REPORT OF INDEPENDENT AUDITORS AND FINANCIAL STATEMENTS WITH REQUIRED SUPPLEMENTARY INFORMATION

PALOMAR HEALTH

June 30, 2021 and 2020

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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, 2021 and 2020. Although the 2019 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. 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 Medical Group ("Arch"); Pacific Accountable Management San Diego, LLC ("PAM-SD"); Pacific Accountable Management, LLC ("PAM"); and Pacific Accountable Care, LLC ("PAC"). 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. Effective August 31, 2017, PH, Arch, and U.S. Bank National Association added Arch as an additional member of the Obligated Group created pursuant to the Master Trust Indenture. PH and Arch 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. 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	2021	2020	2019	2021–2020 Change Amount	2021–2020 Change Percentage	2020–2019 Change Amount	2020–2019 Change Percentage
CURRENT ASSETS	$ 566,060	$ 519,681	$ 442,126	$ 46,379	9%	$ 77,555	18%
CAPITAL ASSETS, net	970,597	1,006,984	1,016,133	(36,387)	-4%	(9,149)	-1%
NONCURRENT ASSETS	113,748	74,969	101,425	38,779	52%	(26,456)	-26%
Total assets	1,650,405	1,601,634	1,559,684	48,771	3%	41,950	3%
DEFERRED OUTFLOW OF RESOURCES	53,564	56,329	59,093	(2,765)	-5%	(2,764)	-5%
Total assets and deferred outflow of resources	$ 1,703,969	$ 1,657,963	$ 1,618,777	$ 46,006	3%	$ 39,186	2%
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION							
CURRENT LIABILITIES	$ 229,469	$ 179,541	$ 157,734	$ 49,928	28%	$ 21,807	14%
OTHER NONCURRENT LIABILITIES	10,348	4,142	3,064	6,206	150%	1,078	35%
FAIR VALUE OF INTEREST RATE SWAP	25,739	35,184	25,541	(9,445)	-27%	9,643	38%
MEDICARE ACCELERATED PAYMENTS	18,837	48,852	-	(30,015)	-61%	48,852	0%
LONG-TERM DEBT, net of current portion	1,276,542	1,265,729	1,275,903	10,813	1%	(10,174)	-1%
Total liabilities	1,560,935	1,533,448	1,462,242	27,487	2%	71,206	5%
DEFERRED INFLOW OF RESOURCES	7,486	7,604	7,822	(118)	-2%	(218)	-3%
Total liabilities and deferred inflow of resources	1,568,421	1,541,052	1,470,064	27,369	2%	70,988	5%
INVESTED IN CAPITAL ASSETS, net of related debt	(173,322)	(164,396)	(135,563)	(8,926)	5%	(28,833)	21%
RESTRICTED, expendable for							
Repayment of debt	25,295	21,176	21,722	4,119	19%	(546)	-3%
Capital acquisitions	9,028	9,911	10,088	(883)	-9%	(177)	-2%
Other purposes	353	351	350	2	1%	1	0%
UNRESTRICTED	274,194	249,869	252,116	24,325	10%	(2,247)	-1%
Total net position	135,548	116,911	148,713	18,637	16%	(31,802)	-21%
Total liabilities, deferred inflow of resources, and net position	$ 1,703,969	$ 1,657,963	$ 1,618,777	$ 46,006	3%	$ 39,186	2%

2021: Analysis of the Statement of Net Position from 2020 to 2021

- Current assets increased by $46,379 or 9% during the year ended June 30, 2021, primarily due to increase in cash of $31,036, an increase in patient accounts receivable of $27,324, an increase in other receivables of $15,043, and an increase in assets whose use is limited General Obligation (G.O.) Bonds of $8,848, offset by a decrease in investments of $40,980.

- Capital assets, net decreased by $36,387 or 4% primarily due to depreciation and amortization expense of $44,697, the net disposal of assets from the sale of the Palomar Medical Center Downtown Escondido Campus of $16,197, offset by purchases related to major building projects of $24,734.

- Noncurrent assets and deferred outflow of resources increased by $36,014 or 27% due to increases in restricted noncurrent cash and investments of $34,562 primarily resulting from restricted funds related to the 2021 certificates of participation (COP) bonds.

- Current liabilities increased by $49,928 or 28% primarily due to increases in accrued compensation and related benefits of $14,491 and increases in Medicare accelerated payments of $25,206.

- Noncurrent liabilities decreased by $22,441 or 2% primarily due to the 2021 COP bonds of $34,118 (inclusive of the original issue premium) offset by a reduction in the Medicare accelerated payment liability of $30,015.

- Net position increased by $18,637 or 16% due to income from operations of $8,617 plus non-operating income of $10,020.

2020: Analysis of the Statement of Net Position from 2019 to 2020

- Current assets increased by $77,555 or 18% during the year ended June 30, 2020, primarily due to increase in investments of $117,199, offset by decreases in patient accounts receivable of $9,820, other receivables of $2,006, and other current assets of $27,818.

