,935,500
Equipment	186,577,618	1,579,640	(358,635)	-	187,798,623
Construction in progress	13,698,085	4,843,743	-	(23,550)	18,518,278
	430,792,528	20,528,075	(358,635)	(23,550)	450,938,418
Less: accumulated depreciation and amortization	(340,678,281)	(7,534,626)	-	-	(348,212,907)
Capital assets, net	$ 90,114,247	$ 12,993,449	$ (358,635)	$ (23,550)	$ 102,725,511

	2022				
	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Land and land improvements	$ 24,686,017	$ -	$ -	$ -	$ 24,686,017
Buildings and improvements	205,704,534	69,880	-	56,394	205,830,808
Equipment	181,660,422	2,432,250	-	2,484,946	186,577,618
Assets under lease	1,929,000	-	-	(1,929,000)	-
Construction in progress	9,815,065	4,495,360	-	(612,340)	13,698,085
	423,795,038	6,997,490	-	-	430,792,528
Less: accumulated depreciation and amortization	(331,538,937)	(9,139,344)	-	-	(340,678,281)
Capital assets, net	$ 92,256,101	$ (2,141,854)	$ -	$ -	$ 90,114,247

Note 6 – Goodwill

Total goodwill was approximately $9.5 million for both years ended June 30, 2023 and 2022. Orthopedic Specialists of North County represents approximately $5.0 million of the total.

Note 7 – Other Non-Current Assets

Other assets consisted of the following as of June 30:

	2023	2022
Medical office building deposits	$ -	$ 9,047,447
Lease receivable	1,565,055	1,752,767
Other	2,178,315	1,064,034
Total	$ 3,743,370	$ 11,864,248

The medical office building (MOB) deposits of approximately $9.0 million as of June 30, 2022, were transferred to capital assets during the year ended June 30, 2023. See Note 14 – Commitments and Contingencies.

Note 8 – Line of Credit

The District has access to capital of approximately $15.4 million through a revolving line of credit. Balances when drawn are repaid with collections on patient accounts receivable. On August 19, 2022, the District entered into a Fourth Amendment to the Credit and Security Agreement (“Credit Agreement"), which extends the maturity date to August 31, 2024, with Conforming Changes Floor Reference Time (Secured Overnight Financing Rate) 3.0% subject to a London Interbank Offered Rate floor of 1.0%. The amount available under this revolving line of credit is fully collateralized by certain assets of the District.

The District entered into a Limited Waiver and Fifth Amendment to its Credit and Security Agreement (“Fifth Amendment”) with Mid Cap, LLC on August 11, 2023, resulting from the District’s failure to satisfy the minimum fixed charge coverage ratio for April and May 2023. The Fifth Amendment waives the covenant defaults and makes certain modifications to the Credit Agreement, including deferring measurement and compliance of the fixed charge coverage ratio to February 28, 2024, measured monthly, and requiring that minimum liquidity, as defined, from July 1, 2023, to January 31, 2024, is not less than $15 million.

A schedule of changes in the District’s line of credit as of and for the years ended June 30 is as follows:

	2023			
	Beginning Balance	Additions	Payments	Ending Balance
Line of credit	$ 5,613,145	$ 336,411,809	$(329,908,221)	$ 12,116,733

	2022			
	Beginning Balance	Additions	Payments	Ending Balance
Line of credit	$ 5,189,737	$ 289,652,253	$(289,228,845)	$ 5,613,145

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%, with principal balance outstanding of approximately $72.3 million and $74.8 million as of June 30, 2023 and 2022, 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.

- Capital equipment leases and financings with interest rates varying between 2.73% and 3.90%. Principal and interest payments are due monthly commencing February 2020 and expiring in January 2025. Principal balances due totaled approximately $938 thousand and $1.5 million as of June 30, 2023 and 2022, respectively.

