Report of Independent Auditors and Financial Statements with Required Supplementary Information

Palomar Health

June 30, 2023 and 2022

MOSSADAMS

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Management’s Discussion and Analysis

Palomar Health
Management's Discussion and Analysis

Overview

Palomar Health ("PH" or the "District") is a public health care 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.

This section of PH's annual financial report presents management's discussion and analysis of the financial performance for the years ended June 30, 2023 and 2022. Although the 2021 condensed statement of net position, the condensed statement of revenue, expenses, and changes in net position, and the condensed statement of cash flows are presented in this section, they are not presented in the accompanying audited financial statements and notes to the financial statements. PH adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription Based Information Technology Arrangements (SBITA),* effective July 1, 2022. Accordingly, the 2021 financial information included in management's discussion and analysis has not been adjusted for the impact of GASB Statement No. 96. We encourage the reader to consider the information presented here in conjunction with the audited financial statements that follow this section. This annual financial report includes:

- Management's Discussion and Analysis
- Report of Independent Auditors
- Financial statements of PH, including notes that explain in more detail some of the information in the financial statements
- Schedule of changes in total Other Post Retirement Benefits (OPEB) liability and related ratios

The financial statements of PH include the financial statements of Arch Health Partners, Inc., dba Palomar Health Medical Group ("PHMG"); Pacific Accountable Management San Diego, LLC ("PAM-SD"); Pacific Accountable Management, LLC ("PAM"); Pacific Accountable Care, LLC ("PAC"); and Palomar Health Development, Inc. In accordance with GASB Codification Section 2100, *The Financial Reporting Entity,* for financial reporting purposes, PH's reporting entity includes PHMG as a blended component unit as a result of the fiscal dependency of PHMG on PH, and because PH is the sole corporate member of PHMG. Effective August 31, 2017, PH, PHMG, and U.S. Bank National Association added PHMG as an additional member of the Obligated Group created pursuant to the Master Trust Indenture. PH and PHMG collectively own 100% of PAC, PAM, and PAM-SD. Therefore, PAC, PAM, and PAM-SD are included as blended components of PH's reporting entity. As of June 30, 2023, PAM and PAM-SD were dissolved. Unless otherwise indicated, amounts presented in Management's Discussion and Analysis are in thousands.

Required Financial Statements

Statements of Net Position

The statements of net position include all of PH's assets and liabilities. They also provide information about the nature and amounts of investments in resources (assets), obligations to PH's creditors (liabilities), and net position, which is the difference between assets and liabilities. The statements of net position also provide the basis for evaluating the capital structure of PH and assessing the liquidity and financial flexibility of PH.

Table 1: Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflow of Resources, and Net Position as of June 30:

ASSETS AND DEFERRED OUTFLOW OF RESOURCES				2023–2022 Change		2022–2021 Change	
	2023	2022	2021	Amount	Percentage	Amount	Percentage
CURRENT ASSETS	$ 606,243	$ 541,644	$ 569,159	$ 64,599	12%	$ (27,515)	-5%
CAPITAL ASSETS, net	978,325	978,401	969,786	(76)	0%	8,615	1%
RIGHT-TO-USE LEASE AND SBITA ASSETS, net	298,629	269,575	257,661	29,054	11%	11,914	5%
NONCURRENT ASSETS	216,273	150,870	142,750	65,403	43%	8,120	6%
Total assets	2,099,470	1,940,490	1,939,356	158,980	8%	1,134	0%
DEFERRED OUTFLOW OF RESOURCES	49,833	50,800	53,564	(967)	-2%	(2,764)	-5%
Total assets and deferred outflow of resources	$ 2,149,303	$ 1,991,290	$ 1,992,920	$ 158,013	8%	$ (1,630)	0%
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION							
CURRENT LIABILITIES	$ 254,124	$ 239,611	$ 221,995	$ 14,513	6%	$ 17,616	8%
OTHER NONCURRENT LIABILITIES	3,636	5,371	4,072	(1,735)	-32%	1,299	32%
MEDICARE ACCELERATED PAYMENTS, net	-	-	18,837	-	0%	(18,837)	-100%
LONG-TERM DEBT, net of current portion	1,393,764	1,272,792	1,286,844	120,972	10%	(14,052)	-1%
LEASE AND SBITA OBLIGATIONS, net	299,604	267,434	258,065	32,170	12%	9,369	-
FAIR VALUE OF INTEREST RATE SWAP	-	12,587	25,739	(12,587)	-100%	(13,152)	-51%
Total liabilities	1,951,128	1,797,795	1,815,552	153,333	9%	(17,757)	-1%
DEFERRED INFLOW OF RESOURCES	75,362	44,228	47,580	31,134	70%	(3,352)	-7%
Total liabilities and deferred inflow of resources	2,026,490	1,842,023	1,863,132	184,467	10%	(21,109)	-1%
INVESTED IN CAPITAL ASSETS, net of related debt	(261,316)	(234,199)	(173,322)	(27,117)	12%	(60,877)	35%
RESTRICTED, expendable for							
Repayment of debt	48,493	31,727	25,295	16,766	53%	6,432	25%
Capital acquisitions	5,109	20,223	9,028	(15,114)	-75%	11,195	124%
Other purposes	356	353	353	3	1%	-	0%
UNRESTRICTED	330,171	331,163	268,434	(992)	0%	62,729	23%
Total net position	122,813	149,267	129,788	(26,454)	-18%	19,479	15%
Total liabilities, deferred inflow of resources, and net position	$ 2,149,303	$ 1,991,290	$ 1,992,920	$ 158,013	8%	$ (1,630)	0%

2023: Analysis of the Statement of Net Position from 2022 to 2023

- Current assets increased by $64,599 or 12% during the year ended June 30, 2023, primarily due to an increase in cash of $38,064, an increase in other receivables of $13,168, an increase in estimated third-party settlements receivable, current of $39,039, offset by an increase in patient accounts receivable of $44,866, a decrease in investments of $87,884, and an increase in restricted cash and investments, current of $10,075.

- Right-to-use lease and SBITA assets, net increased $29,054 or 11% primarily due to Palomar Health entering into three sale leaseback transactions during the year.

- Noncurrent assets increased by $65,403 or 43% due to an increase in restricted noncurrent cash and investments of $83,243, offset by a decrease in estimated third-party settlement receivable, net of current portion, of $26,549.

- Current liabilities increased by $14,513 or 6% primarily due to increases in other accrued liabilities of $16,584, an increase in accounts payable of $6,322, an increase in accrued compensation and related liabilities of $5,274, an increase in accrued interest payable of $5,804, offset by a decrease in current portion of Medicare Accelerated repayments of $21,108.

- Long-term debt, net of current portion increased by $120,972 or 10% due to an increase in other long-term debt, net of $126,497, offset by a decrease in General Obligation Bonds (G.O. Bonds), net of $9,194. The increase was primarily due to the issuance of the 2022 COPs in November 2023 at which time 2006 COPs were advance refunded and the interest rate swap, with a fair value of $12,587 as of June 30, 2022, was terminated.

- Lease and SBITA obligations, net increased $32,170 or 12% primarily due to Palomar Health entering into three sale leaseback transactions during the year.

- Deferred inflow of resources increased by $31,134 or 70% due to the deferred gains recognized related to the sale leaseback transactions which are being amortized over the terms of the related lease agreements.

- Net position increased decreased by $26,454 or 18% due to loss from operations of $29,475 offset by non-operating income, net of $3,021.

2022: Analysis of the Statement of Net Position from 2021 to 2022

- Current assets decreased by $27,515 or 5% during the year ended June 30, 2022, primarily due to a decrease in cash of $21,499, a decrease in other receivables of $9,748, a decrease in investments of $17,964, a decrease in estimated third-party settlements receivable of $20,954, offset by an increase in patient accounts receivable of $36,708, and an increase in restricted cash and investments, current of $7,776.

- Noncurrent assets increased by $8,120 or 6% primarily due to an increase in estimated third-party settlement receivable of $39,049 offset by a reduction in total restricted cash and investments of $31,064.

- Deferred outflow of resources decreased by $2,764 or 5% due to the amortization of losses on refunding of debt.

- Current liabilities increased by $17,616 or 8% primarily due to increases in accounts payable of $29,407, an increase in current portion of lease obligations of $3,777, an increase in current portion of SBITA obligations of $6,473, of offset by a decrease in accrued compensation and related liabilities of $4,959, a decrease in current portion of Medicare Accelerated repayments of $10,848, and a decrease in current other accrued liabilities of $6,687.

- Long-term debt, net of current portion decreased by $14,052 or 1% due to reduction in G.O. Bonds net of $3,041 and a reduction in other long-term debt, net of $17,888, offset by the receipt of Non-Designated Public Hospital Bridge loan of $6,877.

- Net position increased by $19,479 or 15% due to income from operations of $13,357 plus non-operating income of $6,122.

Statements of revenue, expenses, and changes in net position – All of PH's revenue, expenses, and changes in net position are included in the statements of revenue, expenses, and changes in net position. The financial statements measure the success of PH's operations during the years presented and are used to determine if PH has successfully recovered all of its costs through its fees and other sources of revenue. It also shows profitability and creditworthiness. Over time, increases or decreases in PH's net position are one indicator of PH's financial health.

In accordance with accounting principles generally accepted in the United States of America (also known as GAAP (or generally accepted accounting principles) for governmental health care providers, PH's statements of revenue, expenses, and changes in net position reflect non-operating income (expenses) including interest expense, which for nongovernment hospitals is typically grouped as an operating expense. While these GASB requirements make district hospitals conform to other governmental entities, such as cities and counties, they may be less comparable to nongovernment hospitals because of these GASB requirements. This must be a consideration of any comparison of PH to nonprofit and for-profit hospitals.

Table 2: Operating Results and Changes in Net Position for the years ended June 30:

				2023–2022 Change		2022–2021 Change	
	2023	2022	2021	Amount	Percentage	Amount	Percentage
OPERATING REVENUE							
Net patient service revenue	$ 851,214	$ 795,891	$ 728,947	$ 55,323	7%	$ 66,944	9%
Shared risk revenue	108,702	99,990	97,614	8,712	9%	2,376	2%
Other revenue	26,772	17,195	16,340	9,577	56%	855	5%
Total operating revenue	986,688	913,076	842,901	73,612	8%	70,175	8%
OPERATING EXPENSES	1,016,163	899,719	834,308	116,444	13%	65,411	8%
(LOSS) INCOME FROM OPERATIONS	(29,475)	13,357	8,593	(42,832)	-321%	4,764	55%
NON-OPERATING INCOME (EXPENSE)							
Investment income (loss)	12,836	(5,490)	(267)	18,326	-334%	(5,223)	1956%
Change in value of interest rate swap	5,325	13,152	9,445	(7,827)	-60%	3,707	39%
Interest expense	(85,019)	(75,672)	(68,981)	(9,347)	12%	(6,691)	10%
Property tax revenue – unrestricted	21,983	20,184	19,319	1,799	9%	865	4%
Property tax revenue – restricted	48,011	44,402	39,851	3,609	8%	4,551	11%
Other, net	(115)	9,546	4,917	(9,661)	-101%	4,629	94%
Total non-operating income (expense), net	3,021	6,122	4,284	(3,101)	-51%	1,838	43%
CHANGE IN NET POSITION	(26,454)	19,479	12,877	(45,933)	-236%	6,602	51%
NET POSITION, beginning of year	149,267	129,788	116,911	19,479	15%	12,877	11%
NET POSITION, end of year	$ 122,813	$ 149,267	$ 129,788	$ (26,454)	-18%	$ 19,479	15%

2023: Analysis of the Statement of Revenue, Expenses, and Changes in Net Position from 2022 to 2023

- Total operating revenue increased by $73,612 or 8% during the year ended June 30, 2023, due to an increase in net patient revenue primarily related to significant increases in certain third-party payor contracts and an increase in physician recruitment for Palomar Health Medical Group during the fiscal year. Additionally, there were new service lines acquired during the year.

- Operating expenses are those expenses related to the treatment of patients as well as overhead and administrative expenses. Operating expenses increased by $116,444 or 13% during the year ended June 30, 2023, primarily due to the contract labor, purchased services, and supplies. Contract labor increased due to staffing and recruitment challenges. Purchased services and supplies increased due to inflation.

- Non-operating income (expenses), net decreased by $3,101 or 51% during the year ended June 30, 2023. Investment income increased by $18,326 due to more favorable market conditions. Due the bond refinancing, the interest rate swap was eliminated, resulting in change in unrealized gain of $5,325 in 2023. Unrestricted property tax revenue increased by $1,799, while restricted property tax revenue for G.O. Bonds increased by $3,609. Other, net decreased by $9,661 primarily due to decreased funding related to the novel coronavirus (COVID-19) Public Health Emergency.

- As a result of the factors noted above, net position during the year ended June 30, 2023, decreased by $26,454 or 236% compared to the year ended June 30, 2022.

2022: Analysis of the Statement of Revenue, Expenses, and Changes in Net Position from 2021 to 2022

- Total operating revenue increased by $70,175 or 8% during the year ended June 30, 2023, due to an increase in net patient revenue primarily related to significant increases in certain third-party payor contracts and a full year worth of activity for Graybill Medical Group ("Graybill") during the fiscal year. Additionally, there were new service lines acquired during the year.

- Operating expenses are those expenses related to the treatment of patients as well as overhead and administrative expenses. Operating expenses increased by $65,411 or 8% during the year ended June 30, 2023, primarily due to the impact of the Graybill acquisition on wage, supply, and other expenses combined with inflation increases on salaries, supplies, and purchased services. Salaries, wages, and benefits increased by $72,282 due to the Graybill acquisition as well as an increase in PHMG physician costs. Supplies increased by $6,562 resulting from COVID-19 related supply purchases. Rent decreased by $10,848 due to amended lease agreements during the year. Purchased services and professional fees decreased by $5,521 resulting from a decrease in fees for COVID-19 lab related testing. Depreciation and amortization increased by $556 due to new capital acquisitions (inclusive of Graybill), and other expenses increased by $2,027 mainly due to the Graybill acquisition.