- Capital assets, net decreased by $9,149 or 1% primarily due to depreciation and amortization expense of $42,999, the sale of capital assets and write-down of abandoned projects of $1,287, offset by purchases related to major building projects of $35,137.

- Noncurrent assets and deferred outflow of resources decreased by $29,220 or 18% primarily due to decreases in restricted noncurrent cash and investments of $25,385, prepaid debt insurance costs of $644, amortization of deferred outflows of resources from losses incurred in the refinancing of the Series 2007A G.O. Bonds of $2,764, and other assets of $427.

- Current liabilities increased by $14,612 or 9% primarily due to increases in current portion of other long-term debt of $1,453, other accrued liabilities of $28,388, and accrued interest payable of $321, offset by decreases in accounts payable of $8,247, accrued compensation and related liabilities of $4,700, and current portion of G.O. Bonds of $2,603.

- Noncurrent liabilities increased by $56,376 or 4% primarily due to increases in Medicare accelerated payments received of $55,602 (net of $6,750 included in current liabilities), G.O. Bonds of $7,556, and unrealized loss in the fair value of the interest rate swap of $9,643, offset by a decrease in other long-term debt-other of $10,535.

- Net position decreased by $31,802 or 21% due to net loss from operations of $31,826 offset by total non-operating income of $24.

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 U.S. 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 Governmental Accounting Standards Board (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:

				2021–2020 Change		2020–2019 Change	
	2021	2020	2019	Amount	Percentage	Amount	Percentage
OPERATING REVENUE							
Net patient service revenue	$ 728,947	$ 670,918	$ 693,446	$ 58,029	9%	$ (22,528)	-3%
Shared risk revenue	97,614	82,625	82,283	14,989	18%	342	0%
Other revenue	16,340	12,385	13,575	3,955	32%	(1,190)	-9%
Total operating revenue	842,901	765,928	789,304	76,973	10%	(23,376)	-3%
OPERATING EXPENSES	834,284	797,754	795,002	36,530	5%	2,752	0%
INCOME (LOSS) FROM OPERATIONS	8,617	(31,826)	(5,698)	40,443	-127%	(26,128)	459%
NON-OPERATING INCOME (EXPENSE)							
Investment income	(267)	6,762	5,904	(7,029)	-104%	858	15%
Unrealized gain (loss) on interest rate swap	9,445	(9,643)	(6,570)	19,088	-198%	(3,073)	47%
Interest expense	(63,246)	(63,190)	(60,929)	(56)	0%	(2,261)	4%
Property tax revenue – unrestricted	19,319	18,356	17,609	963	5%	747	4%
Property tax revenue – restricted	39,851	28,873	20,333	10,978	38%	8,540	42%
Other, net	4,918	18,866	(7,229)	(13,948)	-74%	26,095	-361%
Total non-operating income (expense), net	10,020	24	(30,882)	9,996	41650%	30,906	-100%
CHANGE IN NET POSITION	18,637	(31,802)	(36,580)	50,439	-159%	4,778	-13%
NET POSITION, beginning of year	116,911	148,713	185,293	(31,802)	-21%	(36,580)	-20%
NET POSITION, end of year	$ 135,548	$ 116,911	$ 148,713	$ 18,637	16%	$ (31,802)	-21%

2021: Analysis of the Statement of Revenue, Expenses, and Changes in Net Position from 2020 to 2021

- Total operating revenue increased by $76,973 or 10% during the year ended June 30, 2021, due to an increase in net patient revenue primarily related to Arch's acquisition of Graybill Medical Group ("Graybill") on December 1, 2020. Elective surgical procedures increased gradually during the year following the state mandated cancellation of elective surgical procedures in March 2020.

- Operating expenses are those expenses related to the treatment of patients as well as overhead and administrative expenses. Operating expenses increased by $36,530 or 5% during the year ended June 30, 2021, 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 $26,289 due to the Graybill acquisition by Arch as well as an increase in Arch physician costs. Supplies increased by $5,035 resulting from Coronavirus Disease 2019 (COVID-19) related supply purchases. Rent increased by $4,483 due to amended lease agreements during the year. Purchased services decreased by $5,254 resulting from a decrease in fees for COVID-19 lab related testing. Depreciation increased by $1,698 due to new capital acquisitions (inclusive of Graybill), and other expenses increased by $4,298 mainly due to the Graybill acquisition by Arch.

- Non-operating income (expenses), net increased by $9,996 during the year ended June 30, 2021. Investment income decreased by $7,029 due to the impact of the pandemic on interest rates. There was a gain on the interest rate swap, resulting in an increase of $19,088. Unrestricted property tax revenue increased by $963, while restricted property tax revenue for G.O. Bonds increased by $10,978. Other, net decreased by $13,948 primarily due to Corona 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 increased by $18,637 or 16% during the year ended June 30, 2021.

2020: Analysis of the Statement of Revenue, Expenses, and Changes in Net Position from 2019 to 2020

- Operating revenue decreased by $23,376 or 3% during the year ended June 30, 2020, primarily due to the cancellation of elective surgical cases beginning in March 2020 in response to the COVID-19 pandemic. Outpatient volume in general declined as a result of the pandemic. Patient volume and net patient revenue increased during May and June 2020 as elective surgical procedures progressively resumed.