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

	2023				
	Beginning Balance	Additions	Payments	Ending Balance	Due Within 1 Year
HUD insured loan	$ 74,778,277	$ -	$ (2,437,306)	$ 72,340,971	$ 2,544,666
Capital financing	1,533,390	-	(595,429)	937,961	619,175
Total long-term debt	$ 76,311,667	$ -	$ (3,032,735)	$ 73,278,932	$ 3,163,841

	2022				
	Beginning Balance	Additions	Payments	Ending Balance	Due Within 1 Year
HUD insured loan	$ 77,112,675	$ -	$ (2,334,398)	$ 74,778,277	$ 2,437,266
Capital financing	2,105,984	-	(572,594)	1,533,390	595,429
Total long-term debt	$ 79,218,659	$ -	$ (2,906,992)	$ 76,311,667	$ 3,032,695

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

Years Ending June 30,	Principal	Interest	Total
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	2,896,105	2,723,701	5,619,806
2028	3,023,724	2,596,082	5,619,806
2029–2033	17,238,635	10,860,392	28,099,027
2034–2038	21,386,615	6,712,413	28,099,028
2039–2043	19,820,555	1,721,995	21,542,550
Total	$ 73,278,932	$ 33,528,017	$ 106,806,949

Note 10 – Leases and SBITA

Leases – The District is a lessee for noncancelable leases of office space and equipment with lease terms through 2037. There are no residual value guarantees included in the measurement of District's lease liability nor recognized as an expense for the year ended June 30, 2023. The District does not have any commitments that were incurred at the commencement of the leases. The District is subject to variable equipment usage payments that are expensed when incurred. No termination penalties were incurred during the fiscal year.

A summary of the lease asset activity during the years ended June 30, 2023 and 2022, is as follows:

	Balance June 30, 2022	Additions	Deletions	Balance June 30, 2023	Amounts Due Within One Year
Right-of-use assets					
Building	$ 10,121,850	$ 3,755,157	$ -	$ 13,877,007	
Equipment	856,668	-	-	856,668	
Total right-of-use assets	10,978,518	3,755,157	-	14,733,675	
Less: accumulated amortization					
Building	(1,198,016)	(2,383,202)	-	(3,581,218)	
Equipment	(367,144)	(367,144)	-	(734,288)	
Total right-of-use lease assets, net	$ 9,413,358	$ 1,004,811	$ -	$ 10,418,169	
Lease liabilities	$ 9,638,715	$ 2,473,662	$ (1,202,769)	$ 10,909,608	$ 2,588,443

	Balance June 30, 2021	Additions	Deletions	Balance June 30, 2022	Amounts Due Within One Year
Right-of-use assets					
Building	$ -	$ 10,121,850	$ -	$ 10,121,850	
Equipment	-	856,668	-	856,668	
Total right-of-use assets	-	10,978,518	-	10,978,518	
Less: accumulated amortization					
Building	-	(1,198,016)	-	(1,198,016)	
Equipment	-	(367,145)	-	(367,145)	
Total right-of-use lease assets, net	$ -	$ 9,413,357	$ -	$ 9,413,357	
Lease liabilities	$ -	$ 10,946,517	$ (1,307,802)	$ 9,638,715	$ 1,878,183

The District recognized approximately $2.8 million and $1.6 million in amortization expense included in operating expenses on the statements of revenue, expenses, and changes in net position for the years ended June 30, 2023 and 2022, respectively.

The District leases certain building space and equipment under noncancelable leases expiring through August 2037. Lease expense for all leases totaled approximately $3.2 million and $3.5 million for the years ended June 30, 2023 and 2022, respectively.

Future annual lease payments are as follows:

Years Ending June 30,	Principal	Interest	Total
2024	$ 2,588,443	$ 360,987	$ 2,949,430
2025	1,832,396	282,041	2,114,437
2026	1,703,324	215,759	1,919,083
2027	1,475,631	155,564	1,631,195
2028	813,877	111,176	925,053
2029–2032	2,447,078	184,155	2,631,233
2033–2037	48,859	231	49,090
Total Future Payments	$ 10,909,608	$ 1,309,913	$ 12,219,521

SBITA – A summary of the SBITA asset activity during the years ended June 30, 2023 and 2022, is as follows:

	Balance at June 30, 2022	Additions	Deductions	Balance at June 30, 2023	Amounts Due Within One Year
SBITA assets – software	$ 35,820,254	$ 901,197	$ -	$ 36,721,451	
Less accumulated amortization	(4,972,901)	(5,134,102)	-	(10,107,003)	
Total SBITA assets, net	$ 30,847,353	$ (4,232,905)	$ -	$ 26,614,448	
SBITA liabilities	$ 30,687,424	$ 609,400	$ (4,578,234)	$ 26,718,590	$ 4,689,692

	Balance at June 30, 2021	Additions	Deductions	Balance at June 30, 2022	Amounts Due Within One Year
SBITA assets – software	$ -	$ 35,820,254	$ -	$ 35,820,254	
Less accumulated amortization	-	(4,972,901)	-	(4,972,901)	
Total SBITA assets, net	$ -	$ 30,847,353	$ -	$ 30,847,353	
SBITA liabilities	$ -	$ 35,552,977	$ (4,865,553)	$ 30,687,424	$ 4,578,234

A schedule of future minimum SBITA payments are as follows:

Years Ending June 30,	Principal	Interest	Total
2024	$ 4,689,692	$ 1,080,204	$ 5,769,896
2025	4,840,208	875,974	5,716,182
2026	4,665,852	665,952	5,331,804
2027	4,870,000	461,804	5,331,804
2028	5,047,081	248,723	5,295,804
2029–2032	2,605,757	42,145	2,647,902
Total Future Payments	$ 26,718,590	$ 3,374,802	$ 30,093,392

Note 11 – 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, 2023, there were a total of 4,184 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 $4.6 million and $5.2 million for the years ended June 30, 2023 and 2022, 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, 2023 and 2022, forfeitures reduced the District's expenses and contributions under the plan by approximately $61 thousand and $67 thousand, respectively.

Since 1983, the District has sponsored a retirement plan, the Tri-City Healthcare District National Security Retirement Program (NSRP), an alternative to the U.S. Social Security system. NSRP is administered by an insurance company and provides retirement and survivorship benefits. As a condition of participation, each employee makes contributions to NSRP. The District contributed 4.5% of each participating employee's annual compensation up to approximately $107 thousand and $98 thousand for the years ended June 30, 2023 and 2022, respectively.

The District's contributions to NSRP totaled approximately $1.5 million and $1.6 million for the years ended June 30, 2023 and 2022, 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, 2023 and 2022.

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, 2023 and 2022, the balance of capital accumulation funds was approximately $115 thousand and $503 thousand, respectively, which is included in prepaid expenses and other assets on the accompanying statements of net position. The corresponding compensation liabilities of approximately $238 thousand and $621 thousand as of June 30, 2023 and 2022, 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 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 $560 thousand and $549 thousand in the years ended June 30, 2023 and 2022, respectively.

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

	2023	2022
Tri-City Hospital Foundation		
Assets	$ 6,868,681	$ 5,860,338
Liabilities	50,522	674,438
Net assets	$ 6,919,203	$ 6,534,776
Tri-City Hospital Auxiliary		
Assets	$ 321,098	$ 288,063
Liabilities	-	-
Net assets	$ 321,098	$ 288,063

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 $1.1 million and $1.2 million for the years ended June 30, 2023 and 2022, 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 MOB seeking to maintain a condemnation action under which it took possession of an on-campus MOB. 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.

During fiscal year 2021, the superior court ruled in favor of the District, issuing a decision ruling that damages proximately caused by the District's condemnation action were zero and the developer owed the District approximately $4.6 million. The developer is appealing the superior court decision and is currently in Chapter 11 Bankruptcy, proposing, under an unconfirmed plan, to pay the District a minimum of $5.2 million over five years to satisfy the 2021 judgement, subject to the appeal decision. Disputes remain between the Developer and the District. Both contend entitlement to damages and the ultimate outcome of the legal proceedings is unknown at this time.