- Non-operating income (expenses), net increased by $1,838 during the year ended June 30, 2023. Investment loss increased by $5,223 due to the impact of the pandemic on interest rates. There was a gain on the interest rate swap, resulting in an increase of $3,707. Unrestricted property tax revenue increased by $865, while restricted property tax revenue for G.O. Bonds increased by $4,551. Other, net increased by $4,629 primarily due to Coronavirus Aid, Relief, and Economic Security (CARES) Act provider relief funds (PRF) received in the prior year.

- As a result of the factors noted above, net position during the year ended June 30, 2022, increased by $19,479 or 51% compared to the year ended June 30, 2021.

Statements of Cash Flows

The statements of cash flows report cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities, which provides answers to such questions as to the sources and uses of cash, and what was the change in the cash balance during the reporting year.

Table 3: Statement of Cash Flows for the years ended June 30:

	2023	2022	2021	2022–2021 Change Amount	2022–2021 Change Percentage	2021–2020 Change Amount	2021–2020 Change Percentage
CASH FLOWS FROM							
Operating activities	$ (19,748)	$ 18,223	$ 33,198	$ (37,971)	-208%	$ (14,975)	-45%
Noncapital financing activities	21,983	20,184	19,613	1,799	9%	571	3%
Capital and related financing activities	22,817	(108,587)	(17,165)	131,404	-121%	(91,422)	533%
Investing activities	13,012	48,681	(4,610)	(35,669)	-73%	53,291	-1156%
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	38,064	(21,499)	31,036	59,563	-277%	(52,535)	-169%
CASH AND CASH EQUIVALENTS, beginning of year	31,864	53,363	22,327	(21,499)	-40%	31,036	139%
CASH AND CASH EQUIVALENTS, end of year	$ 69,928	$ 31,864	$ 53,363	$ 38,064	119%	$ (21,499)	-40%

2023: Analysis of the Statement of Cash Flows from 2022 to 2023

- Net cash inflows provided by operating activities reflected a decrease of $19,748 during the year ended June 30, 2023, over the year ended June 30, 2022. This decrease is primarily due to an increase receipts from patients of $55,675 and a decrease in other sources of $36,315 combined with a decrease in payments to employees of $80,749 and an increase in payments to suppliers of $23,418.

- Net cash inflows provided by noncapital financing activities reflected an increase of $1,799 during the year ended June 30, 2023, due to an increase in district tax revenue receipts of $1,799.

- Net cash outflows used in capital and related financing activities increased by $131,404 primarily due to bond refinancing resulting in the issuance of long-term debt of $262,955 and a reduction due to the repayment of that debt and other debt principal repayments of $140,806, an increase in the sale of capital assets of $35,024 and increase in the principal repayment of lease obligations of $12,357.

- Net cash inflows from investing activities during the year ended June 30, 2023, decreased by $35,669 primarily due to an increase in purchase of investments of $291,157, combined with a decrease in proceeds from sale of investments of $258,466, and increase in interest received on investments and notes receivable of $2,049, during the year ended June 30, 2023.

- The ending cash and cash equivalents of $69,928 at June 30, 2023, reflect the checking account and overnight investment balances held by PH. In addition, PH held investments of $133,193 at June 30, 2023, with maturities of one year or less which are classified as current assets.

2022: Analysis of the Statement of Cash Flows from 2021 to 2022

- Net cash inflows provided by operating activities reflected a decrease of $14,975 during the year ended June 30, 2022, over the year ended June 30, 2021. This decrease is primarily due to an increase in receipts from patients of $2,724 and other sources of $15,181 combined with a decrease in payments to employees of $90,433 and an increase in payments to suppliers of $57,553.

- Net cash inflows provided by noncapital financing activities reflected an increase of $571 during the year ended June 30, 2023, due to an increase in district tax revenue receipts of $865 and an offset by a decrease in proceeds received from federal grants of $294.

- Net cash outflows used in capital and related financing activities increased by $91,422 primarily due to an increase in acquisition of capital assets of $25,509 and increase in interest payments on long-term debt of $29,401.

- Net cash inflows from investing activities during the year ended June 30, 2022, increased by $53,291 primarily due to an increase in purchase of investments of $91,642, combined with a decrease in proceeds from sale of investments of $56,026, and increase in other investing activities of $6,255, during the year ended June 30, 2022.

- The ending cash and cash equivalents of $31,864 at June 30, 2022, reflect the checking account and overnight investment balances held by PH. In addition, PH held investments of $221,077 at June 30, 2022, with maturities of one year or less which are classified as current assets.

Capital Assets and Long-Term Debt

In 2004, the Board of Directors approved the Facilities Master Plan budgeted at $1,057,000. In November 2004, the residents of the District voted and approved to fund $496,000 of this expansion by the issuance of G.O. Bonds. Payment for these bonds was funded by an *ad valorem* property tax levied on District residents. The approximate amount of the tax levy for each taxable property was 0.038% and 0.037% of assessed value during the years ended June 30, 2023 and 2022, respectively. The levy was established by a Board of Directors' resolution each year in an amount sufficient to service the debt for the upcoming year together with a reserve amount.

One of the major components of the Facilities Master Plan included the construction of Palomar Medical Center ("PMC"). On August 19, 2012, PH opened the 288-bed facility, which includes critical, intermediate, and general inpatient care, surgical and interventional services, a women's center, and emergency and trauma services.

Other current building projects include the renovation of existing hospital facilities at various locations in the District and construction of a medical office building and parking structure. Additionally, in 2023 two smaller properties were sold and leased back by PH. Another property was also leased and a building on that property was sold and leased back.

PH has five outstanding revenue bonds and five outstanding G.O. Bonds that are classified as long-term debt. The revenue bonds are comprised of the 2006 COP, the 2017 COP, 2021 COP, and the 2016 and 2017 Refunding Revenue Bonds. The G.O. Bonds are comprised of the Series 2007A, 2009A, 2010A, and 2016 A and B bonds. Principal payments of $13,855 and $13,295 during the years ended June 30, 2023 and 2022, respectively, reduced the revenue bonds’ principal to $585,010 and $598,865. Principal payments of $7,299 and $6,497 during the years ended June 30, 2023 and 2022, respectively, reduced the G.O. Bonds’ principal to $408,228 and $415,527. All debt payments have been made timely. See Note 11 in the accompanying footnotes of the financial statements.

Liquidity and Capital Resources

PH’s unrestricted liquid assets as of June 30, 2023, were $203,121, including $69,928 in operating cash and $133,193 in unrestricted investments stated at fair market value. PH’s unrestricted liquid assets as of June 30, 2022, were $252,941, including $31,864 in operating cash and $221,077 in unrestricted investments stated at fair market value. The current liquidity position represents a $49,820 decrease from the $252,941 in available liquidity as of June 30, 2022, and equaled 26% of the total outstanding debt as of June 30, 2023 (excluding the existing G.O. Bonds, which are paid from *ad valorem* property taxes), as compared to available liquidity representing 40% of total outstanding debt as of June 30, 2022.
PH’s days cash and investments on hand as of June 30, 2023 and 2022, was 77.4 and 108.9, respectively.

Economic and Other Factors

The challenge of meeting constant capital needs and consumer demands becomes more difficult as the health care industry is highly dependent upon a number of factors that could have a significant effect on the operations and financial condition of PH. The healthcare industry is moving towards value-based care which requires improved efficiency and quality measures. As PH shifts towards these patient-centric drivers, inpatient utilization rates will lower with the decrease in readmission rates and improved continuum of care management.

Government payors continue to present reimbursement challenges for healthcare providers as the reimbursement rates are set annually with no ability for negotiation on rates and terms. Medicare continues to look for additional ways to cut medical costs by way of reimbursement modeling. Quality-based reimbursement methods incentivize health care providers to improve quality outcomes and patient experiences and penalize those who are not able to meet these measures. Contractually negotiated commercial payments, while based on an agreed-upon reimbursement methodology, are susceptible to shifts in demand, patterns of patient services, and are sensitive to a more competitive market. At the same time, labor shortages and expanding regulatory requirements related to the healthcare industry continue to drive up the cost of providing care. To mitigate these reimbursement and cost pressures, PH has employed a variety of strategies, including discontinuation of select services and sale and leaseback of certain properties.

On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by the novel coronavirus, a pandemic. Soon afterward, PH (along with hospitals in the United States) temporarily cancelled elective surgical cases, resulting in a significant loss of net patient revenue for several months thereafter. The pandemic has resulted in PH incurring additional costs to maintain patient volume as well as to provide care to patients specifically affected by the virus. The long-term impact of the pandemic and the effect on patient demand and healthcare costs is still difficult to predict.

Union Contract

PH and two labor unions, the California Nurses Association (CNA) and the Caregivers Healthcare Employees Union (CHEU), reached agreements in June 2022. PH recently ratified new contracts with both bargaining units, in effect until July 31, 2024.

Finance contact – PH's financial statements are designed to present users with a general overview of PH's finances and to demonstrate PH's accountability. If you have any questions about the report or need additional financial information, please contact the Chief Financial Officer, PH, 2125 Citracado Pkwy., Suite 300, Escondido, California 92029.

MOSSADAMS

Report of Independent Auditor

The Board Audit and Compliance Committee
Palomar Health

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Palomar Health, which comprise the statements of net position as of June 30, 2023 and 2022, and the related statements of revenue, 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 present fairly, in all material respects, the financial position of Palomar Health as of June 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 Palomar Health and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2023, Palomar Health adopted the accounting requirements of Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*. 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 Palomar Health's ability to continue as a going concern within one year after the date that the financial statements are issued.

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 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, 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 Palomar Health'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 Palomar Health'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 management's discussion and analysis, and schedule of changes in total Other Postemployment Benefits liability and related ratios, as listed in the table of contents, 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 Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Moss Adams LLP

Irvine, California
November 24, 2023

Financial Statements

Palomar Health
Statements of Net Position
(Dollars in Thousands)
Years Ended June 30, 2023 and 2022

	2023	2022 (As Restated)
ASSETS AND DEFERRED OUTFLOW OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	$ 69,928	$ 31,864
Investments	133,193	221,077
Patient accounts receivable, net of allowances for uncollectible accounts of $94,279 in 2023 and $58,830 in 2022	210,087	165,221
Other receivables	42,358	29,190
Supplies and inventories	13,280	12,764
Prepaid expenses and other	16,548	9,793
Estimated third-party payor settlements receivable, current	58,703	19,664
Restricted cash and investments, current	62,146	52,071
Total current assets	606,243	541,644
RESTRICTED NONCURRENT CASH AND INVESTMENTS		
Held by trustee under indenture agreements	136,216	51,711
Held by trustee under general obligation bonds indenture	62,132	51,886
Held in escrow for street improvements	5,109	6,545
Restricted by donor and other	356	353
Total restricted cash and investments	203,813	110,495
Less: amounts required to meet current obligations	62,146	52,071
Total restricted noncurrent cash and investments	141,667	58,424
CAPITAL ASSETS, net	978,325	978,401
LEASE RIGHT-TO-USE ASSETS, net	277,256	245,554
SUBSCRIPTION-BASED TECHNOLOGY ARRANGEMENTS (SBITA)	21,373	24,021
ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS RECEIVABLE, net of current portion	12,500	39,049
OTHER ASSETS		
Prepaid debt insurance costs	9,069	7,491
Investment in and amounts due from affiliated entities	4,228	3,204
Leases receivable	42,941	35,180
Other	5,868	7,522
Total other assets	62,106	53,397
Total assets	2,099,470	1,940,490
DEFERRED OUTFLOW OF RESOURCES – loss on refunding of debt	49,833	50,800
Total assets and deferred outflow of resources	$ 2,149,303	$ 1,991,290

See accompanying notes.

Palomar Health
Statements of Net Position (Continued)
(Dollars in Thousands)
Years Ended June 30, 2023 and 2022

	2023	2022 (As Restated)
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	$ 76,845	$ 70,523
Accrued compensation and related liabilities	55,153	49,879
General obligation bonds, current	8,794	8,061
Other long-term debt, current	14,987	14,902
Lease obligations, current	9,957	10,417
SBITA obligations, current	7,752	6,473
Medicare accelerated payments, current	-	21,108
Other accrued liabilities	53,220	36,636
Accrued interest payable	27,416	21,612
Total current liabilities	254,124	239,611
WORKERS' COMPENSATION, net of current portion	3,636	5,371
GENERAL OBLIGATION BONDS, net of current portion	646,301	651,741
OTHER LONG-TERM DEBT, net of current portion	747,463	621,051
LEASE OBLIGATIONS, net of current portion	286,242	250,278
SBITA OBLIGATIONS, net of current portion	13,362	17,156
FAIR VALUE OF INTEREST RATE SWAP	-	12,587
Total liabilities	1,951,128	1,797,795
DEFERRED INFLOW OF RESOURCES	75,362	44,228
Total liabilities and deferred inflow of resources	2,026,490	1,842,023
COMMITMENTS AND CONTINGENCIES (Note 15)		
NET POSITION		
Invested in capital assets, net of related debt	(261,316)	(234,199)
Restricted, expendable for		
Repayment of debt	48,493	31,727
Capital acquisitions	5,109	20,223
Other purposes	356	353
Unrestricted	330,171	331,163
Total net position	122,813	149,267
Total liabilities, deferred inflow of resources, and net position	$ 2,149,303	$ 1,991,290

See accompanying notes.