- Operating expenses are those expenses related to the treatment of patients as well as overhead and administrative expenses. Operating expenses increased by $2,752 or 1% during the year ended June 30, 2020, primarily due to wage, supply, and purchased service inflation increases offset by staffing reductions in response to reduced patient volume from the COVID-19 pandemic. Salaries, wages, and benefits decreased by $5,570 as a result of the elimination of 317 full-time equivalent positions in April 2020. The position eliminations were made in response to reduced patient volume from the state mandated cancellation of elective surgical cases, as well as a COVID-19 related downturn in outpatient services. Purchased services increased by $361, resulting from an increase in management fees for COVID-19 lab related testing, unexpected repairs and maintenance for a salt removal project, and a new contract for management of the food and nutrition department. These increases were offset by a decrease in information technology (IT) repair and maintenance and other purchased services. Professional fees increased by $8,797 mainly due to increases in legal expenses of $4,622 and in physician fees of $2,664.

- Non-operating income (expense), net increased by $30,906 or 100% during the year ended June 30, 2020, mainly due to the receipt of the CARES Act PRF of $20,133 combined with an increase in property tax revenue of $9,287, offset by an increase in unrealized loss on the interest rate swap of $3,073.

- As a result of the factors noted above, net position decreased by $31,802 or 21% during the year ended June 30, 2020.

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 what were 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:

				2021–2020 Change		2020–2019 Change	
	2021	2020	2019	Amount	Percentage	Amount	Percentage
CASH FLOWS FROM							
Operating activities	$ 25,324	$ 89,585	$ 42,206	$ (64,261)	-72%	$ 47,379	112%
Noncapital financing activities	19,613	38,489	17,609	(18,876)	-49%	20,880	119%
Capital and related financing activities	(9,291)	(72,651)	(61,397)	63,360	-87%	(11,254)	18%
Investing activities	(4,610)	(83,232)	2,238	78,622	-94%	(85,470)	-3819%
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	31,036	(27,809)	656	58,845	-212%	(28,465)	-4339%
CASH AND CASH EQUIVALENTS, beginning of year	22,327	50,136	49,480	(27,809)	-55%	656	1%
CASH AND CASH EQUIVALENTS, end of year	$ 53,363	$ 22,327	$ 50,136	$ 31,036	139%	$ (27,809)	-55%

2021: Analysis of the Statement of Cash Flows from 2020 to 2021

- Net cash inflows provided by operating activities reflected a decrease of $64,261 during the year ended June 30, 2021, over the year ended June 30, 2020. This decrease is primarily due to a decrease in receipts from patients of $26,310 and other sources of $3,404, combined with an increase in payments to employees of $8,174 and supplies of $26,373.

- Net cash inflows provided by noncapital financing activities reflected a decrease of $18,876 during the year ended June 30, 2021, due to an increase in district tax revenue receipts of $963 and a decrease in proceeds received from the CARES Act PRF of $19,839.

- Net cash outflows used in capital and related financing activities increased by $63,360 primarily due to proceeds from the issuance of debt totaling $34,118, combined with a decrease in acquisition of capital assets of $14,114 and increase in receipt of property taxes restricted for debt service on general obligation bonds of $10,978.

- Net cash used in investing activities during the year ended June 30, 2021, increased by $78,622 primarily due to an increase in purchase of investments of $11,637 and proceeds from the sale of investments of $79,986, combined with a decrease of $8,047 due to the acquisition of Graybill.

- The ending cash and cash equivalents of $53,363 at June 30, 2021, reflect the checking account and overnight investment balances held by PH. In addition, PH held investments of $239,041 at June 30, 2021, with maturities of one year or less which are classified as current assets.

2020: Analysis of the Statement of Cash Flows from 2019 to 2020

- Net cash inflows provided by operating activities reflected an increase of $47,379 during the year ended June 30, 2020, over the year ended June 30, 2019. This increase is due to an increase in receipts from patients, insurers, and other third-party payors of $41,074, and a decrease in payments to employees and suppliers of $6,305.

- Net cash inflows provided by noncapital financing activities reflected an increase of $20,880 during the year ended June 30, 2020, due to an increase in district tax revenue receipts of $747 and proceeds received from the CARES Act PRF of $20,133.

- Net cash outflows used in capital and related financing activities decreased by $11,254 primarily due to the increase of restricted tax revenues for G.O. Bond debt service of $8,540 and other financing activities of $11,796, offset by the decrease in the acquisition of capital assets and the repayment of principal and interest of $31,590.

- Net cash used in investing activities during the year ended June 30, 2020, decreased by $85,470 primarily due to an increase in proceeds from the sale of investments of $34,522, offset by the increase in purchase of investments of $121,435.

- The ending cash and cash equivalents of $22,327 at June 30, 2020, reflect the checking account and overnight investment balances held by PH. In addition, PH held investments of $280,021 at June 30, 2020, 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 0.036% and 0.029% of assessed value during the years ended June 30, 2021 and 2020, 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.