During fiscal year 2023, the court ruled in favor of the District, stipulating that the contractor has no possessory and ownership interest in the MOB. As a result, the asset was transferred from other assets to capital assets during the year ended June 30, 2023, and a gain recognized and included in other non-operating revenue of approximately $5.1 million related to the reversal of accrued damages recorded in fiscal year 2019.

Seismic standards and compliance – The District's buildings are considered in compliance with current California State regulatory seismic safety regulations to the year 2030. Certain District buildings will require substantial seismic retrofitting to comply with 2030 requirements unless seismic standards are modified and/or regulatory relief is obtained.

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 2023. Such reserves were approximately $10.4 million and $8.2 million for June 30, 2023 and 2022, respectively. Amounts classified as current liabilities are included in accrued payroll and related expenses in the statements of net position of approximately $2.4 million and $1.7 million as of June 30, 2023 and 2022, 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, 2023. Such reserves were approximately $2.1 million and $3.1 million for years ended June 30, 2023 and 2022, respectively. Amounts classified as current liabilities are included in accounts payable and accrued liabilities in the statements of net position of approximately $599 thousand and $885 thousand as of June 30, 2023 and 2022, respectively.

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

Balance as of June 30, 2021	$ 10,285,045
Additions	3,892,097
Payments	(2,883,638)
Balance as of June 30, 2022	11,293,504
Additions	4,689,284
Payments	(3,470,421)
Balance as of June 30, 2023	12,512,367
Less: amounts classified as current liabilities	3,010,965
Workers' compensation and comprehensive liability non-current portion	$ 9,501,402

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 statements of net position for the years ended June 30:

Balance as of June 30, 2021	$ 972,784
Additions	5,578,756
Payments	(5,607,197)
Balance as of June 30, 2022	944,343
Additions	3,185,172
Payments	(3,417,135)
Balance as of June 30, 2023	$ 712,380

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 three years), as long as the physician continues to practice in the defined service area. Loans to physicians accrue interest during the draw period and during the forgiveness period. The loan balances outstanding totaled approximately $2.4 million and $2.6 million as of June 30, 2023 and 2022, respectively. The balance is included in other long-term assets in the accompanying statements of net position.

COVID-19 – On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by the novel coronavirus, a pandemic. Soon afterward, the District (along with hospitals in the United States) cancelled elective surgical cases, resulting in a significant loss of net patient revenue. The pandemic has resulted in the District incurring additional costs to maintain patient volume as well as to provide care to patients specifically affected by the virus. Pandemic surges have increased supplies and pharmaceutical costs and exacerbated workforce shortages, driving labor costs higher. While the public health emergency declarations have ended both on the federal and state level, inflationary pressures persist, particularly on supply, pharmaceuticals, and critically, staffing costs. In the absence of funding mechanisms to offset or legislative actions to control these costs, many hospitals including the District continue to be negatively affected by these lingering challenges.

Medicare advance payments – During September 2020, the District received approximately $30.6 million from Medicare under the COVID-19 Accelerated and Advance Payments Program, administered by the Centers for Medicare and Medicaid Services (CMS). Recoupment began in September 2021. CMS recouped approximately $19.3 million and $11.2 million against filed claims during the years ended June 30, 2023 and 2022, respectively. The balance outstanding was $19.3 million as of June 30, 2022. As of June 30, 2023, all amounts have been recouped.

Cybersecurity – Health care providers and insurers are highly dependent upon integrated electronic medical record and other information systems to deliver high quality, coordinated and cost-effective care. These systems necessarily hold large quantities of highly sensitive protected health information. As a result, the electronic systems and networks of health care providers are considered likely targets for Cyberattacks and other potential breaches of their systems. In addition to regulatory fines and penalties, health care entities subject to breaches may be liable for the costs of remediating the breaches, damages to individuals (or classes) whose information has been breached, reputational damage and business loss, and damage to the information technology infrastructure.

On November 9, 2023, the District experienced a cybersecurity breach. The District maintains network-security insurance coverage, within justified market value. The District has not identified any material financial impact directly arising from the cyber security breach; however, the investigation is ongoing. Until the investigation is complete, the financial impact, if any, is unknown.