Palomar Health
Statements of Revenue, Expenses, and Changes in Net Position
(Dollars in Thousands)
Years Ended June 30, 2023 and 2022

	2023	2022 (As Restated)
OPERATING REVENUE		
Patient service revenue, net of provision for uncollectible accounts of $80,047 in 2023 and $77,259 in 2022	$ 851,214	$ 795,891
Shared risk revenue	108,702	99,990
Other revenue	26,772	17,195
Total operating revenue	986,688	913,076
OPERATING EXPENSES		
Salaries, wages, and benefits	639,275	557,626
Professional fees	45,955	45,656
Supplies	127,425	116,720
Purchased services	95,941	81,425
Depreciation and amortization	59,398	58,559
Rent expense	14,240	9,966
Utilities	10,775	11,752
Other	23,154	18,015
Total operating expenses	1,016,163	899,719
(LOSS) INCOME FROM OPERATIONS	(29,475)	13,357
NON-OPERATING INCOME (EXPENSES)		
Investment income (loss)	12,836	(5,490)
Change in value of interest rate swap	5,325	13,152
Interest expense	(85,019)	(75,672)
Property tax revenue – unrestricted	21,983	20,184
Property tax revenue – restricted	48,011	44,402
Other, net	(115)	9,546
Total non-operating income (expenses), net	3,021	6,122
CHANGE IN NET POSITION	(26,454)	19,479
NET POSITION, beginning of year	149,267	129,788
NET POSITION, end of year	$ 122,813	$ 149,267

See accompanying notes.

Palomar Health
Statements of Cash Flows
(Dollars in Thousands)
Years Ended June 30, 2023 and 2022

	2023	2022
CASH FROM OPERATING ACTIVITIES		
Receipts from		
Patients, insurers, and other third-party payors	$ 903,630	$ 847,955
Other sources	(9,372)	26,943
Payments to		
Employees	(642,035)	(561,286)
Suppliers	(271,971)	(295,389)
Net cash (used in) provided by operating activities	(19,748)	18,223
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipt of district taxes	21,983	20,184
Net cash provided by noncapital financing activities	21,983	20,184
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(82,863)	(45,721)
Interest payments on long-term debt	(69,408)	(72,850)
Interest payments on lease obligations	(10,473)	(10,990)
Proceeds from issuance of long-term debt	262,955	-
Bond discount	(5,362)	-
Interest rate swap repayment	(7,262)	-
Principal repayment on long-term debt	(140,806)	(22,526)
Principal repayment on lease obligations	(12,603)	(246)
Deferred financing costs	(9,518)	-
Proceeds from sale of capital assets	35,024	-
Receipt of property taxes restricted for debt service on general obligation bonds	49,095	44,402
Other	14,038	(656)
Net cash provided by (used in) capital and related financing activities	22,817	(108,587)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(475,009)	(183,852)
Proceeds from sale of investments	483,570	225,104
Interest received on investments and notes receivable	5,422	3,373
Other	(971)	4,056
Net cash provided by investing activities	13,012	48,681
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	38,064	(21,499)
CASH AND CASH EQUIVALENTS, beginning of year	31,864	53,363
CASH AND CASH EQUIVALENTS, end of year	$ 69,928	$ 31,864

See accompanying notes.

Palomar Health
Statements of Cash Flows (Continued)
(Dollars in Thousands)
Years Ended June 30, 2023 and 2022

	2023	2022
RECONCILIATION OF (LOSS) INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Loss (income) from operations	$ (29,427)	$ 12,193
Adjustments to reconcile (loss) income from operations to net cash provided by operating activities		
Loss on write-off of PAM-SD	555	-
Depreciation and amortization	43,178	33,817
Amortization of lease right-of-use asset	8,193	13,925
Amortization of SBITA	8,027	5,408
Provision for bad debts	80,047	77,278
Equity gains of affiliates	(1,024)	(1,127)
Loss on disposal of fixed assets	24,237	638
Changes in assets and liabilities		
Patient accounts receivable	(114,552)	(113,986)
Other receivables	(21,108)	9,748
Supplies and inventories	(516)	(79)
Prepaid expenses and other	(6,755)	1,913
Estimated third-party payor settlements	(40,474)	(11,218)
Other, net	(6,785)	(2,313)
Accounts payable	13,775	32,058
Accrued compensation and related liabilities	3,311	(4,959)
Other accrued liabilities	12,713	(6,687)
Medicare accelerated payments	-	(29,685)
Workers' compensation	-	1,299
Deferred inflow of resources	6,857	-
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	$ (19,748)	$ 18,223
NONCASH OPERATING ACTIVITIES		
Right-to-use assets obtained in exchange for lease obligations	$ 6,890	$ 8,097
Right-to-use assets obtained in exchange for SBITA obligations	$ 3,158	$ 6,756
NONCASH INVESTING AND CAPITAL AND FINANCING ACTIVITIES		
Lease right-of-use assets acquired via lease obligations	$ 112,144	$ 7,226
Capital expenditures included in accounts payable	$ 5,896	$ 2,651
Loss related to issuance of 2022 Certificates of Participation	$ 1,940	$ -
Discount related to issuance of 2022 Certificates of Participation	$ 5,362	$ -

See accompanying notes.

Note 1 – Operations and Reporting Entity

Organization – Palomar Health ("PH" or the "District"), a public health care district, is organized under the provisions of the Health and Safety Code of the state of California to provide and operate health care facilities. The accompanying financial statements include the accounts of the following commonly controlled divisions and related entities of PH. Unless otherwise indicated, the following are divisions of PH:

- Palomar Medical Center Escondido ("Escondido"), located in west Escondido, California, includes a 288-bed general acute care hospital, including tertiary services, trauma services, cardiovascular surgery, women's services, and retail pharmacy.

- Palomar Medical Center Poway ("Poway"), located in Poway, California, includes a 107-bed general acute care hospital and The Villas at Poway, a distinct part skilled nursing facility and sub-acute facility.

- Palomar Home Health Services, located in San Marcos, California.

- San Marcos Ambulatory Care Center, located in San Marcos, California, includes outpatient therapy.

- Jean McLaughlin Women's Center for Health and Healing, located on the Poway campus.

- Palomar Outpatient Behavioral Health, located in San Marcos, California.

- Palomar Health Development, Inc. ("Health Development"), a California nonprofit public benefit corporation organized and operated to seek grants to support research and other programs at PH's facilities. PH's reporting entity includes Health Development as a blended component unit because PH is the sole corporate member of Health Development and appoints all the members of Health Development board of directors.

- Arch Health Partners, Inc. ("Arch"), a tax exempt medical foundation established under Section 1206(l) of the California Health and Safety Code, with twenty-five clinics located in Escondido, Fallbrook, Poway, Murrieta, Ramona, San Diego, San Marcos, Temecula, and Valley Center, California, that provide primary and specialty care medical services, and add another component in effective health care delivery to residents within PH's community. In accordance with Governmental Accounting Standards Board (GASB) Codification Section 2100, *The Financial Reporting Entity*, for financial reporting purposes, PH's reporting entity includes Arch as a blended component unit as a result of the fiscal dependency of Arch on PH, and because PH is the sole corporate member of Arch. Since December 1, 2020, Arch has included Graybill Medical Group, and has operated under the trade name of Palomar Health Medical Group ("PHMG").

- Pacific Accountable Care, LLC ("PAC"), a Medicare approved Accountable Care Organization (ACO) that has contracted with the Centers for Medicare & Medicaid Services ("CMS") as a participant in a Track 1 Medicare Shared Savings Program (MSSP) to provide coordinated high-quality care to Medicare patients at reduced cost. Arch's reporting entity includes PAC as a blended component unit because Arch is the sole member of PAC (See Note 10).

- Pacific Accountable Management, LLC (“PAM”) and Pacific Accountable Management San Diego (“PAM-SD”) operated as management service organizations (MSO). Operations for PAM and PAM-SD ceased in July 2018 when the MSO services were assumed by Arch (See Note 10). PAM and PAM-SD were dissolved during the year ended June 30, 2023.

Palomar Health Medical Group membership of Obligated Group – On August 31, 2017, PH, PHMG, and U.S. Bank National Association, as Master Trustee, entered into a Supplemental Master Indenture agreement providing for the addition of PHMG as a member of the Obligated Group created pursuant to the Master Indenture of Trust dated December 1, 2006. As such, PHMG became jointly and severally liable for the repayment of PH’s revenue obligations and placed its collateral under control of a master trustee for the benefit of lenders and bondholders. In consideration of the agreement of PHMG to become an Obligated Group Member, PH agreed to the extinguishment of PHMG obligations. Related eliminations can be found in Note 16.

Discontinued services – During the year ended June 30, 2023, PH made strategic decisions to discontinue certain programs:

Geriatric Psychiatric Unit – Prior to the COVID-19 pandemic, PH operated a Geriatric Psychiatric Unit (GPU) at the downtown campus (which was sold on June 30, 2021). During the COVID-19 pandemic, PH received a special waiver from the state of California (the “State”) to temporarily relocate the unit to Poway in order to ensure patient access during the COVID-19 pandemic. The waiver expired on June 30, 2022; however, PH applied for an extension to the waiver. This extension was denied since the Poway unit did not meet all the physical plant requirements of a GPU, as specified by CMS. PH decided not to renovate the GPU to meet the CMS requirements due to the costs involved and the planned opening of a new behavioral health hospital in Escondido. The GPU was closed in October 2022.

Home Health Care Programs – PH operated two departments that provided home care to patients. Both departments operated with losses and these losses were expected to increase due to increased labor costs. These two departments were closed in June 2023.

Obstetric Neonatal Care Units – PH operated an Obstetrics Unit (OB) and a Neonatal Intensive Care Unit (NICU) at Poway. The decision was made to close the OB and NICU and convert the space to a state-of-the-art intensive care unit and use the space occupied by the existing intensive care unit to expand the emergency department. Both the OB and NICU were closed in May 2023.

The revenues, expenses and operating loss of each of the discontinued services for the year ended June 30, 2023 is as follows (in thousands):

	Geriatric Psychiatric Unit	Home Health Care Programs	Obstetric and Neonatal Care Units	Total
Total operating revenue	$ 460	$ 12,160	$ 6,893	$ 19,513
Operating Expense				
Salaries and benefits	774	11,897	5,928	18,599
Supplies	7	405	85	497
Professional fees	636	64	2,076	2,776
Other expenses	231	780	1,247	2,258
Total operating expenses	1,648	13,146	9,336	24,130
Operating loss	$ (1,188)	$ (986)	$ (2,443)	$ (4,617)

Note 2 – Summary of Significant Accounting Policies

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

Basis of accounting and presentation – The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting, in accordance with GAAP for healthcare organizations and the State Controller's *Minimum Audit Requirements and Reporting Guidelines*, and are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. PH follows the business-type activities requirements of GASB Statements No. 34 and No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Fiscal year – PH has adopted a fiscal year ending June 30. All references to years herein refer to the respective fiscal year.

Cash and cash equivalents – Cash and cash equivalents include highly liquid debt instruments with original maturities of three months or less and are intended for use in daily operations.

Notes to Financial Statements (Dollars in Thousands)

Investments – Investments in debt, equity, and fixed income securities are carried at fair value, as determined by quoted market prices in the statements of net position. Investment income or loss is included in non-operating income, unless the income or loss is restricted by donor or law.

Supplies and inventories – Supplies and inventories are stated at the lower of cost (first-in, first-out) or market value.

Goodwill – Goodwill represents the excess of the cost of an acquired entity over the net of the fair value of identifiable assets acquired and liabilities assumed as of the date of acquisition. PHMG amortizes goodwill over a 10-year period. In addition, PHMG has elected the option to not recognize and measure: a) customer-related intangible assets (unless they are capable of being sold or licensed independent from other assets of the business), and b) noncompetition agreements. Instead, the value of these intangibles is subsumed into goodwill.

PHMG evaluates the carrying value of goodwill as one reporting unit for impairment by comparing the carrying value to its fair value. If the fair value is less than the carrying value, goodwill is potentially impaired. PHMG evaluates goodwill whenever events or changes in circumstances suggest that the carrying amount of goodwill may be impaired. PHMG determined that there was no goodwill impairment for the years ended June 30, 2023 and 2022.

Restricted cash and investments – Restricted cash and investments primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board of Directors for future capital improvements over which the Board of Directors retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of PH have been classified as current assets in the accompanying statements of net position.

PH has entered into an agreement with the city of Escondido (the “City”) to financially participate in street improvements near the site of Escondido. Under the agreement, PH was required to deposit $13,000 into an account jointly managed by PH and the City. PH’s financial obligation is limited to the deposited amount plus any earned interest on the deposited funds. The balance of $5,109 and $6,545 as of June 30, 2023 and 2022, respectively, is included in restricted cash and investments in the accompanying statements of net position.

Capital assets – Capital asset acquisitions are recorded at cost. The capitalization threshold for individual item cost is $5 or greater and similar items that have cost less than $5 but have an aggregate cost of $20 or greater. 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:

	Years
Land improvements	10–40
Buildings and building improvements	10–40
Leasehold improvements	3–25
Equipment	3–20

Gifts of long-lived assets, such as land, buildings, or equipment, are recorded at their fair market value and are reported in non-operating income. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted for other purposes in net position. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Capital assets are reviewed 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 are recorded in the statements of revenue, expenses, and changes in net position. There was no impairment charge recorded during the years ended June 30, 2023 and 2022.

Deferred outflows of resources – Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. The deferred outflows of resources reported in the financial statements relate to losses on refunding of debt which is amortized over the shorter of the remaining life of the refunded bonds or the refunding debt as a component of interest expense (see Note 11).

Compensated absences – PH policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits and are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

Leases – PH recognizes lease contracts or equivalents for both intangible right-of-use and subscription assets that have a term exceeding one year and the cumulative future payments on the contract exceed $50 that meet the definition of an other than short-term lease. PH uses a discount rate that is explicitly stated or implicit in the contract. When a readily determinable discount rate is not available, the discount rate is determined using PH’s incremental borrowing rate at the start of the lease for a similar asset type and term length to the contract. The right-of-use asset is amortized on a straight-line basis over the lease term. Short-term lease payments are expensed when incurred.

Subscription-Based Information Technology Arrangements (SBITA) – PH 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, PH recognizes an intangible right-to-use 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 right-to use-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.

Interest rate swaps – PH has entered into variable-to-fixed interest rate swaps, which are reflected at fair value in the statements of net position. The fair value of the interest rate swaps will fluctuate based generally on changes in market rates of interest. Unrealized gains or losses resulting from changes in fair value are reported as interest expense in non-operating income (expenses) in the statements of revenue, expenses, and changes in net position. Interest cost on variable interest rate debt is reported based on the fixed interest rate paid by PH under the interest rate swaps and is also recorded as interest expense. As discussed in Note 11, the interest rate swap was settled in 2023.