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 $13,295 and $12,790 during the years ended June 30, 2021 and 2020, respectively, reduced the revenue bonds' principal to $598,865 and $583,445. Principal payments of $6,497 and $9,100 during the years ended June 30, 2021 and 2020, respectively, reduced the G.O. Bonds' principal to $415,527 and $422,024. All debt payments have been made timely. See Note 10 in the accompanying footnotes of the financial statements.

Liquidity and Capital Resources

PH's unrestricted liquid assets as of June 30, 2021, were $292,404, including $53,363 in operating cash and $239,041 in unrestricted investments stated at fair market value. PH's unrestricted liquid assets as of June 30, 2020, were $302,348, including $22,327 in operating cash and $280,021 in unrestricted investments stated at fair market value. The current liquidity position represents a $9,944 decrease from the $302,348 in available liquidity as of June 30, 2020, and equaled 45% of the total outstanding debt as of June 30, 2021 (excluding the existing G.O. Bonds, which are paid from *ad valorem* property taxes), as compared to available liquidity representing 46% of total outstanding debt as of June 30, 2020.

PH's days cash and investments on hand as of June 30, 2021 and 2020, was 150.6 and 146.6, respectively.

Economic and Other Factors

On June 24, 2015, PH's Board of Directors voted to transfer all services from Palomar Medical Center Downtown Campus ("PHDC") to other PH-owned facilities. Due to failing infrastructure and absent a seismic retrofit, the Board also voted to close the facility. An agreement to sell the PHDC real estate was executed and title transferred to the buyer on June 30, 2021. A net loss on the disposal of PHDC assets included in the sale in the amount of $16,197 was recorded at June 30, 2021.

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 sensitive to a more competitive market.

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 duration and intensity of disruption from the pandemic is uncertain, and therefore the long-term impact, if any, cannot be predicted.

Union Contract

PH and two labor unions, the California Nurses Association (CNA) and the Caregivers Healthcare Employees Union (CHEU), reached agreements on December 27, 2017. Both contracts were set to expire on May 31, 2021. PH and both labor unions entered into negotiations in April 2021, and negotiations are ongoing. All parties have agreed to monthly extensions of the existing agreements, with the most recent extensions to October 31, 2021.

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 Auditors

The Audit Committee
Palomar Health

Report on Financial Statements

We have audited the accompanying financial statements of Palomar Health, which comprise the statements of net position as of June 30, 2021 and 2020, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the California Code of Regulations, Title 2, Section 1131.2, *State Controller's Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palomar Health as of June 30, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting standards generally accepted in the United States of America require that the management's discussion and analysis, and schedule of changes in total Other Post-Employment Benefits liability and related ratios, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, and 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
October 29, 2021

(Dollars in Thousands)

ASSETS AND DEFERRED OUTFLOW OF RESOURCES

	Years Ended June 30, 2021	Years Ended June 30, 2020
CURRENT ASSETS		
Cash and cash equivalents	$ 53,363	$ 22,327
Investments	239,041	280,021
Patient accounts receivable, net of allowances for uncollectible accounts of $35,239 in 2021 and $47,755 in 2020	141,265	113,941
Other receivables	23,087	8,044
Supplies and inventories	12,685	12,531
Prepaid expenses and other	11,706	5,954
Estimated third-party payor settlements receivable	40,618	40,895
Assets whose use is limited, current	382	903
Restricted cash and investments, current	43,913	35,065
Total current assets	566,060	519,681
RESTRICTED NONCURRENT CASH AND INVESTMENTS		
Held by trustee under indenture agreements	80,490	53,894
Held by trustee under general obligation bonds indenture	43,913	35,065
Held in escrow for street improvements	9,028	9,911
Restricted by donor and other	352	351
Total restricted cash and investments	133,783	99,221
Less: amounts required to meet current obligations	44,295	35,968
Total restricted noncurrent cash and investments	89,488	63,253
CAPITAL ASSETS, net	970,597	1,006,984
LEASE RIGHT OF USE ASSETS	8,874	-
OTHER ASSETS		
Prepaid debt insurance costs	8,100	8,727
Investment in and amounts due from affiliated entities	2,077	2,609
Other	5,209	380
Total other assets	15,386	11,716
Total assets	1,650,405	1,601,634
DEFERRED OUTFLOW OF RESOURCES – loss on refunding of debt	53,564	56,329
Total assets and deferred outflow of resources	$ 1,703,969	$ 1,657,963

Palomar Health
Statements of Net Position (Continued)
(Dollars in Thousands)

LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION

	Years Ended June 30, 2021	2020
CURRENT LIABILITIES		
Accounts payable	$ 37,531	$ 36,890
Accrued compensation and related liabilities	54,838	40,347
General obligation bonds, current	18,532	13,692
Other long-term debt, current	17,261	14,368
Lease obligation, current	3,444	-
Medicare accelerated payments, current	31,956	6,750
Other accrued liabilities	46,907	52,702
Accrued interest payable	19,000	14,792
Total current liabilities	229,469	179,541
WORKERS' COMPENSATION, net of current portion	4,072	4,142
MEDICARE ACCELERATED PAYMENTS, net	18,837	48,852
GENERAL OBLIGATION BONDS, net	643,549	647,812
OTHER LONG-TERM DEBT, net	632,993	617,917
LEASE OBLIGATION, net	6,276	-
FAIR VALUE OF INTEREST RATE SWAP	25,739	35,184
Total liabilities	1,560,935	1,533,448
DEFERRED INFLOW OF RESOURCES	7,486	7,604
Total liabilities and deferred inflow of resources	1,568,421	1,541,052
COMMITMENTS AND CONTINGENCIES (Note 15)		
NET POSITION		
Net investment in capital assets	(173,322)	(164,396)
Restricted, expendable for		
Repayment of debt	25,295	21,176
Capital acquisitions	9,028	9,911
Other purposes	353	351
Unrestricted	274,194	249,869
Total net position	135,548	116,911
Total liabilities, deferred inflow of resources, and net position	$ 1,703,969	$ 1,657,963

 See accompanying notes.

(Dollars in Thousands)

	Years Ended June 30, 2021	Years Ended June 30, 2020
OPERATING REVENUE		
Patient service revenue, net of provision for uncollectible accounts of $86,274 in 2021 and $74,865 in 2020	$ 728,947	$ 670,918
Shared risk revenue	97,614	82,625
Other revenue	16,340	12,385
Total operating revenue	842,901	765,928
OPERATING EXPENSES		
Salaries, wages, and benefits	485,344	459,055
Professional fees	50,266	49,831
Supplies	111,260	106,225
Purchased services	82,336	87,590
Depreciation and amortization	44,697	42,999
Rent expense	27,585	23,102
Utilities	10,235	10,689
Other	22,561	18,263
Total operating expenses	834,284	797,754
INCOME (LOSS) FROM OPERATIONS	8,617	(31,826)
NON-OPERATING INCOME (EXPENSES)		
Investment (loss) income	(267)	6,762
Unrealized gain/(loss) on interest rate swap	9,445	(9,643)
Interest expense	(63,246)	(63,190)
Property tax revenue – unrestricted	19,319	18,356
Property tax revenue – restricted	39,851	28,873
Other, net	4,918	18,866
Total non-operating income (expenses), net	10,020	24
CHANGE IN NET POSITION	18,637	(31,802)
NET POSITION, beginning of year	116,911	148,713
NET POSITION, end of year	$ 135,548	$ 116,911

Palomar Health
Statements of Cash Flows
(Dollars in Thousands)

	Years Ended June 30, 2021	Years Ended June 30, 2020
CASH FROM OPERATING ACTIVITIES		
Receipts from		
Patients, insurers, and other third-party payors	$ 845,231	$ 871,541
Other sources	11,762	15,166
Payments to		
Employees	(470,853)	(462,679)
Suppliers	(360,816)	(334,443)
Net cash provided by operating activities	25,324	89,585
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipt of district taxes	19,319	18,356
Provider relief funds	294	20,133
Net cash provided by noncapital financing activities	19,613	38,489
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(21,023)	(35,137)
Interest payments on long-term debt	(43,449)	(49,034)
Proceeds from issuance of long-term debt	34,118	-
Principal repayment on long-term debt	(21,234)	(21,979)
Proceeds from sale of capital assets	2,600	60
Receipt of property taxes restricted for debt service on general obligation bonds	39,851	28,873
Other	(154)	4,566
Net cash used in capital and related financing activities	(9,291)	(72,651)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(275,494)	(287,131)
Proceeds from sale of investments	281,130	201,144
Interest received on investments and notes receivable	(2,199)	2,755
Purchase of Graybill Medical Group	(8,047)	-
Net cash used in investing activities	(4,610)	(83,232)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	31,036	(27,809)
CASH AND CASH EQUIVALENTS, beginning of year	22,327	50,136
CASH AND CASH EQUIVALENTS, end of year	$ 53,363	$ 22,327

See accompanying notes.

(Dollars in Thousands)

	Years Ended June 30, 2021	Years Ended June 30, 2020
RECONCILIATION OF GAIN/(LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Gain/(loss) from operations	$ 8,617	$ (31,826)
Adjustments to reconcile gain (loss) from operations to net cash provided by operating activities		
Depreciation and amortization	44,697	42,999
Provision for bad debts	86,274	74,865
Equity in losses (gains) of affiliates	532	(439)
Loss on disposal of fixed assets	3,408	1,224
Changes in assets and liabilities		
Patient accounts receivable	(113,598)	(65,045)
Other receivables	(3,643)	2,006
Supplies and inventories	(154)	(292)
Prepaid expenses and other	(4,805)	(402)
Estimated third-party payor settlements	277	478
Other, net	(1,467)	864
Accounts payable	641	(8,247)
Accrued compensation and related liabilities	14,491	(3,622)
Other accrued liabilities	(5,865)	21,638
Medicare accelerated payments	(4,809)	55,602
Lease right of use assets and obligation	846	-
Deferred inflow of resources	(118)	(218)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 25,324	$ 89,585
NONCASH OPERATING ACTIVITIES		
Right of use assets obtained in exhange for lease obligations	$ 7,691	$ -
NONCASH INVESTING AND CAPITAL AND FINANCING ACTIVITIES		
Capital expenditures included in accounts payable	$ 569	$ 443

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 Medical Center Downtown Campus ("PHDC") is located in east Escondido, California. The PHDC real estate was sold on June 30, 2021. Very limited operations were maintained at PHDC during the fiscal year ended June 30, 2021. All assets of PHDC were sold on June 30, 2021.