Note 15 – Subsequent Events

Women's services – The District suspended women's services including labor and delivery, mother and baby, and the neonatal intensive care unit, collectively referred to as Women and Newborn Services, on August 1, 2023. The District has maintained the California Department of Public Health license for this service, while on suspension status. Given the volumes relative to cost burden, the District felt compelled to act accordingly.

California Distressed Hospital Loan Program – The District was awarded a loan of $33.2 million in September 2023 under the California Distressed Hospital Loan Program. This loan is repayable over 72 months, with an initial 18-month payment deferment period at the beginning of the loan term, at an interest rate of 0%. The loan is secured by all Medi-Cal payments with respect to Medi-Cal reimbursements due to the District from the Department of Health Care Services. The District has the right to prepay the loan in whole or in part without premium or penalty.

Supplemental Schedules

Tri-City Healthcare District
Schedule of Net Position
June 30, 2023

	Tri-City Medical Center	ASCO	Cardiovascular Institute	Orthopedic Institute	Neuro Institute	Eliminations	Total
ASSETS							
CURRENT ASSETS							
Cash and cash equivalents	$ 8,401,889	$ 537,147	$ 18,930	$ -	$ -	$ -	$ 8,957,966
Short-term investments	9,491,155	-	-	-	-	-	9,491,155
Restricted cash and investments	298,000	-	-	-	-	-	298,000
Patient accounts receivable, net	54,607,401	1,117,840	-	-	-	-	55,725,241
Other receivables	381,005	-	506,608	-	-	(362,746)	524,867
Supplies inventory	11,749,787	1,588	-	-	-	-	11,751,375
Prepaid expenses and other assets	4,086,175	11,067	-	-	-	-	4,097,242
Estimated third-party payor settlements	6,249,053	-	-	-	-	-	6,249,053
Total current assets	95,264,465	1,667,642	525,538	-	-	(362,746)	97,094,899
CAPITAL ASSETS, net	102,162,200	563,311	-	-	-	-	102,725,511
RIGHT-OF-USE LEASE AND SBITA ASSETS, net	36,487,036	545,581	-	-	-	-	37,032,617
OTHER NON-CURRENT ASSETS							
Board-designated	423,317	-	-	-	-	-	423,317
Notes receivable	2,383,004	-	-	-	-	-	2,383,004
Restricted mortgage reserve fund	9,515,176	-	-	-	-	-	9,515,176
Goodwill	9,529,430	-	-	-	-	-	9,529,430
Other	3,695,439	-	47,931	-	-	-	3,743,370
Total non-current assets	25,546,366	-	47,931	-	-	-	25,594,297
Total assets	$ 259,460,067	$ 2,776,534	$ 573,469	$ -	$ -	$ (362,746)	$ 262,447,324

Tri-City Healthcare District
Schedule of Net Position (Continued)
June 30, 2023

	Tri-City Medical Center	ASCO	Cardiovascular Institute	Orthopedic Institute	Neuro Institute	Eliminations	Total
LIABILITIES AND NET POSITION							
CURRENT LIABILITIES							
Line of credit	$ 12,116,733	$ -	$ -	$ -	$ -	$ -	$ 12,116,733
Accounts payable and accrued liabilities	90,414,147	623,354	-	-	-	(362,746)	90,674,755
Accrued payroll and related expenses	20,514,125	194,058	-	-	-	-	20,708,183
Current maturities of long-term debt	3,163,841	-	-	-	-	-	3,163,841
Lease and SBITA liabilities, current	6,805,596	472,538	-	-	-	-	7,278,134
Other current liabilities	2,228,062	-	-	-	-	-	2,228,062
Total current liabilities	135,242,504	1,289,950	-	-	-	(362,746)	136,169,708
LONG-TERM DEBT, net of current position	70,115,091	-	-	-	-	-	70,115,091
LEASE AND SBITA LIABILITIES, net of current portion	30,303,510	46,554	-	-	-	-	30,350,064
							-
WORKERS' COMPENSATION AND COMPREHENSIVE LIABILITY, net of current portion	9,501,402	-	-	-	-	-	9,501,402
Total liabilities	245,162,507	1,336,504	-	-	-	(362,746)	246,136,265
NET POSITION							
Invested in capital assets, net of related debt	18,261,204	563,311	-	-	-	-	18,824,515
Restricted assets	9,515,176	983,828	221,589	-	-	-	10,720,593
Unrestricted	(13,478,820)	(107,109)	351,880	-	-	-	(13,234,049)
Total net position	14,297,560	1,440,030	573,469	-	-	-	16,311,059
Total liabilities and net position	$ 259,460,067	$ 2,776,534	$ 573,469	$ -	$ -	$ (362,746)	$ 262,447,324