Debt discounts, debt premiums, and debt issuance costs – Debt discounts and debt premiums are amortized by the effective interest method over the life of the related bonds. Debt issuance costs, except prepaid insurance costs, are expensed as incurred. Prepaid insurance costs are reported as an asset and recognized as an expense over the duration of the related debt.

Deferred inflows of resources – Deferred inflows of resources represent an increase in net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The deferred inflows of resources reported in the financial statements represent unearned rental income that will be recognized as revenue over the life of the rental agreement, deferred gains on sale and leaseback transactions which are being amortized over the lives of the lease arrangements, and changes in assumptions, other inputs related to Other Post-Employment Benefits (OPEB) (see Note 14).

Net position – Net position of PH is classified in three broad components: net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and is reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Net position restricted for repayment of debt includes amounts deposited with trustees as required by bond indentures (see Note 11). Net position restricted for capital acquisitions relates to amounts restricted to acquire capital assets. Net position restricted for other purposes relates to noncapital net position that must be used for a particular purpose, as specified by contributors or others external to PH. Unrestricted net position represents the remaining net position that does not meet the definition of net investment in capital assets or restricted.

Risk management – PH 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 other than medical malpractice and workers' compensation claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

PH 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 or management's estimate and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Statements of revenue, expenses, and changes in net position – All revenue and expenses directly related to the delivery of health care services are included in operating revenue and expenses in the statements of revenue, expenses, and changes in net position. Non-operating income (expenses) consists of those revenue and expenses that result from non-exchange transactions, financing (interest expense and changes in the fair value of interest rate swaps), and investment income.

Net patient service revenue – PH has agreements with third-party payors that provide for payments to PH at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and daily rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including a provision for bad debts and estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis during the year the related services are rendered and adjusted in future years, as final settlements are determined.

Shared risk revenue – PH and its affiliated medical groups have agreements with various third-party payors to provide medical services to subscribing participants. Under some of these agreements, PH and its affiliated medical groups receive monthly capitation payments based on the number of members for each payor, regardless of services actually performed by PH. Under these agreements, after deduction of costs incurred by providers outside these agreements for care provided to subscribing participants, PH participates in shared risk pools with medical groups, through which it earns reimbursement or pays additional amounts to the medical groups. In conjunction with the shared risk pools, PH estimates incurred but not reported (IBNR) claims for medical services provided to patients. IBNR of $7,250 and $3,655 are included in other accrued liabilities in the accompanying statements of net position as of June 30, 2023 and 2022, respectively.

Activity in PH's liability for IBNR claims for medical services provided to patients as of and for the years ended June 30, 2023 and 2022, is summarized as follows (in thousands):

	2023	2022
BALANCE, beginning of the year	$ 3,655	$ 3,957
Current year claims incurred and changes in estimates	40,743	39,296
Claims and expenses paid	(37,148)	(39,598)
BALANCE, end of the year	$ 7,250	$ 3,655

Charity care – PH provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts determined to qualify as charity care are not reported as revenue in the accompanying financial statements.

Grants and contributions – PH receives grants from various governmental agencies and private organizations. PH also receives contributions from Palomar Health Foundation and Health Development. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or capital acquisitions. These amounts, when recognized upon meeting all requirements, are reported as components of the statements of revenues, expenses, and changes in net position.

Property taxes – PH receives financial support from property taxes. Property taxes are levied by the County of San Diego on behalf of PH to finance PH's activities. Amounts levied for General Obligation Bonds (G.O. Bonds) are based on assessed property values and are set annually by the Board of Directors. Property tax revenue for the years ended June 30, 2023 and 2022, consists of the following (in thousands):

	2023	2022
To support operations – unrestricted use	$ 21,983	$ 20,184
For debt service on G.O. Bonds – restricted use	48,011	44,402
	$ 69,994	$ 64,586

Income taxes – PH is a governmental subdivision of the state of California and is exempt from federal income and state franchise taxes. PHMG and PAC are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and Section 23701(d) of the California Revenue and Taxation Code. PAM and PAM-SD, which are limited liability companies (LLCs), are classified as partnerships for federal and state income tax purposes and, as such, are exempt from federal income and state franchise taxes. Accordingly, no provision for income taxes has been included in the accompanying financial statements.

Change in accounting principle and restatement – PH adopted GASB Statement No. 96, *Subscription-based Information Technology Arrangements,* 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 SBITA. 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, PH implemented GASB Statement No. 96 on a retroactive basis by restating June 30, 2022 balances. PH recognized a subscription liability of approximately $24,226 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 (in thousands):

	June 30, 2022 As Previously Reported	Impact of Adoption of GASB 96	Other Reclassifications	June 30, 2022 As Restated
Statement of Net Position				
SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS	$ -	$ 24,021	$ -	$ 24,021
ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS RECEIVABLE, NET OF CURRENT PORTION	32,172	-	6,877	39,049
Total assets	1,909,592	24,021	6,877	1,940,490
Total assets and deferred outflow of resources	1,960,392	24,021	6,877	1,991,290
SBITA obligations, current	-	6,473	-	6,473
Accrued interest payable	21,425	187	-	21,612
Total current liabilities	232,951	6,660	-	239,611
SBITA obligations, net of current portion	-	17,156	-	17,156
Total liabilities	1,767,102	23,816	6,877	1,797,795
Total liabilities and deferred inflow of resources	1,811,330	30,693	-	1,842,023
Net position - unrestricted	330,958	205	-	331,163
Total net position	149,062	205	-	149,267
Total liabilities and net position	1,960,392	24,021	6,877	1,991,290
Statement of Revenues, Expenses and Changes in Net Position				
Depreciation and amortization	53,150	5,409	-	58,559
Other operating expenses	24,588	(6,573)	-	18,015
Total operating expenses	900,883	(1,164)	-	899,719
INCOME FROM OPERATIONS	12,193	1,164	-	13,357
Interest expense	(74,713)	(959)	-	(75,672)
Total non-operating income (expenses), net	7,081	(959)	-	6,122
CHANGE IN NET POSITION	19,274	205	-	19,479
NET POSITION, end of year	149,062	205	-	149,267

Recent accounting pronouncements – In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. GASB Statement No. 101 requires that liabilities for compensated absences be recognized for (1) leave that has not been used, and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. The requirements of GASB Statement No. 101 are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. PH is currently reviewing the impact of the adoption of GASB Statement No. 101 which is effective for the fiscal year ending June 30, 2025.

Reclassifications – Certain reclassifications have been made to the prior year amounts to conform to the current year presentation.

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

Net patient service revenue – PH renders services to certain patients under contractual arrangements with the Medicare and Medi-Cal programs and various health maintenance and preferred provider organizations. The Medicare program generally pays a prospectively determined fee-for-services (FFS) rendered to Medicare patients. Additionally, Medicare reimburses PH for certain inpatient services (primarily mental health unit services) on the basis of costs incurred. The Medi-Cal program provides for payment on a prospectively negotiated contractual rate per day, percentage of charges for services rendered, or capitated payment arrangement.

Revenue from the Medicare and Medi-Cal programs inclusive of risk (capitated) and non-risk managed care programs accounted for approximately 50% and 49% of PH's net patient service revenue for the years ended June 30, 2023 and 2022, respectively.

Third-party cost reports for the Medicare program have been settled through the year ended June 30, 2018, for Escondido and through the year ended June 30, 2019, for Poway, with the exception of PMC Escondido's fiscal years 2011 and 2013 cost reports which are pending administrative review by CMS. The cost reports for the Medi-Cal program have been settled through the year ended June 30, 2018, for Escondido, and through the year ended June 30, 2020, for Poway. Results of cost report settlements as well as estimates for settlements of all years through 2021 have been reflected in the accompanying financial statements. As of June 30, 2023 and 2022, estimated third-party settlements resulted in a receivable of $71,203 and $58,713, respectively. Amounts expected to be received or paid beyond June 30, 2023, are classified as noncurrent in the accompanying statements of net position.

Laws and regulations governing Medicare and Medi-Cal programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. During the years ended June 30, 2023 and 2022, PH settled various prior-year cost reports and appeal issues. These settlements and normal estimation differences between subsequent cash collections on patient accounts receivable resulted in no additional revenues for the year ended June 30, 2023 and June 30, 2022.

Third-party reimbursement programs – *Public Hospital Redesign and Incentives in Medi-Cal (PRIME) and Quality Incentive Pool (QIP)* – This program was approved via the California Section 1115(a) demonstration waiver, titled "California's Medi-Cal 2020 Demonstration." The PRIME program incentivized public hospitals to identify critical objectives to improve delivery of care for Medi-Cal beneficiaries. PRIME was effective beginning January 1, 2016, and was a five-year program, ending December 31, 2020. The program had both reporting metrics and performance metrics. Revenue was recognized based on approval from CMS for the achievement of reporting metrics and when metrics were achieved for the performance metrics component.

California replaced PRIME by implementing the QIP program for district/municipal hospitals beginning January 1, 2021 through December 31, 2023. The State directs Medi-Cal Managed Care Plans ("MCPs") to make QIP payments tied to performance on designated performance measures in categories such as, but not limited to, primary care access and preventive care, acute and chronic care, behavioral health, maternal health, patient safety, and overuse/appropriateness of care. This program supports the State's quality strategy by promoting access and value-based payment, increasing the amount of funding tied to quality outcomes, while at the same time further aligning state, MCPs, and district/municipal hospital goals. This payment arrangement moves California towards value-based alternative payment models.

Additionally, QIP expands upon the PRIME program. California is maintaining and continuing the momentum achieved with district/municipal hospitals on improvements in the quality of care delivered to Medi-Cal beneficiaries. Intergovernmental transfers (IGTs) provide the non-federal share of funding and total funding is based on performance of meeting the identified metrics.

Medi-Cal managed care rate range IGT – The Affordable Care Act (ACA) recognized the formation and maintenance of a network of primary care providers to service Medi-Cal Managed Care plans which require funding assistance. IGT is a payment methodology to partially fund the gap between what Medi-Cal Managed Care plans pay and the full cost of providing the service.

PH was notified that fiscal 2021 IGT payments would be delayed until early 2023 based on a requirement of CMS. As a result, amounts estimated to be received of $33,502 beyond June 30, 2022, are classified as noncurrent liabilities in the accompanying statement of net position as of June 30, 2022.

Senate Bill 239 quality assurance fee (QAF) supplemental payment – A state-legislated supplemental program that distributes funds to hospitals based on the volume of care to Medi-Cal funded patients. The intention is to strengthen the ability of hospitals to meet the increased demand resulting from implementing programs, service, and capital required by ACA.

PH was notified that fiscal 2021 QAF payments would be delayed until early 2023 based on a requirement of CMS. As a result, amounts estimated to be received of $5,547 beyond June 30, 2022, are classified as noncurrent liabilities in the accompanying statement of net position as of June 30, 2022.

QAF managed care funds – part of the hospital QAF – Under the California Hospital Fee Program, PH receives net supplemental funds under a managed care methodology.

Assembly Bill 113 Medi-Cal rate stabilization – A state-legislated program which provides a cost supplement for Medi-Cal Managed Care Seniors and Persons with Disabilities.

Assembly Bill 915 outpatient supplemental payment – This bill provides for the payment of a supplemental reimbursement to acute care hospitals owned by certain public entities that provide outpatient services to Medi-Cal beneficiaries. The state legislated a supplemental reimbursement for uncompensated Medi-Cal FFS outpatients. PH receives 50% of reported uncompensated costs.

Medi-Cal DSH – The Disproportionate Share Hospital (DSH) Program reimburses hospitals for some of the uncompensated care costs associated with furnishing inpatient hospital services to Medi-Cal beneficiaries and uninsured individuals.

District Hospital Directed Payment (DHDP) Program – Beginning on January 1, 2023, the DHDP program reimburses California's District Municipal Hospitals for network contracted services based on actual utilization.

The following table summarizes amounts recognized as net patient service revenue from the various state supplemental funding programs and transfer agreements available to PH for the years ended June 30, 2023 and 2022, respectively (in thousands):

	2023	2022
QIP	$ 350	$ 18,039
Managed care rate range IGT	17,987	28,329
QAF	12,015	10,891
Medi-Cal rate stabilization	2,294	1,131
Outpatient supplemental payment	4,446	4,620
District hospital directed payment	7,500	-
Other	(2,308)	(2,883)
Totals	$ 42,284	$ 60,127

With respect to the above described programs, revenue is recognized when management is reasonably assured all performance and satisfaction of obligations have been met, the amount of revenue is available, and has been considered in estimating the amount of revenue to be recognized.

Note 4 – Cash and Cash Equivalents and Investments

The state of California Government Code (the "Government Code") authorizes PH 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 of these investments may be purchased only in limited amounts and limited maturity dates, as defined in the Government Code. PH's bond indenture agreements authorize trustee-held assets to be invested in obligations of the U.S. Treasury and certain U.S. government agencies, repurchase agreements, and obligations of financial institutions meeting certain criteria defined in the indentures.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to $75,000 of unrestricted monies in the fund and an unlimited amount of qualified bond proceeds. PH had invested $71,616 and $73,355 of unrestricted funds in this fund as of June 30, 2023 and 2022, respectively. PH also had invested $5,109 and $6,545 in jointly managed funds under an escrow agreement with the City of Escondido as of June 30, 2023 and 2022, respectively. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. PH is a voluntary participant in the LAIF. The fair value of PH's investment in this pool is reported in the accompanying statements of net position at amounts based upon PH's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis and therefore is excluded from the fair value hierarchy.