- 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.

- PH Development, a charitable tax exempt organization created to provide assistance and support for PH by obtaining grant funding from federal, state, local, and private sources.

- 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. On December 1, 2020, Arch acquired the assets of ten clinics from Graybill Medical Group located within PH's service area. Those clinics were merged with the operations of Arch. Subsequent to the acquisition, Arch established a trade name for the combined operating entity, Palomar Health Medical Group ("PHMG").

Note 1 – Operations and Reporting Entity (continued)

- 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 9.

- 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 9.

Arch membership of obligated group – On August 31, 2017, PH, Arch, and U.S. Bank National Association, as Master Trustee, entered into a Supplemental Master Indenture agreement providing for the addition of Arch as a member of the Obligated Group created pursuant to the Master Indenture of Trust dated December 1, 2006. As such, Arch 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 Arch to become an Obligated Group Member, PH agreed to the extinguishment of Arch obligations. Related eliminations can be found in Note 17.

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 (U.S. 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 U.S. 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)

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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 $9,028 and $9,911 as of June 30, 2021 and 2020, respectively, was 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.

Note 2 – Summary of Significant Accounting Policies (continued)

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. During the year ended June 30, 2020, an impairment charge of $1,162 was recorded. There was no impairment charge recorded during the year ended June 30, 2021.

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.

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 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 is loss 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 10).

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 are unearned rental income that will be recognized as revenue over the life of the rental agreement, the change in assumptions, and other inputs related to Other Post-Employment Benefits (OPEB) (see Note 15).

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. Arch amortizes goodwill over a 10-year period. In addition, Arch 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.

Note 2 – Summary of Significant Accounting Policies (continued)

Arch 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. Arch evaluates goodwill whenever events or changes in circumstances suggest that the carrying amount of goodwill may be impaired. Arch determined that there was no goodwill impairment for the year ended June 30, 2021.

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 of June 30, 2021 and 2020, the interest rate swaps were recorded as a liability of $25,739 and $35,184, respectively.

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 10). 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.

Note 2 – Summary of Significant Accounting Policies (continued)

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 $3,958 and $7,579 are included in other accrued liabilities in the accompanying statements of net position as of June 30, 2021 and 2020, respectively.

Activity in PH's liability for IBNR claims for medical services provided to patients as of and for the years ended June 30, 2021 and 2020, is summarized as follows (in thousands):

	2021	2020
BALANCE, beginning of the year	$ 7,579	$ 8,467
Current year claims incurred and changes in estimates	33,026	36,699
Claims and expenses paid	(36,648)	(37,587)
BALANCE, end of the year	$ 3,957	$ 7,579

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.

Note 2 – Summary of Significant Accounting Policies (continued)

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, 2021 and 2020, consists of the following (in thousands):

	2021	2020
To support operations – unrestricted use	$ 19,319	$ 18,356
For debt service on G.O. Bonds – restricted use	39,851	28,873
	$ 59,170	$ 47,229

Grants and contributions – PH receives grants from various governmental agencies and private organizations. PH also receives contributions from Palomar Health Foundation and Palomar Health Development, Inc. 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.

Income taxes – PH is a governmental subdivision of the state of California and is exempt from federal income and state franchise taxes. Arch 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 (LLC), 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.

Recent accounting pronouncements – In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities.* This statement establishes fiduciary criteria and requires PH to report separate fiduciary funds financial statements within the District's financial statements. This statement was effective July 1, 2020. PH has determined that it maintains no fiduciary activities meeting the criteria of GASB Statement No. 84.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, which increases transparency and comparability among entities by recognizing lease assets and lease liabilities on the statement of net position and disclosing key information about leasing arrangements in the financial statements of lessees. The effective date of this ASU was deferred by ASU 2020-05, *Effective Dates for Certain Entities*, to annual periods beginning after December 15, 2021. As a FASB reporter, Arch has adopted ASU 2016-02 as of July 1, 2020, using the modified retrospective transition approach. Under this transition method, the prior period comparative information has not been adjusted and continues to be reported under Topic 840. As of July 1, 2020, there was an immaterial cumulative effect to net assets as a result of adopting the new standard. Therefore, there was no adjustment to the opening balance sheet at July 1, 2020.