Tri-City Healthcare District
Schedule of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2023

	Tri-City Medical Center	ASCO	Cardiovascular Institute	Orthopedic Institute	Neuro Institute	Eliminations	Total
OPERATING REVENUE							
Net patient service revenue	$ 301,100,297	$ 10,149,555	$ -	$ -	$ -	$ -	$ 311,249,852
Premium revenue	11,267,183	-	-	-	-	-	11,267,183
Other revenue	3,615,048	11,257	319,942	-	-	(747,620)	3,198,627
Total operating revenue	315,982,528	10,160,812	319,942	-	-	(747,620)	325,715,662
OPERATING EXPENSES							
Salaries and related expenses	185,447,304	3,321,296	-	-	-	-	188,768,600
Supplies	74,106,679	2,878,958	-	-	-	-	76,985,637
Purchased services	15,620,823	800,845	-	-	-	(319,942)	16,101,726
Depreciation and amortization	14,826,909	212,352	8,933	-	-	-	15,048,194
Other operating expense	17,081,108	702,448	2,317	3,145	4,180	-	17,793,198
Professional and medical fees	40,416,201	88,334	129,606	7,504	(9,524)	-	40,632,121
Maintenance, rent, and utilities	16,095,250	1,121,319	-	-	-	-	17,216,569
Total operating expenses	363,594,274	9,125,552	140,856	10,649	(5,344)	(319,942)	372,546,045
(LOSS) INCOME FROM OPERATIONS	(47,611,746)	1,035,260	179,086	(10,649)	5,344	(427,678)	(46,830,383)
NON-OPERATING REVENUE (EXPENSE)							
District tax revenue	14,310,378	-	-	-	-	-	14,310,378
Interest income	529,318	9,937	-	-	-	-	539,255
Interest expense	(6,131,708)	-	-	-	-	-	(6,131,708)
Other non-operating income	6,340,800	-	-	-	-	-	6,340,800
Total non-operating revenue, net	15,048,788	9,937	-	-	-	-	15,058,725
CHANGE IN NET POSITION BEFORE MINORITY INTEREST (EROE)	(32,562,958)	1,045,197	179,086	(10,649)	5,344	(427,678)	(31,771,658)
Minority interest distributions, net	-	(938,830)	(100,784)	(22,068)	(3,040)	-	(1,064,722)
Distributions between related entities	26,732	(400,710)	5,000	(64,840)	(71,347)	427,678	(77,487)
CHANGE IN NET POSITION	(32,536,226)	(294,343)	83,302	(97,557)	(69,043)	-	(32,913,867)
NET POSITION, beginning of year	46,833,786	1,734,373	490,167	97,557	69,043	-	49,224,926
NET POSITION, end of year	$ 14,297,560	$ 1,440,030	$ 573,469	$ -	$ -	$ -	$ 16,311,059

Tri-City Healthcare District
HUD Required Financial Information
June 30, 2023

MORTGAGE RESERVE FUND	
Amount required in the mortgage reserve fund at June 30, 2023	$ 9,435,958
Balance of the mortgage reserve fund at June 30, 2023	9,515,176
Excess fund balance	$ 79,218