As of June 30, 2023 and 2022, PH had the following investments (in thousands):

	2023	2022
Investments – current	$ 133,193	$ 221,077
Restricted cash and investments – current	62,146	52,071
Restricted cash and investments – noncurrent	141,667	58,424
Total	$ 337,006	$ 331,572

As of June 30, 2023 and 2022, PH had investments by type and maturity as follows (in thousands):

	2023		
		Investment Maturities (in Years)	
Investment Type	Fair Value	Less Than 1	1–5
External investment pool – LAIF	$ 76,725	$ 76,725	$ -
U.S. government bonds	940	-	940
U.S. treasury bills	13,346	1,898	11,448
Corporate bonds	5,013	1,147	3,866
Money market mutual funds	240,982	240,982	-
Total	$ 337,006	$ 320,752	$ 16,254

	2022		
		Investment Maturities (in Years)	
Investment Type	Fair Value	Less Than 1	1–5
External investment pool – LAIF	$ 79,900	$ 79,900	$ -
U.S. government bonds	38,816	4,296	34,520
U.S. treasury bills	25,988	2,463	23,525
Corporate bonds	68,807	12,145	56,662
Money market mutual funds	118,061	118,061	-
Total	$ 331,572	$ 216,865	$ 114,707

GASB Statement No. 72, *Fair Value Measurement and Application,* defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability.

The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk.

In addition to defining fair value, this guidance expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which are determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the measurement date.

Level 2 – Pricing inputs are based on quoted market prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial assets and liabilities in this category generally include asset-backed securities, corporate bonds and loans, municipal bonds, and interest rate swap instruments.

Level 3 – Pricing inputs are generally unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of the fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretations, including but not limited to private and public comparable, third-party appraisals, discounted cash flow models, and fund manager estimates.

Marketable securities and financial instruments – Where quoted market prices are available in an active market, securities or instruments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities or instruments with similar characteristics, or discounted cash flows. These securities or instruments are classified within Level 2 of the valuation hierarchy. In certain cases, where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the valuation hierarchy.

The following table summarizes PH's assets and liabilities measured at fair value on a recurring basis as of June 30, 2023 and 2022 (in thousands):

	2023			
	Total	Level 1	Level 2	Level 3
Investments				
Money market mutual funds	$ 240,982	$ 240,982	$ -	$ -
U.S. government bonds	940	-	940	-
U.S. treasury bills	13,346	13,346	-	-
Corporate bonds	5,013	-	5,013	-
	260,281	$ 254,328	$ 5,953	$ -
Investments not subject to the fair value hierarchy				
State investment pool – LAIF	76,725			
Total investments	$ 337,006			
Liabilities				
Interest rate swap	$ -	$ -	$ -	$ -

	2022			
	Total	Level 1	Level 2	Level 3
Investments				
Money market mutual funds	$ 118,061	$ 118,061	$ -	$ -
U.S. government bonds	38,816	-	38,816	-
U.S. treasury bills	25,988	25,988	-	-
Corporate bonds	68,807	-	68,807	-
	251,672	$ 144,049	$ 107,623	$ -
Investments not subject to the fair value hierarchy				
State investment pool – LAIF	79,900			
Total investments	$ 331,572			
Liabilities				
Interest rate swap	$ (12,587)	$ -	$ (12,587)	$ -

There are many factors affecting the value of investments. Some, such as interest rate risk, credit risk, concentration of credit risk, and custodial credit 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.

Interest rate risk – Interest rate risk is the risk that the value of fixed income securities will decline due to increasing interest rates. The terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. As a means of limiting exposure to fair value losses arising from increasing interest rates, PH's investment policy, as per statutory requirements, limits the term of any investment to a maturity not exceeding five years.

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. State law limits PH's investment in commercial paper, corporate bonds, and bond mutual funds with an "A" rating issued by nationally recognized statistical rating organizations. PH has no investment policy that would further limit investment choices. As of June 30, 2023 and 2022, PH's investments, excluding U.S. government obligations, consisted of the following: corporate bond investments rated "A" or better by Standard & Poor's (S&P) and Moody's Investors Service (Moody's), U.S. Government Agency investments rated "AAA" by Fitch, and PH's investments in the LAIF, which were not rated.

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 PH to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. Amounts invested in the 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.

Investments in any one issuer (other than U.S. treasury securities and external investment pools) that represent 5% or more of the total investments as of June 30, 2023 and 2022, were as follows (in thousands):

		2023		2022	
Investment	Investment Type	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
U.S. Bank, Trustee	First American Govt Oblig Fund CL D	$ 24,251	7%	$ 19,049	6%
Wells Fargo Advantage Government Money Market	U.S. Government Money Market Funds	$ 112,099	33%	$ -	0%
Fidelity Investments	FIMM-Treasury Port Instl CL 2644	$ 41,487	12%	$ -	0%
Computershare Corporate Trust Services	Allspring Government Money Market Service	$ 62,132	18%	$ 43,229	13%

Custodial credit risk – investments – All of PH's investments are insured or registered or held by PH's agent in the agent's nominee name, with subsidiary records listing PH as the legal owner. For these reasons, PH is not exposed to custodial credit risk for its investments.

Custodial credit risk – deposits – Custodial credit risk refers to the potential that, in the event of a bank failure, PH's deposits may not be recoverable, posing a risk to the company's financial assets. PH does not have a policy for custodial credit risk. As of June 30, 2023 and 2022, PH's bank balances totaled $75,212 and $34,516, 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 PH's name. PHMG maintains bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of $250 per depositor. PHMG had cash balances of $5,231 and $3,282 that were above the insured limit as of June 30, 2023 and 2022, respectively.

Investment income (loss) – Investment income (loss) for the years ended June 30, 2023 and 2022, consisted of the following (in thousands):

	2023	2022
Interest, dividends, and realized gains on sale of investments	$ 6,255	$ 2,262
Net increase in fair value of investments	6,581	(7,752)
Total	$ 12,836	$ (5,490)

Note 5 – Concentrations of Credit Risk

PH grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors as of June 30, 2023 and 2022, was as follows:

	2023	2022
Medicare	16%	16%
Medi-Cal	8%	7%
HMO/PPO/commercial*	65%	68%
Self pay	9%	7%
Others	2%	2%
Total	100%	100%

* In addition to various commercial insurance plans, this category includes Medi-Cal HMOs and Medicare Advantage HMOs.

Note 6 – Capital Assets

A summary of changes in capital assets for the years ended June 30, 2023 and 2022, is as follows (in thousands):

	Balance as of June 30, 2022	Additions	Disposals	Transfers	Balance as of June 30, 2023
Land improvements	$ 77,132	$ -	$ (2,536)	$ -	$ 74,596
Buildings and leasehold improvements	1,085,685	-	(36)	-	1,085,649
Equipment	307,187	523	(20,940)	8,348	295,118
Land	54,846	7,499	(3,111)	7,073	66,307
Construction in progress	65,598	50,115	(4,911)	(15,421)	95,381
	1,590,448	58,137	(31,534)	-	1,617,051
Less: accumulated depreciation and amortization	(612,047)	(42,601)	15,922	-	(638,726)
Capital assets, net	$ 978,401	$ 15,536	$ (15,612)	$ -	$ 978,325

	Balance as of June 30, 2021	Additions	Disposals	Transfers	Balance as of June 30, 2022
Land improvements	$ 76,870	$ 151	$ -	$ 111	$ 77,132
Buildings and leasehold improvements	1,068,730	364	-	16,591	1,085,685
Equipment	297,366	4,152	(2,807)	8,476	307,187
Land	54,846	-	-	-	54,846
Construction in progress	40,061	51,433	(718)	(25,178)	65,598
	1,537,873	56,100	(3,525)	-	1,590,448
Less: accumulated depreciation and amortization	(568,087)	(46,743)	2,783	-	(612,047)
Capital assets, net	$ 969,786	$ 9,357	$ (742)	$ -	$ 978,401

Construction commitments outstanding as of June 30, 2023, were $23,199.

Note 7 – Leases

Leases – PH is a lessee for noncancelable leases of office space and equipment with lease terms through 2051. There are no residual value guarantees included in the measurement of PH's lease liability nor recognized as an expense for the years ended June 30, 2023 and 2022. PH does not have any commitments that were incurred at the commencement of the leases. PH is subject to variable equipment usage payments that are expensed when incurred. No termination penalties were incurred during the fiscal year.

During the year ended June 30, 2023, PH engaged in sale-leaseback transactions involving three properties. PH received a total amount of $35,023 as a result of the sale-leaseback arrangements on these properties. The resulting gain on sale of $24,177 is recorded as deferred inflows of resources, and is being amortized over the length of the respective leases.

A summary of lease asset activity for the years ended June 30, 2023 and 2022, is as follows (in thousands):

	Balance as of June 30, 2022	Additions	Disposals	Balance as of June 30, 2023	Amounts due within one year
Lease right-to-use assets					
Building	$ 266,728	$ 96,662	$ (59,925)	$ 303,465	
Furniture, fixtures, and equipment	12,992	7,270	(628)	19,634	
Total lease right-to-use assets	279,720	103,932	(60,553)	323,099	
Less accumulated amortization					
Building	(28,974)	(12,615)	4,579	(37,010)	
Furniture, fixtures, and equipment	(5,192)	(4,269)	628	(8,833)	
Total accumulated amortization	(34,166)	(16,884)	5,207	(45,843)	
Net lease right-to-use assets	$ 245,554	$ 87,048	$ (55,346)	$ 277,256	
Lease obligations	$ 260,695	$ 109,642	$ (74,138)	$ 296,199	$ 9,957

	Balance as of June 30, 2021	Additions	Disposals	Balance as of June 30, 2022	Amounts due within one year
Lease right-to-use assets					
Building	$ 263,052	$ 3,751	$ (75)	$ 266,728	
Furniture, fixtures, and equipment	9,532	3,475	(15)	12,992	
Total lease right-to-use assets	272,584	7,226	(90)	279,720	
Less accumulated amortization					
Building	(12,371)	(16,679)	76	(28,974)	
Furniture, fixtures, and equipment	(2,552)	(2,655)	15	(5,192)	
Total accumulated amortization	(14,923)	(19,334)	91	(34,166)	
Net lease right-to-use assets	$ 257,661	$ (12,108)	$ 1	$ 245,554	
Lease obligations	$ 264,705	$ 8,035	$ (12,045)	$ 260,695	$ 10,417

PH lease-related expense included in rent expense on the statements of revenue, expenses, and changes in net position for the years ended June 30, 2023 and 2022, is $36,658 and $33,297, respectively.

The District evaluated the lease right-of-use assets for impairment and determined there was no impairment for the years ended June 30, 2023 and 2022.

The future annual principal and interest lease payments as of June 30, 2023, were as follows (in thousands):

	Principal	Interest	Total
Years Ending June 30,			
2024	$ 9,957	$ 13,304	$ 23,261
2025	11,465	13,157	24,622
2026	12,560	11,660	24,220
2027	10,850	11,288	22,138
2028	10,242	10,907	21,149
2029–2033	55,652	48,980	104,632
2034–2038	70,896	36,734	107,630
2039–2043	65,740	20,787	86,527
2044–2048	35,023	10,211	45,234
2049–2053	13,814	1,852	15,666
	$ 296,199	$ 178,880	$ 475,079

PH lease-related revenue included in other non-operating income on the statements of revenue, expenses and changes in net position for the years ended June 30, 2023 and 2022, is as follows (in thousands):

	2023	2022
Lease revenue		
Office space	$ 1,010	$ 1,013
Land	129	125
Total lease revenue	1,139	1,138
Interest revenue	1,178	1,146
Total lease related revenue	$ 2,317	$ 2,284

The future principal and interest lease receipts as of June 30, 2023, for PH were as follows (in thousands):

Years Ending June 30,	Principal	Interest	Total
2024	$ 339	$ 1,318	$ 1,657
2025	560	1,115	1,675
2026	581	1,090	1,671
2027	609	1,064	1,673
2028	669	1,037	1,706
2029–2033	3,630	4,904	8,534
2034–2038	4,045	4,158	8,203
2039–2043	5,133	3,345	8,478
2044–2048	30	3,234	3,264
2049–2053	37	3,508	3,545
2054–2058	45	3,782	3,827
2059–2063	57	4,109	4,166
2064–2068	70	4,437	4,507
2069–2073	87	4,826	4,913
2074–2078	108	5,218	5,326
2079–2083	134	5,679	5,813
2084–2088	334	5,979	6,313
2089–2093	1,632	5,265	6,897
2094–2098	2,520	4,981	7,501
2099–2103	580	5,100	5,680
2104–2108	4,431	1,444	5,875
2109–2113	4,320	361	4,681
	$ 29,951	$ 75,954	$ 105,905

Note 8 – Subscription-Based Information Technology Arrangements

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

	Balance at June 30, 2022 (As restated)	Additions	Deductions	Balance at June 30, 2023	Amounts due within one year
SBITA assets - software	$ 29,429	$ 5,379	$ -	$ 34,808	
Less accumulated amortization	(5,408)	(8,027)	-	(13,435)	
Total SBITA assets, net	$ 24,021	$ (2,648)	$ -	$ 21,373	
SBITA Liabilities	$ 23,629	$ 5,328	$ (7,843)	$ 21,114	$ 7,752

	Balance at June 30, 2021 (As restated)	Additions	Deductions	Balance at June 30, 2022 (As restated)	Amounts due within one year
SBITA assets - software	$ 24,677	$ 4,752	$ -	$ 29,429	
Less accumulated amortization	-	(5,408)	-	(5,408)	
Total SBITA assets, net	$ 24,677	$ (656)	$ -	$ 24,021	
SBITA Liabilities	$ 24,677	$ 4,069	$ (5,117)	$ 23,629	$ 6,473

The future minimum SBITA principal and interest payments as of June 30, 2023, is as follows (in thousands):

	Principal	Interest	Total
Years Ending June 30,			
2024	$ 7,752	$ 803	$ 8,555
2025	6,144	469	6,613
2026	2,783	254	3,037
2027	2,177	150	2,327
2028	2,258	53	2,311
	$ 21,114	$ 1,729	$ 22,843

Note 9 – Investment in and Amounts Due from Affiliated Entities

During fiscal year 2007, PH entered into a partnership agreement with PDP Pomerado, LLC in exchange for a ground lease agreement. During fiscal year 2010, the partnership with PDP Pomerado, LLC was terminated and the ground lease agreement was transferred to NHP/PMP Pomerado, LLC. In conjunction with the termination of the partnership, PDP Pomerado, LLC was dissolved and its assets were liquidated. PH received proceeds of $6,279 for its interest in PDP Pomerado, LLC, which was recorded as unearned revenue as it was attributed to the difference in contractual lease payments and the fair value of lease payments. Unamortized unearned revenue of $6,764 and $6,691 included in deferred inflow of resources in the accompanying statements of net position as of June 30, 2023 and 2022, respectively, is recognized as income over the remaining term of the ground lease agreement, which expires in April 2061, and has two ten-year options to renew at $1 per year. The renewal is considered inevitable.