Note 2 – Summary of Significant Accounting Policies (continued)

With the adoption of Topic 842, Arch's accounting for operating leases is recorded on the statement of net position through recognition of a liability for the discounted present value of future fixed lease payments and a corresponding right-of-use (ROU) asset. The finance leases remained substantially unchanged from their prior accounting as capital leases. The ROU asset recorded at commencement of the lease represents the right to use the underlying asset over the lease term in exchange for the lease payments. Equipment under finance lease obligation is amortized in the manner consistent with the policy for owned assets or over the lease term, whichever is shorter. The adoption of Topic 842 had a material impact on Arch's statement of net position through the recording of the operating lease liabilities and related ROU assets for leases in effect at July 1, 2020, but the adoption did not have a material impact on Arch's statement of revenue, expenses, and other changes in net position nor statement of cash flows for the year ended June 30, 2021. Arch recorded approximately $14,190,000 of operating lease liabilities and ROU assets upon adoption of Topic 842, with no impact on net position. The adoption of ASU 2016-02 also implemented additional disclosure requirements, as discussed in Note 7.

In June 2017, the GASB issued Statement No. 87, *Leases (GASB 87)*. GASB 87 increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB 87 also establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which deferred the effective date of GASB 87 to reporting periods beginning after June 15, 2021. PH is reviewing the impact of the adoption of GASB 87 for the fiscal year ending June 30, 2022.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Before the End of a Construction Period.* This statement requires that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest costs incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement is effective July 1, 2021. PH is evaluating the impact of adopting this statement on the financial statements.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements (GASB 96)*. GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). GASB 96 (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of GASB 96 are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. PH is reviewing the impact of the adoption of GASB 96 for the fiscal year ending June 30, 2023.

Note 2 – Summary of Significant Accounting Policies (continued)

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

Note 3 – Business Combination

On November 18, 2020, Arch entered into an asset purchase agreement to purchase Graybill Medical Group ("Graybill"). Through this agreement, Arch acquired substantially all the assets of Graybill. As a result of the acquisition, Arch is expected to increase their medical group presence. The transaction was accounted for as a business combination using the acquisition method of accounting by recording the tangible and identifiable intangible assets acquired and liabilities assumed at their estimated fair values as of the acquisition date. The fair values were determined using the information currently available. The excess of total consideration over the aggregate fair values was recorded as goodwill. Goodwill consists largely of synergies and economies of scale expected from combining the operations of Arch and Graybill.

The following table summarizes the consideration paid for Graybill and the amounts of the assets acquired at the acquisition date (in thousands):

Purchase consideration	
Cash	$ 8,047
Net identifiable assets acquired, at fair value	
Prepaid expenses and other	947
Capital assets	3,738
Operating lease right-of-use-assets	6,499
Operating lease liabilities	(6,499)
Total net identifiable assets acquired, at fair value	4,685
Goodwill	$ 3,362

Note 4 – 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.

Note 4 – Net Patient Service Revenue, Third-Party Reimbursement Programs, and Non-Operating Revenue (continued)

Revenue from the Medicare and Medi-Cal programs inclusive of risk (capitated) and non-risk managed care programs accounted for approximately 53% of PH's net patient service revenue for both years ended June 30, 2021 and 2020.

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 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, 2016, for Escondido, and through the year ended June 30, 2019, for Poway. Results of cost report settlements as well as estimates for settlements of all years through 2020 have been reflected in the accompanying financial statements. As of June 30, 2021 and 2020, estimated third-party settlements resulted in a receivable of $40,618 and $40,895, respectively.

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, 2021 and 2020, 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 approximately $132 and $488 of additional revenues for the years ended June 30, 2021 and 2020, respectively, which are included in net patient service revenue in the accompanying statements of revenue, expenses, and changes in net position.

Third-party reimbursement programs – *Public Hospital Redesign and Incentives in Medi-Cal (PRIME) and Quality Incentive Pool (QIP)* – During the period July 1, 2020 through December 31, 2020, and for the year ended June 30, 2020, PH participated in the PRIME program. The 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. 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 of California (the "State") will direct 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.

Note 4 – Net Patient Service Revenue, Third-Party Reimbursement Programs, and Non-Operating Revenue (continued)

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 would 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.

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.

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.

Note 4 – Net Patient Service Revenue, Third-Party Reimbursement Programs, and Non-Operating Revenue (continued)

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, 2021 and 2020, respectively, (in thousands):

	2021	2020
PRIME/QIP	$ 12,951	$ 13,740
Managed care rate range IGT	15,460	26,895
QAF	13,412	11,335
Medi-Cal rate stabilization	2,781	1,906
Outpatient supplemental payment	6,543	458
Medi-Cal DSH	1,591	458
Totals	$ 52,738	$ 54,792

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 5 – 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 $73,216 and $74,293 of unrestricted funds in this fund as of June 30, 2021 and 2020, respectively. PH also had invested $9,028 and $9,908 in jointly managed funds under an escrow agreement with the City of Escondido as of June 30, 2021 and 2020, 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.