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Tri-City Healthcare District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Tri-City Healthcare District as of and for the year ended June 30, 2023, and the related notes to the financial statements, and have issued our report thereon dated December 14, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Tri-City Healthcare District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tri-City Healthcare District's internal control. Accordingly, we do not express an opinion on the effectiveness of Tri-City Healthcare District internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2023-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tri-City Healthcare District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Irvine, California
December 14, 2023

Single Audit Reports and Related Schedules

MOSSADAMS

Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Directors
Tri-City Healthcare District

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Tri-City Healthcare District's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of District's major federal programs for the year ended June 30, 2023. Tri-City Healthcare District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Tri-City Healthcare District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States *(Government Auditing Standards)*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Tri-City Healthcare District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Tri-City Healthcare District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Tri-City Healthcare District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Tri-City Healthcare District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Tri-City Healthcare District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards,* and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Tri-City Healthcare District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Tri-City Healthcare District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Tri-City Healthcare District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Tri-City Healthcare District as of and for the year ended June 30, 2023, and have issued our report thereon dated December 14, 2023, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Moss Adams LLP

Irvine, California
December 14, 2023

Tri-City Healthcare District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures	Passed-through to Subrecipients
U.S. Department of Housing and Urban Development				
Direct				
Mortgage Insurance Hospitals	14.128	N/A	$ 74,778,277	$ -
Total U.S. Department of Housing and Urban Development			74,778,277	-
U.S. Department of Health and Human Services				
Direct				
COVID-19 – Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498	N/A	1,063,261	-
Total U.S. Department of Health and Human Services			1,063,261	-
Total Expenditures of Federal Awards			$ 75,841,538	$ -

See accompanying notes to the schedule of expenditures of federal awards.

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Tri-City Healthcare District (the "District") under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, results of operations, or cash flow of the District.

The District's reporting entity is defined in Note 1 of the financial statements. The Schedule includes the Tax ID Number (TIN) of Tri-City Healthcare District 95-2126937, which is included in the reporting of the Provider Relief Fund for Reporting Period 4. All federal awards from federal agencies are included in the Schedule.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Under the accrual basis of accounting, expenditures are recognized when incurred. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The District has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 – Loan Balance

Loans outstanding at the beginning of the year plus the new value of new loans received during the year are included in the federal expenditures presented in the schedule of expenditures of federal awards. The balance of the loans outstanding as of June 30, 2023, consisted of:

Program Name	Section 242 – Mortgage Insurance for Hospitals
Federal Assistance Listing Number	14.128
Loans outstanding as of June 30, 2022	$ 74,778,277
Loans awarded during the year ended June 30, 2023	-
Less: loan principal repaid	(2,437,306)
Loans outstanding as of June 30, 2023	$ 72,340,971

Note 4 – Provider Relief Fund

In accordance with guidance from the U.S. Department of Health and Human Services (DHHS), the District included the Reporting Period 4 (funds received between July 1, 2021 and December 31, 2021) expenditures for Provider Relief Fund Assistance Listing No. 93.498 of $1,063,261 in the Schedule for the year ended June 30, 2023, to align with DHHS reporting guidelines. In accordance with U.S. generally accepted accounting principles, $1,063,261 of Provider Relief Fund Assistance received by the District was recognized as revenue during the year ended June 30, 2022, and is included in beginning net position as of and for the year ended June 30, 2023.

Note 5 – Subrecipient Awards

The District did not provide any federal awards to subrecipients during the year ended June 30, 2023.

Section I – Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with U.S. GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☒ Yes ☐ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☐ Yes ☒ No

Identification of major federal programs and Type of Auditors' Report Issued on Compliance

Federal Assistance Listing Number	*Name of Federal Program or Cluster*	*Type of Auditor's Report Issued on Compliance for Major Federal Programs*
14.128	Mortgage Insurance for Hospitals	*Unmodified*
93.498	COVID-19 – Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	*Unmodified*

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as a low-risk auditee? ☒ Yes ☐ No

Section II – Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

Finding 2023-001 – Information Technology (IT) Controls – Significant Deficiency in Internal Control Over Financial Reporting