In October 2017, PH entered into an Investment Interests Purchase Agreement, whereby Arch conveyed 100% of its interest in PHS-PAM Holdings, Inc. (“PHS-PAM”) to PH. PH purchased 1,000 or 100% of the issued and outstanding shares of PHS-PAM, which owns 50% of PAM and 50% of PAM-SD. The remaining 50% ownership interests in PAM and PAM-SD are held by Arch and/or its subsidiaries. PH paid $2,500 via PHS-PAM for its 50% interest in PAM-SD. This investment was eliminated in the financial statements.

PH’s investment in affiliated entities, which are generally accounted for under the equity method because PH does not control the entities, was $5,428 and $6,904 as of June 30, 2023 and 2022, respectively. The total income from PH’s investment in affiliates was $2,938 and $323 for the years ended June 30, 2023 and 2022, respectively, and is included in other, net on the statements of changes in net position.

Note 10 – Related Organizations

Palomar Health Foundation – Palomar Health Foundation (the “Foundation”) is a charitable nonprofit organization created to provide assistance and support for PH. The Foundation is a separately governed organization. Its financial position, results of operations, and cash flows are not included in the accompanying financial statements. The Foundation provides a funding source for various programs on behalf of PH. Funding for these programs provided by the Foundation totaled $2,808 and $1,191 for the years ended June 30, 2023 and 2022, respectively.

PH has entered into a management services agreement (MSA) with the Foundation, whereby PH provides administrative support to the Foundation. Support provided to the Foundation totaled $727 and $1,470 for the years ended June 30, 2023 and 2022, respectively.

Under the MSA, PH provided a credit line to the Foundation of $8,000 with interest at 2.5% above LIBOR. The credit line expired June 30, 2021, and is being renegotiated. There is no outstanding amount on the line of credit; however, the Foundation has a note payable in the amount of $1,470 at June 30, 2023.

An unaudited summary of the Foundation's assets, liabilities, and net assets as of June 30, 2023 and 2022, was as follows (in thousands):

	2023	2022
Assets	$ 5,982	$ 7,332
Liabilities	$ 1,217	$ 1,557
Net assets	4,765	5,775
Total liabilities and net assets	$ 5,982	$ 7,332

PIMG, Inc. – In April 2010, Arch entered into a 25-year professional services agreement with PIMG, Inc. ("PIMG") under which PIMG provides professional medical services to patients seeking services from and enrolled with Arch. For the years ended June 30, 2023 and 2022, PIMG provided professional services to Arch in the amounts of $13,088 and $13,114, respectively. Any amounts advanced are to be repaid upon Arch's request and do not bear interest. There are outstanding amounts in the amount of $856 and $704 as of June 30, 2023 and 2022, respectively.

Pacific Accountable Care, LLC ("PAC") – In April 2016, Arch formed PAC, a partnership with Medicare FFS participants, to develop an ACO with the intent to manage, coordinate, and promote accountability for the quality, patient safety, cost, and overall care of 12,000 Medicare patients with Arch as the sole member. In January 2017, CMS awarded PAC a Track 1 MSSP contract for calendar years January 1, 2017 through December 31, 2019. PAC is eligible for payments from CMS if able to achieve medical cost savings as compared to predetermined benchmarks. As a Track 1 MSSP, PAC has no risk with CMS for any increase in medical cost. For fiscal year 2018, PAC recorded a receivable of $3,946 for its share of the 2017/2018 plan year savings with a related payable of $921 due to the CMS approved physicians participating in the PAC ACO. There are no outstanding amounts as of June 30, 2023 or 2022.

Pacific Accountable Management, LLC ("PAM") and Pacific Accountable Management San Diego, LLC ("PAM-SD") – PAM and PAM-SD operated as MSOs and provided administrative and billing services to Arch during the year ended June 30, 2018. PH and Arch collectively hold 100% of PAM and PAM-SD and closed operations for both entities in July 2018. As of June 30, 2023, PAM and PAM-SD were dissolved.

Note 11 – Long-Term Debt

The following is a summary of long-term debt transactions for PH for the years ended June 30, 2023 and 2022 (in thousands):

	Balance June 30, 2022	Additions	Reductions	Balance June 30, 2023	Amounts Due within One Year
General Obligation Bonds					
Series 2016A General Obligation Bonds	$ 46,576	$ -	$ (2,552)	$ 44,024	$ 2,125
Series 2016B General Obligation Bonds	177,223	-	(1,021)	176,202	-
Series 2010A General Obligation Bonds	65,443	-	(31)	65,412	-
Series 2009A General Obligation Bonds	108,036	-	(1,165)	106,871	1,235
Series 2007A General Obligation Bonds	35,465	-	(5,209)	30,256	5,434
Accrued interest on capital appreciation bonds	239,812	13,537	(12,753)	240,596 *	8,266
Total General Obligation Bonds	672,555	13,537	(22,731)	663,361	17,060
Other long-term debt					
Series 2022A Certificates of Participation	-	229,165	(5,362)	223,803	-
Series 2022B Certificates of Participation	-	33,790	-	33,790	-
Series 2021 Certificates of Participation	32,984	-	(800)	32,184	-
Series 2017 Refunding Revenue Bonds	166,011	-	(658)	165,353	-
Series 2017 Certificates of Participation	57,065	-	(1,210)	55,855	1,200
Series 2016 Refunding Revenue Bonds	240,909	-	(7,885)	233,024	6,910
Series 2006 Certificates of Participation	130,916	-	(130,916)	-	-
Nondesignated Public Hospital Bridge Loans	6,877	8,593	-	15,470	6,877
Notes payable	477	-	(477)	-	-
Long-term debt – SMACC	-	2,400	-	2,400	-
Long-term debt – Crisis Stabilization Unit	714	-	(143)	571	-
Total other long-term debt	635,953	273,948	(147,451)	762,450	14,987
Total long-term debt	$ 1,308,508	$ 287,485	$ (170,182)	$ 1,425,811	$ 32,047

** Includes $8,266 and $12,753 of current portion of accrued interest that is included in accrued interest payable on the statements of net position as of June 30, 2023 and 2022, respectively.*

Notes to Financial Statements (Dollars in Thousands)

	Balance June 30, 2021	Additions	Reductions	Balance June 30, 2022		Amounts Due within One Year
General Obligation Bonds						
Series 2016A General Obligation Bonds	$ 48,984	$ -	$ (2,408)	$ 46,576		$ 1,980
Series 2016B General Obligation Bonds	178,246	-	(1,023)	177,223		-
Series 2010A General Obligation Bonds	65,473	-	(30)	65,443		-
Series 2009A General Obligation Bonds	108,913	-	(877)	108,036		954
Series 2007A General Obligation Bonds	40,359	-	(4,894)	35,465		5,127
Accrued interest on capital appreciation bonds	231,339	8,473	-	239,812	*	12,753
Total General Obligation Bonds	673,314	8,473	(9,232)	672,555		20,814
Other long-term debt						
Series 2021 Certificates of Participation	33,785	-	(801)	32,984		-
Series 2017 Refunding Revenue Bonds	166,670	-	(659)	166,011		-
Series 2017 Certificates of Participation	58,216	-	(1,151)	57,065		1,144
Series 2016 Refunding Revenue Bonds	248,510	-	(7,601)	240,909		6,555
Series 2006 Certificates of Participation	137,400	-	(6,484)	130,916		6,725
Nondesignated Public Hospital Bridge Loans	-	6,877	-	6,877		-
Notes payable	3,885	-	(3,408)	477		478
Long-term debt – Crisis Stabilization Unit	857	-	(143)	714		-
Total other long-term debt	615,538	6,877	(19,446)	635,953		14,902
Total long-term debt	$ 1,288,852	$ 15,350	$ (28,678)	$ 1,308,508		$ 35,716

The terms and due dates of PH's long-term debt as of June 30, 2023 and 2022, are as follows:

- Series 2022 Certificates of Participation ("2022 COP") bear interest at 5.00%, with interest payments due semiannually. Principal payments for the taxable portion are due in annual amounts ranging from $4,675 in fiscal year 2028 to $6,680 fiscal year 2033. Principal payments for the tax-exempt portion are due in annual amounts ranging from $1,575 in fiscal year 2028 to $12,420 fiscal year 2037. The 2022 COP are net of unamortized original issue discount of $ 5,258 as of June 30, 2022, and are collateralized by PH revenues as defined in the indenture agreement. The cost of the insurance premium is being amortized over the life of the bonds.

  The Series 2006 Certificates of Participation (2006 COP) were advance refunded in November 2022, with proceeds from the issuance of the 2022 COPs and to obtain an economic gain of $23,732. In addition, the interest rate swap PH entered into concurrent with the issuance of the 2006 COPs was settled as part of the advance refunding. As of June 30, 2022, the interest rate swap had a negative fair value of $12,587. Additional 2006 COP reserves were deposited in an escrow trust account held with the escrow agent to provide for all future debt service payments. As a result, the 2006 COP are considered to be defeased and the liability for these bonds has been removed from the statement of net position. The net unamortized loss on refunding is $1,902 as of June 30, 2023 and 2022, and is included as deferred outflow of resources and amortized.

- Series 2021 Certificates of Participation ("2021 COP") bear interest at 5.00%, with interest payments due semiannually. Principal payments are due in fiscal year 2027. The 2021 COP are net of unamortized original issue premium of $5,071 as of June 30, 2022, and are collateralized by PH revenues as defined in the indenture agreement. The cost of the insurance premium is being amortized over the life of the bonds.

- Series 2017 Refunding Revenue Bonds ("Series 2017 Bonds") bear interest at 5.00%, with interest payments due semiannually. Principal payments are due in annual amounts ranging from $15,785 in fiscal year 2041 to $22,405 in fiscal year 2048. The Series 2017 Bonds are net of unamortized original issue premium of $13,893 and $14,551 as of June 30, 2023 and 2022, respectively, and are collateralized by PH revenues as defined in the indenture agreement. The net unamortized loss on refunding is $15,840 and $16,591 as of June 30, 2023 and 2022, respectively, and is included as deferred outflow of resources and amortized. As an alternative to maintaining a cash reserve to fund principal and interest payments in the event of default, PH purchased a Municipal Bond Debt Service Reserve Insurance policy with a policy limit of $11,827. The cost of the insurance premium is being amortized over the life of the bonds.

- Series 2017 Certificates of Participation ("2017 COP") bear interest at rates between 4.00% to 5.00%, with interest payments due semiannually. Principal payments are due in annual amounts ranging from $1,145 in fiscal year 2023 to $3,450 in fiscal year 2048. The 2017 COP are net of unamortized original issue premium of $940 and $1,005 as of June 30, 2023 and 2022, respectively, and are collateralized by PH revenues as defined in the indenture agreement. As an alternative to maintaining a cash reserve to fund principal and interest payments in the event of default, PH purchased a Municipal Bond Debt Service Reserve Insurance policy with a policy limit of $3,522. The cost of the insurance premium is being amortized over the life of the bonds.

- Series 2016 Refunding Revenue Bonds ("Series 2016 Revenue Bonds") bear interest at rates between 3.00% to 5.00%, with interest payments due semiannually. Principal payments are due in annual amounts ranging from $6,555 in fiscal year 2023 to $27,440 in fiscal year 2040. The Series 2016 Revenue Bonds are net of unamortized original issue premium of $21,729 and $23,059 as of June 30, 2023 and 2022, respectively, and are collateralized by PH revenues as defined in the indenture agreement. The net unamortized loss on refunding is $29,391 and $31,191 as of June 30, 2023 and 2022, respectively, and is included as deferred outflow of resources and amortized.

- Series 2016A General Obligation Bonds ("Series 2016A G.O. Bonds") bear interest at rates between 2.00% to 5.00%, with interest payments due semiannually. Principal payments are due in annual amounts ranging from $1,980 in fiscal year 2023 to $4,345 in fiscal year 2035. The Series 2016A G.O. Bonds are net of unamortized original issue premium of $6,344 and $6,916 as of June 30, 2023 and 2022, respectively.

- Series 2016B General Obligation Bonds ("Series 2016B G.O. Bonds") bear interest at rates between 2.00% to 5.00%, with interest payments due semiannually. Principal payments are due in annual amounts ranging from $13,310 in fiscal year 2028 to $19,305 in fiscal year 2038. The Series 2016B G.O. Bonds are net of unamortized original issue premium of $13,367 and $14,388 as of June 30, 2023 and 2022, respectively. The net unamortized loss on refunding is $2,804 and $3,018 as of June 30, 2023 and 2022, respectively, and is included as deferred outflow of resources and amortized.

- Series 2010 Certificates of Participation ("2010 COP") were advance refunded on December 11, 2017, with proceeds from the issuance of the Series 2017 Bonds. Additional 2010 COP reserves were deposited in an escrow trust account held with the escrow agent to provide for all future debt service payments. As a result, the 2010 COP are considered to be defeased and the liability for these bonds has been removed from the statements of net position. PH refunded the Series 2010 COP to reduce its total debt service payments over the next 16 years and to obtain an economic gain of $16,678.

- Series 2010A General Obligation Bonds ("Series 2010A G.O. Bonds") accreted interest compounded at rates between 6.84% to 7.85% on $64,917 Capital Appreciation Bonds ("CABs") with the first payment to bondholders due on August 1, 2034. Accreted interest compounds at 6.75% on $49,999 Convertible CABs with the first payment to bondholders also due on August 1, 2034. Principal payments are due in annual amounts ranging from $1,476 in fiscal year 2038 to $33,159 in fiscal year 2041. The Series 2010A G.O. Bonds are net of unamortized premium of $495 and $526 as of June 30, 2023 and 2022, respectively.

- Series 2009 Certificates of Participation ("2009 COP") were advance refunded on October 20, 2016, with proceeds from the issuance of the Series 2016 Revenue Bonds. Additional 2009 COP reserves were deposited in an escrow trust account held with the escrow agent to provide for all future debt service payments. As a result, the 2009 COP is considered to be defeased and the liability for these bonds has been removed from the statements of net position. PH refunded the Series 2009 COP to reduce its total debt service payments over the next 23 years by $48,600 and to obtain an economic gain of $33,200.

- Series 2009A General Obligation Bonds ("Series 2009 G.O. Bonds") accreted interest compounded at rates between 6.84% to 9.00% on $50,001 CABs with the first payment to bondholders on August 1, 2019. Accreted interest compounded at 7.00% on $59,999 Convertible CABs with the first payment to bondholders on August 1, 2033. Principal payments are due in annual amounts ranging from $954 in fiscal year 2023 to $18,868 in fiscal year 2039. The Series 2009 G.O. Bonds are net of unamortized premium of $2,216 and $2,427 as of June 30, 2023 and 2022, respectively.

- Series 2007A General Obligation Bonds ("Series 2007A G.O. Bonds") are compounded at interest rates between 3.67% to 4.92% on $66,083 CABs with the first payment paid to bondholders on August 1, 2011. Principal payments are due in annual amounts ranging from $5,434 in fiscal 2022 to $6,585 in fiscal 2027. The Series 2007A G.O. Bonds are net of unamortized premium of $175 and $257 as of June 30, 2023 and 2022, respectively. A portion of the Series 2007A G.O. Bonds, the current interest bonds, was advance refunded on October 27, 2016, with proceeds from the issuance of the Series 2016B G.O. Bonds. As a result, the Series 2007A G.O. current interest bonds are considered to be defeased and the liability for these bonds has been removed from the statements of net position. PH refunded the 2007A G.O. Bonds to reduce its total debt service payments over the next 21 years by $50,200 and to obtain an economic gain of $38,200.

- The Non-designated Public Hospital Bridge Loan Program (NDPH Program) enables the California Health Facilities Financing Authority to issue up to a total of $40 million in zero interest working capital loans to eligible non-designated public hospitals that are affected by financial delays associated with the transition from the PRIME Program to the QIP Program. These loans are secured by PH's Medi-Cal reimbursements and are required to be repaid within two years of their issuance date. PH received a loan for $8,579 during the year ended June 30, 2023, and two separate loans totaling $6,877 during the year ended June 30, 2022. Payments, including 1% administration fee of $3,481 and $3,396 are due on February 3, 2024 and April 1, 2024, respectively. Payments, including 1% administration fee of $8,579 are due on December 20, 2024.

All the G.O. Bonds represent the general obligation of PH in an amount sufficient to service the obligation, and PH has the power and is obligated to cause to be levied and collected by the County of San Diego annual *ad valorem* taxes upon all property within PH's boundaries subject to taxation by PH for payment of the principal and interest on the bonds when due. However, PH is legally required to repay the G.O. Bonds if collected *ad valorem* taxes are insufficient.

PH is required to maintain certain debt covenants (Days Cash on Hand and Maximum Annual Debt Service Coverage) under its indenture and insurance agreements for the COP. The covenants stipulate that in the event of underachievement, the insurers may require PH to call in mutually agreed-upon consultants to perform mutually agreed-upon scope of services to assist PH in achieving the covenants.

The estimated fair value of PH's long-term debt was approximately $1,459,000 and $1,338,000 as of June 30, 2023 and 2022, respectively, based on quotations from independent third parties.

Estimated future principal and interest payments on long-term debt as of June 30, 2023, are as follows (in thousands):

	Principal	Interest	Total
Years Ending June 30,			
2024	$ 17,167	$ 68,332	$ 85,499
2025	18,273	69,915	88,188
2026	19,345	71,679	91,024
2027	20,434	73,676	94,110
2028	57,095	74,207	131,302
2029–2033	215,811	353,026	568,837
2034–2038	278,003	298,082	576,085
2039–2043	192,126	210,337	402,463
2044–2048	117,575	61,227	178,802
2049	186,759	24,158	210,917
Sub-total	1,122,588	1,304,639	2,427,227
Net premium on bonds	62,627	-	62,627
Accrued interest on capital appreciation bonds	240,596	-	240,596
Total	$ 1,425,811	$ 1,304,639	$ 2,730,450

Note 12 – Deferred Annuity Contracts

PH offers its employees a deferred compensation plan, which has an employer-match component created in accordance with IRC Section 457. Employees who elect to participate in the plan make contributions through a reduction in salary. All participating employees manage their contribution and investment choices through a funding agency selected by PH.

Effective July 2006, PH began providing an employer match to the employee deferred compensation plan. Under the plan and subject to a cap of 2% on the amount of compensation deferred, PH matches up to 50% of the employee's contribution, based on a variety of factors including length of employment. Prior to July 2006, contributions to the deferred compensation plan were made only by employees who chose to participate. During the years ended June 30, 2023 and 2022, PH made matching contributions of $3,361 and $3,296, respectively.

The investments of PH's IRC Section 457 plan and earnings thereon are held in trust for the exclusive benefit of the plan participants and their beneficiaries. The IRC Section 457 plan and earnings are not subject to claims of PH's general creditors. Accordingly, the accompanying statements of net position do not include the funds deposited with financial institutions pursuant to deferred annuity contracts.

Notes to Financial Statements (Dollars in Thousands)

Note 13 – Retirement Plan

PH sponsors a defined contribution retirement plan under which benefits are limited to amounts accumulated from total contributions by PH and by participating employees, plus earnings thereon. Generally, all employees with one year of service are eligible to participate. For the years ended June 30, 2023 and 2022, contributions under the retirement plan by PH were 6% of covered employees' basic compensation. Contributions are funded as accrued. Total PH contributions expensed for the years ended June 30, 2023 and 2022, were $20,472 and $19,482, respectively.

Note 14 – Postemployment Healthcare Plan

The District accounts for its postemployment healthcare plan under GASB Codification Section P50, *Postemployment Benefits Other Than Pensions – Reporting for Benefits Provided Through Trusts That Meet Specified Criteria – Defined Benefit*.

Plan description and funding policy – PH's Postemployment Healthcare Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by Discovery Benefits. The Plan provides medical and dental insurance benefits to qualified postemployment participants on a gap coverage basis. Coverage is limited to those employees who have provided 10 years of consecutive service, are below the age of 65, and do not receive coverage from other sources. The contribution requirements of the Plan members and PH are established and may be amended by the Board of Directors. The required contribution is based on estimated pay-as-you-go financing requirements.

Employees covered by benefit terms – As of the current and prior valuation dates, the following employees were covered by the Plan:

	July 1, 2022	July 1, 2020
Inactive employees currently receiving benefit payments	10	4
Active employees	2,731	3,498
Total	2,741	3,502

Total OPEB liability – PH's total OPEB liability of $1,228 was measured as of June 30, 2023, and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs – The total OPEB liability in the June 30, 2023 actuarial valuation is determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified. The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period June 30, 2022 to June 30, 2023.

Inflation	2.50%
Salary increases	3.00%–18.50%, including inflation
Discount rate	3.65%
Healthcare cost trend rates	6.75% for 2022, 10.00% for 2023, and decreasing to an ultimate rate of 3.94% in 2033

The discount rate was based on Bond Buyer 20-Bond General Obligation Index. Mortality rates were based on the RP-2000. Combined mortality table rates projected with mortality improvement scale BB.

Changes in the OPEB liability for the years ended June 30 were as follows (in thousands):

	2023	2022
Total OPEB liability – prior measurement date	$ 1,242	$ 1,403
Changes in total OPEB liability		
(a) Service cost	62	85
(b) Interest on the total OPEB liability	44	32
(c) Changes on benefit terms	-	-
(d) Differences between expected and actual experience	(123)	(93)
(e) Changes of assumptions or other inputs	77	(133)
(f) Benefit payments	(74)	(52)
Total OPEB liability – current measurement date	$ 1,228	$ 1,242
Covered-employee payroll	$ 225,484	$ 257,890
Total OPEB liability as a % of covered-employee payroll	0.50%	0.50%
Key information		
Valuation date	July 1, 2022	July 1, 2020
Reporting date	June 30, 2023	June 30, 2021
Measurement date	June 30, 2023	June 30, 2021
Discount rate as of the measurement date	3.65%	2.16%
Municipal bond index rate	3.65%	2.16%
Municipal bond index date	June 30, 2023	June 30, 2021

Sensitivity of the net OPEB liability to changes in the discount rate – The following presents PH's total OPEB liability using the final discount rate of 3.65% and preliminary discount rate of 3.54% for June 30, 2023 and 2022 measurement dates, respectively, as well as what the total OPEB liabilities would be if they were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate (in thousands).

	June 30, 2023			June 30, 2022		
	1% Decrease 2.65%	Discount Rate 3.65%	1% Increase 4.65%	1% Decrease 2.54%	Discount Rate 3.54%	1% Increase 4.54%
Net OPEB liability	$ 1,320	$ 1,228	$ 1,143	$ 1,336	$ 1,242	$ 1,156

Sensitivity of the net OPEB liability to changes in the healthcare trend rates – The following presents PH's total OPEB liability using the current health trend rates, as well as what the total OPEB liability would be if it were calculated using healthcare trend rates that are one percentage point lower or one percentage point higher than the current healthcare trend rates (in thousands).

	June 30, 2023 (FYE 2024 trend and later)			June 30, 2022 (FYE 2023 trend and later)		
	1% Decrease 5.50% to 3.00%	Current 6.50% to 4.00%	1% Increase 7.50% to 5.00%	1% Decrease 5.50% to 3.00%	Current 6.50% to 4.00%	1% Increase 7.50% to 5.00%
Net OPEB liability	$ 1,125	$ 1,228	$ 1,345	$ 1,135	$ 1,242	$ 1,364

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB – For the fiscal year ended June 30, 2023, PH recognized excess OPEB deferred inflows over expense of $22. As of June 30, 2023, the deferred outflows of resources and deferred inflows of resources related to OPEB are as follows (in thousands):

	June 30, 2023			June 30, 2022		
	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Amount	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Amount
Differences between expected and actual experience	$ -	$ (190)	$ (190)	$ -	$ (152)	$ (152)
Changes of assumptions and other inputs	83	(72)	11	68	(102)	(34)
Total	$ 83	$ (262)	$ (179)	$ 68	$ (254)	$ (186)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (in thousands):

Years Ending June 30,	
2024	$ (75)
2025	(72)
2026	(29)
2027	(3)
	$ (179)

Note 15 – Commitments and Contingencies

Legal matters – The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medi-Cal programs, is subject to government review and interpretation, as well as regulatory actions. Claims for payment for services rendered to Medicare and Medi-Cal beneficiaries must meet applicable billing laws and regulations, which, among other things, require that the services are medically necessary, accurately coded, and sufficiently documented in the beneficiaries' medical records. Allegations concerning possible violations of regulations can result in the imposition of significant fines and penalties, as well as significant repayment of previously billed and collected revenues for patient services.

PH has ongoing efforts to comply with laws and regulations, to assess its prior compliance, and the potential impact of noncompliance. PH with its ongoing compliance program will continue to monitor, investigate, and correct any potential areas of noncompliance. No regulatory action has been asserted against PH to date, although such action could occur in the future.

PH is a party to certain other legal actions arising in the ordinary course of business. In the opinion of PH management, the liability, if any, under these claims is adequately covered by insurance. PH is insured for medical malpractice under a claims-made and reported policy.

PH 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.

PH filed civil litigation against a third-party payor claiming breach of contract regarding payment denial of numerous healthcare service claims. PH had previously fully reserved the patient receivable balances for those claims to zero. The parties negotiated a settlement agreement in May 2021.

Coronavirus 2019 pandemic – On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by the novel coronavirus, a pandemic. Soon afterward, PH (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 PH incurring additional costs to maintain patient volume as well as to provide care to patients specifically affected by the virus. The duration and intensity of disruption from the pandemic is uncertain, and therefore the long-term impact, if any, cannot be predicted. In response, Congress passed legislation to provide financial support to hospitals.

In April 2020, PH applied for and received advances from Medicare under the Medicare Accelerated Payment Program, administered by CMS, of $55,602. This amount was treated as a loan bearing no interest. Medicare began recouping the loan in April 2021 by withholding 25.00% of Medicare patient claim payments and applying withheld amounts against the outstanding loan balance. As of June 30, 2023, the payments were fully recouped by CMS. As of June 30, 2022, the outstanding balance is $21,108 and classified as current liabilities.

During 2022, PH received funds under the Provider Relief Fund, administered by the U.S. Department of Health & Human Services (HHS), under the Coronavirus Aid, Relief, and Economic Security (CARES) Act of $2,767. PH did not receive any funds during 2023. PH was required to and did timely sign attestations agreeing to the terms and conditions of payment. Those terms and conditions include measures to prevent fraud and misuse. Documentation is required to ensure that these funds are to be used for healthcare-related expenses or lost revenue attributable to coronavirus, limitations of out-of-pocket payments from certain patients, and the acceptance of several other reporting and compliance requirements. Also anti-fraud monitoring and auditing will be done by HHS and the Office of the Inspector General. Management is currently assessing the compliance requirements of these funds.

Workers' compensation program – Effective July 1, 2016, PH has contracted with Safety National Casualty Corporation to provide workers' compensation insurance coverage. PH is self-insured for the first $1,000 of each occurrence with a maximum limit of indemnity per occurrence of $1,000. As of June 30, 2023 and 2022, estimated claims liabilities for workers' compensation recorded were $6,984 and $8,679, respectively.