Criteria – During the course of the financial statement audit, Moss Adams obtained an understanding of specific risks to internal control over financial reporting resulting from IT. The IT risk assessment includes the following relevant risks to the accuracy and completeness of key reports and the continued operation of automated controls impacting financial reporting. Examples of such risks include:

- Reliance on systems or programs that are inaccurately processing data, processing inaccurate data, or both;
- Unauthorized access to data that might result in destruction of data or improper changes to data, including the recording of unauthorized or non-existent transactions or inaccurate recording of transactions (particular risks might arise when multiple users access a common database);
- The possibility of IT personnel gaining access privileges beyond those necessary to perform their assigned duties, thereby breaking down segregation of duties;
- Unauthorized changes to data in master files;
- Unauthorized changes to systems or programs;
- Failure to make necessary changes to systems or programs;
- Inappropriate manual intervention; and
- Potential loss of data or inability to access data as required.

Condition – During our risk assessment, we noted the following IT general control deficiencies in the area of logical security:

- Artifacts evidencing a complete, accurate and timely review of all logical user access were not made available for inspection.
- The District has not performed a risk assessment inclusive of cybersecurity.

Cause – An inadequate risk assessment can result in the continued existence of gaps in IT general controls. In addition, the District has competing IT projects, insufficient IT personnel, and insufficient training and supervision in the areas of IT risks and controls. This resulted in many of the controls operating in an informal manner.

Effect or potential effect – Gaps in IT general controls can impact the accuracy and completeness of key reports and the effective operation of automated controls over processes impacting financial reporting. Gaps in IT general controls that remain unremediated over a reasonable period of time may indicate a weakness in the District’s overall control environment.

Questioned costs – None to be reported.

Context – During the fiscal year ended June 30, 2023, health care providers were subject to three major IT trends:

1. technology proliferation and an insatiable appetite for data;
2. increase in the sophistication and number of cyber-attacks; and
3. pervasive shortage of IT risk and compliance talent.

Identification as a repeat finding, if applicable – This is not a repeat finding.

Recommendations – District management should assess their level of oversight of systems impacting financial reporting. Specifically, those charged with governance should communicate the following expectations to management:

- Management should keep records in reasonable detail to reflect evidence of user access reviews and maintain a system of internal controls sufficient to provide reasonable assurance that the risk of unauthorized access is mitigated. Reasonable detail is sufficient information that would satisfy a prudent official (regulator, newspaper reporter) in the conduct of their own affairs.
- Management should perform a comprehensive IT risk assessment that includes cybersecurity and remediate any identified gaps.

Views of responsible officials – The District agrees with the finding and management has implemented a corrective action plan. With respect to user access, IT maintains and reviews user access on a regular basis to ensure proper access and segregation of duties, however documentation evidencing review is not maintained. Evidence of user access reviews will be maintained going forward to evidence the review is being conducted and segregation of duties is considered.

Due to several mitigating circumstances, an IT risk assessment was not conducted during the audit period. The District will be using a third party to conduct an IT risk assessment in fiscal 2024.

Section III – Findings and Questioned Costs Relating to Federal Awards

None noted.

Tri-City Medical Center

Management's Views and Corrective Action Plan

As required by the OMB Uniform Guidance, we have provided our response and corrective action plan addressing the finding in the Schedule of Findings and Questioned Costs for the year ended June 30, 2023.

Finding 2023-001: Information Technology (IT) Controls – Significant Deficiency in Internal Control Over Financial Reporting

Corrective Action Planned: The District agrees with the findings and management has implemented a corrective action plan. With respect to user access reviews, IT maintains and reviews user access on a regular basis to ensure proper access and segregation of duties, however documentation evidencing such review is not maintained. Evidence of user access reviews will be maintained going forward to evidence the review is being conducted and segregation of duties is considered.

Due to several mitigating circumstances, an IT risk assessment was not conducted during the audit period. The District will be using a third party to conduct an IT risk assessment in fiscal 2024.

Person Responsible for Corrective Action: Mark Albright, Chief Information Officer

Anticipated Completion Date: June 30, 2024

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Tri-City Medical Center is a California Healthcare District