Activity in PH's workers' compensation claims liability during the years ended June 30, 2023 and 2022, is summarized as follows (in thousands):

	2023	2022
BALANCE, beginning of the year	$ 8,678	$ 7,300
Current year claims incurred and changes in estimates for claims incurred in the prior year	3,807	5,027
Claims and expenses paid	(5,502)	(3,649)
BALANCE, end of year	6,983	8,678
Less: current portion, included in other accrued liabilities	(3,347)	(3,307)
BALANCE, end of year, less current portion	$ 3,636	$ 5,371

Employee medical plan – Effective January 1, 2021, PH implemented a self-insured medical plan for eligible employees and dependents as part of its employee benefits program. The self-insured program replaced a fully indemnified medical insurance plan through a health maintenance organization. PH carries a stop loss insurance policy for medical claims exceeding $400 individually and $500 in the aggregate. As of June 30, 2023 and 2022, the estimated claims liability recorded was $4,496 and $4,399, respectively, and is included in accrued compensation and related liabilities on the statements of net position.

Comprehensive liability insurance coverage – PH is insured for comprehensive liability (professional liability, bodily injury and property damage liability, personal injury, advertising injury and discrimination liability, and employee benefit liability) under a claims-made policy with the California Nurses Association (CNA), which covers asserted claims and incidents reported. PH is self-insured for the first $1,000 for each claim and $7,000 in aggregate. PH's comprehensive liability insurance was renewed effective July 1, 2022, and the current policy expires on July 1, 2023. PH has reserves for estimated claims through 2015, including an estimate of IBNR. Such reserves remained unchanged at $2,463 from previous year and are recorded as other accrued liabilities in the accompanying statements of net position.

Activity in PH's comprehensive liability insurance coverage liability during the years ended June 30, 2023 and 2022, is summarized as follows (in thousands):

	2023	2022
BALANCE, beginning of the year	$ 5,062	$ 5,082
Current year claims incurred and changes in estimates	545	(20)
BALANCE, end of the year	$ 5,607	$ 5,062

Seismic compliance – California Senate Bill (SB) 1953 requires hospital acute care buildings to meet more stringent seismic guidelines by 2020. The California Office of Statewide Health Planning & Development (OSHPD) assigns structural performance category (SPC) ratings to each acute care hospital facility in the state. As of June 17, 2021, the Escondido facility was assigned SPC-5 and Poway campus buildings were assigned SPC-4 and SPC-5 ratings. As such, they may be used to provide in patient care beyond January 1, 2030.

Note 16 – Condensed Combining Information

A summary of the condensed combining information as of June 30, 2023, is as follows (in thousands):

ASSETS AND DEFERRED OUTFLOW OF RESOURCES

	CONDENSED COMBINING STATEMENT OF NET POSITION AS OF JUNE 30, 2023				
	PH	PHMG	PAM, PAM-SD, and PAC	Eliminations	Total
Current assets	$ 590,222	$ 50,141	$ 4,031	$ (38,151)	$ 606,243
Capital assets, net	972,226	6,099	-	-	978,325
Lease right-to-use assets, net	268,348	34,422	-	(25,514)	277,256
Noncurrent assets	236,593	6,541	-	(5,488)	237,646
Total assets	2,067,389	97,203	4,031	(69,153)	2,099,470
Deferred outflow of resources - loss on refunding of debt	49,833	-	-	-	49,833
Total assets and deferred outflow of resources	$ 2,117,222	$ 97,203	$ 4,031	$ (69,153)	$ 2,149,303
OF RESOURCES, AND NET POSITION					
Current liabilities	$ 228,926	$ 65,683	$ 1,136	$ (60,824)	$ 234,921
Long-term liabilities	1,689,346	34,617	-	(7,756)	1,716,207
Total liabilities	1,918,272	100,300	1,136	(68,580)	1,951,128
Deferred inflow of resources	75,362	-	-	-	75,362
Total liabilities and deferred inflow of resources	1,993,634	100,300	1,136	(68,580)	2,026,490
Invested in capital assets, net of related debt	(266,163)	4,847	-	-	(261,316)
Restricted	53,958	-	-	-	53,958
Unrestricted	335,793	(7,944)	2,895	(573)	330,171
Total net position	123,588	(3,097)	2,895	(573)	122,813
Total liabilities, deferred inflow of resources, and net position	$ 2,117,222	$ 97,203	$ 4,031	$ (69,153)	$ 2,149,303

PH is the sole corporate member of PHMG and PHMG is dependent upon PH for financial support. PHMG received $35,889 and $31,589 in financial support for the years ended June 30, 2023 and 2022, respectively, including capital contributions of $2,914 and $2,579 for the years ended June 30, 2023 and 2022, respectively.

Subsequent to June 30, 2023, PHMG has received an additional $12,080 of financial support.

Notes to Financial Statements (Dollars in Thousands)

CONDENSED COMBINING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2023

	PH	PHMG	PAM, PAM-SD, and PAC	Elimination	Total
OPERATING REVENUE					
Patient service revenue	$ 768,374	$ 82,840	$ -	$ -	$ 851,214
Shared risk revenue	66,094	48,680	-	(6,072)	108,702
Other revenue	12,230	11,047	3,938	(443)	26,772
PH program revenue	-	12,230	-	(12,230)	-
Total operating revenue	846,698	154,797	3,938	(18,745)	986,688
OPERATING EXPENSES	788,072	190,550	1,517	(23,374)	956,765
DEPRECIATION AND AMORTIZATION	55,346	4,052	-	-	59,398
Total operating expenses	843,418	194,602	1,517	(23,374)	1,016,163
INCOME (LOSS) FROM OPERATIONS	3,280	(39,805)	2,421	4,629	(29,475)
NON-OPERATING INCOME (EXPENSE)					
Investment income (loss)	12,836	(555)	-	555	12,836
Change in value of interest rate swap	5,325	-	-	-	5,325
Interest expense	(84,944)	(244)	-	169	(85,019)
Property tax revenue	69,994	-	-	-	69,994
Interfund support	(38,804)	35,253	-	-	(3,551)
Other, net	3,814	1,685	1,922	(3,985)	3,436
Total nonoperating (expense) income, net	(31,779)	36,139	1,922	(3,261)	3,021
CHANGE IN NET POSITION	(28,499)	(3,666)	4,343	1,368	(26,454)
NET POSITION, beginning of year	152,087	569	(1,448)	(1,941)	149,267
NET POSITION, end of year	$ 123,588	$ (3,097)	$ 2,895	$ (573)	$ 122,813

CONDENSED COMBINING STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2023

	PH	PHMG	PAM, PAM-SD, and PAC	Elimination	Total
CASH FLOWS FROM					
Operating activities	$ 6,086	$ (29,195)	$ 600	$ 2,761	$ (19,748)
Noncapital financing activities	21,983	-	-	-	21,983
Capital and related financing activities	(7,354)	32,932	-	(2,761)	22,817
Investing activities	12,985	-	27		13,012
NET INCREASE (DECREASE) IN CASH EQUIVALENTS	33,700	3,737	627	-	38,064
CASH AND CASH EQUIVALENTS, beginning of year	30,997	480	387	-	31,864
CASH AND CASH EQUIVALENTS, end of year	$ 64,697	$ 4,217	$ 1,014	$ -	$ 69,928

Notes to Financial Statements (Dollars in Thousands)

ASSETS AND DEFERRED OUTFLOW OF RESOURCES

	CONDENSED COMBINING STATEMENT OF NET POSITION AS OF JUNE 30, 2022				
	PH As Restated	PHMG	PAM, PAM-SD, and PAC	Eliminations	Total As Restated
Current assets	$ 532,088	$ 29,789	$ 2,812	$ (23,045)	$ 541,644
Capital assets, net	973,282	5,119	-	-	978,401
Lease right-to-use assets, net	239,259	20,773	-	(14,478)	245,554
Noncurrent assets	175,451	7,598	-	(8,158)	174,891
Total assets	1,920,080	63,279	2,812	(45,681)	1,940,490
Deferred outflow of resources	50,800	-	-	-	50,800
Total assets and deferred outflow of resources	$ 1,970,880	$ 63,279	$ 2,812	$ (45,681)	$ 1,991,290
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION					
Current liabilities	$ 219,418	$ 44,462	$ 4,260	$ (28,529)	$ 239,611
Long-term liabilities	1,555,149	18,790	-	(15,755)	1,558,184
Total liabilities	1,774,567	63,252	4,260	(44,284)	1,797,795
Deferred inflow of resources	44,228	-	-	-	44,228
Total liabilities and deferred inflow of resources	1,818,795	63,252	4,260	(44,284)	1,842,023
Net investment in capital assets	(238,347)	4,114	-	34	(234,199)
Restricted	52,303	-	-	-	52,303
Unrestricted	338,129	(4,087)	(1,448)	(1,431)	331,163
Total net position	152,085	27	(1,448)	(1,397)	149,267
Total liabilities, deferred inflow of resources, and net position	$ 1,970,880	$ 63,279	$ 2,812	$ (45,681)	$ 1,991,290

A summary of the condensed combining information as of June 30, 2022, is as follows (in thousands):

CONDENSED COMBINING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2022

	PH As Restated	PHMG	PAM, PAM-SD, and PAC	Elimination	Total As Restated
OPERATING REVENUE					
Net patient service revenue	$ 725,527	$ 65,643	$ 4,721	$ -	$ 795,891
Shared risk revenue	65,353	41,489	-	(6,852)	99,990
Other revenue	9,232	7,608	-	355	17,195
PH program revenue	-	9,318	-	(9,318)	-
Total operating revenue	800,112	124,058	4,721	(15,815)	913,076
OPERATING EXPENSES	701,201	158,530	2,251	(20,822)	841,160
DEPRECIATION AND AMORTIZATION	55,676	2,883	-	-	58,559
Total operating expenses	756,877	161,413	2,251	(20,822)	899,719
INCOME (LOSS) FROM OPERATIONS	43,235	(37,355)	2,470	5,007	13,357
NON-OPERATING INCOME (EXPENSE)					
Investment income	(5,493)	3	-	-	(5,490)
Change in value of interest rate swap	13,152	-	-	-	13,152
Interest expense	(75,613)	(174)	-	115	(75,672)
Property tax revenue	64,586	-	-	-	64,586
Interfund balance	(31,589)	31,589	-	-	-
Other, net	11,608	2,472	(1,852)	(2,682)	9,546
Total nonoperating (expense) income, net	(23,349)	33,890	(1,852)	(2,567)	6,122
CHANGE IN NET POSITION	19,886	(3,465)	618	2,440	19,479
NET POSITION, beginning of year	132,199	3,492	(2,066)	(3,837)	129,788
NET POSITION, end of year	$ 152,085	$ 27	$ (1,448)	$ (1,397)	$ 149,267

CONDENSED COMBINING STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2022

	PH	PHMG	PAM, PAM-SD, and PAC	Elimination	Total
CASH FLOWS FROM					
Operating activities	$ 53,744	$ (33,100)	$ (2,421)	$ -	$ 18,223
Noncapital financing activities	(14,546)	34,730	-	-	20,184
Capital and related financing activities	(105,825)	(5,502)	2,740	-	(108,587)
Investing activities	48,681	-	-	-	48,681
NET INCREASE (DECREASE) IN CASH EQUIVALENTS	(17,946)	(3,872)	319	-	(21,499)
CASH AND CASH EQUIVALENTS, beginning of year	48,943	4,352	68	-	53,363
CASH AND CASH EQUIVALENTS, end of year	$ 30,997	$ 480	$ 387	$ -	$ 31,864

Required Supplementary Information

Palomar Health

Schedule of Changes in the Net OPEB Liability and Related Ratios – Last 10 Fiscal Years (Shown in Thousands)

	Fiscal Year End Reporting Periods										
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
1. Total OPEB liability – prior measurement date	$ 1,242	$ 1,403	$ 1,404	$ 1,230	$ 1,193	$ 1,176	$ 1,190	n/a	n/a	n/a	n/a
2. Changes in total OPEB liability											
(a) Service cost	62	85	91	67	69	60	72	n/a	n/a	n/a	n/a
(b) Interest on the total OPEB liability	44	32	30	44	46	43	35	n/a	n/a	n/a	n/a
(c) Changes on benefit terms	-	-	-	-	-	-	-	n/a	n/a	n/a	n/a
(d) Differences between expected and actual experience	(123)	(93)	(139)	-	(48)	-	-	n/a	n/a	n/a	n/a
(e) Changes of assumptions or other inputs	77	(133)	54	120	34	(24)	(63)	n/a	n/a	n/a	n/a
(f) Benefit payments	(74)	(52)	(37)	(57)	(64)	(62)	(58)	n/a	n/a	n/a	n/a
(g) Total	$ 1,228	$ 1,242	$ 1,403	$ 1,404	$ 1,230	$ 1,193	$ 1,176	$ -	$ -	$ -	$ -
3. Total OPEB liability – current measurement date	$ 1,228	$ 1,242	$ 1,403	$ 1,404	$ 1,230	$ 1,193	$ 1,176	$ 1,190	$ -	$ -	$ -
4. Estimated covered-employee payroll	$ 225,484	$ 228,047	$ 257,890	$ 227,447	$ 258,493	$ 209,718	$ 240,492	n/a	n/a	n/a	n/a
5. Total OPEB liability as a % of covered-employee payroll	0.50%	0.50%	0.50%	0.62%	0.48%	0.60%	0.50%	n/a	n/a	n/a	n/a
Key information											
Valuation date	July 1, 2022	July 1, 2020	July 1, 2020	July 1, 2019	July 1, 2018	July 1, 2016	July 1, 2016	July 1, 2016	n/a	n/a	n/a
Reporting date	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	n/a	n/a	n/a	n/a
Measurement date	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	n/a	n/a	n/a
Discount rate as of the measurement date	3.65%	3.54%	2.16%	2.21%	3.48%	3.87%	3.58%	2.85%	n/a	n/a	n/a
Bond index rate	3.65%	3.54%	2.16%	2.21%	3.48%	3.87%	3.58%	2.85%	n/a	n/a	n/a
Bond index date	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 11, 2019	June 30, 2018	June 30, 2017	June 30, 2016	n/a	n/a	n/a

Notes: PH has no assets that are accumulated in a trust to pay related benefits that meet the criteria in paragraph 4 of Statement 75.

See report of independent auditors.