Note 5 – Cash and Cash Equivalents and Investments (continued)

As of June 30, 2021 and 2020, PH had the following investments (in thousands):

	2021	2020
Investments – current	$ 239,041	$ 280,021
Restricted cash and investments – current	44,295	35,968
Restricted cash and investments – noncurrent	89,488	63,253
Total	$ 372,824	$ 379,242

As of June 30, 2021 and 2020, PH had investments by type and maturity as follows (in thousands):

	2021		
		Investment Maturities (in Years)	
Investment Type	Fair Value	Less Than 1	1–5
External investment pool – LAIF	$ 82,244	$ 82,244	$ -
U.S. government bonds	29,342	2,091	27,251
U.S. treasury bills	58,392	10,930	47,462
Corporate bonds	35,604	3,726	31,878
Money market mutual funds	167,242	167,242	-
Total	$ 372,824	$ 266,233	$ 106,591

	2020		
		Investment Maturities (in Years)	
Investment Type	Fair Value	Less Than 1	1–5
External investment pool – LAIF	$ 84,201	$ 84,201	$ -
U.S. government bonds	16,435	-	16,435
U.S. treasury bills	37,434	3,439	33,995
Corporate bonds	21,832	6,185	15,647
Money market mutual funds	219,340	219,340	-
Total	$ 379,242	$ 313,165	$ 66,077

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.

Note 5 – Cash and Cash Equivalents and Investments (continued)

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 comparables, 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.

Note 5 – Cash and Cash Equivalents and Investments (continued)

The following table summarizes PH's assets and liabilities measured at fair value on a recurring basis as of June 30, 2021 and 2020 (in thousands):

	2021			
	Total	Level 1	Level 2	Level 3
Investments				
Money market mutual funds	$ 167,242	$ 167,242	$ -	$ -
U.S. government bonds	29,342	-	29,342	-
U.S. treasury bills	58,392	58,392	-	-
Corporate bonds	35,604	-	35,604	-
	290,580	$ 225,634	$ 64,946	$ -
Investments not subject to the fair value hierarchy				
State investment pool – LAIF	82,244			
Total investments	$ 372,824			
Liabilities				
Interest rate swap	$ (25,739)	$ -	$ (25,739)	$ -

	2020			
	Total	Level 1	Level 2	Level 3
Investments				
Money market mutual funds	$ 219,340	$ 219,340	$ -	$ -
U.S. government bonds	16,435	-	16,435	-
U.S. treasury bills	37,434	37,434	-	-
Corporate bonds	21,832	-	21,832	-
	295,041	$ 256,774	$ 38,267	$ -
Investments not subject to the fair value hierarchy				
State investment pool – LAIF	84,201			
Total investments	$ 379,242			
Liabilities				
Interest rate swap	$ (25,541)	$ -	$ (25,541)	$ -

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.

Note 5 – Cash and Cash Equivalents and Investments (continued)

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, 2021 and 2020, 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 "AA+" by S&P and "AAA" by Moody's, 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, such as 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, 2021 and 2020, were as follows (in thousands):

		2021		2020	
Investment	Investment Type	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
Federal National Mortgage Association	Federal Agency Securities	$ 17,851	5%	$ -	-
U.S. Bank, Trustee	First American Govt Oblig Fund CL D	$ 36,058	10%	$ 40,594	11%
Wells Fargo Advantage Government Money Market	U.S. Government Money Market Funds	$ 52,941	14%	$ 35,067	9%
Fidelity Investments	FIMM-Treasury Port Instl CL 2644	$ 36,602	10%	$ 129,578	34%

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.

Note 5 – Cash and Cash Equivalents and Investments (continued)

Custodial credit risk – deposits – Custodial credit risk is the risk that in the event of a bank failure, PH's deposits may not be returned to it. PH does not have a policy for custodial credit risk. As of June 30, 2021 and 2020, PH's bank balances totaled $52,270 and $21,095, 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. Arch maintains bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of $250 per depositor. Arch had cash balances of $4,713 and $3,235 that were above the insured limit at June 30, 2021 and 2020, respectively.

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

	2021	2020
Interest, dividends, and realized gains on sale of investments	$ 2,447	$ 5,167
Net increase in fair value of investments	(2,714)	1,595
Total	$ (267)	$ 6,762

Note 6 – 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, 2021 and 2020, was as follows:

	2021	2020
Medicare	13%	16%
Medi-Cal	11%	12%
HMO/PPO/commercial*	69%	64%
Self Pay	5%	7%
Others	2%	1%
Total	100%	100%

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

Note 7 – Capital Assets

A summary of changes in capital assets for the years ended June 30, 2021 and 2020, is as follows (in thousands):

	Balance as of June 30, 2020	Additions	Disposals	Transfers	Balance as of June 30, 2021
Land improvements	$ 80,342	$ -	$ (3,472)	$ -	$ 76,870
Buildings and leasehold improvements	1,152,652	1,494	(94,339)	8,923	1,068,730
Equipment	313,259	5,289	(23,219)	3,091	298,420
Land	60,715	-	(5,869)	-	54,846
Construction in progress	33,455	19,008	(388)	(12,014)	40,061
	1,640,423	25,791	(127,287)	-	1,538,927
Less: accumulated depreciation and amortization	(633,439)	(44,544)	109,653	-	(568,330)
Capital assets, net	$ 1,006,984	$ (18,753)	$ (17,634)	$ -	$ 970,597

	Balance as of June 30, 2019	Additions	Disposals	Transfers	Balance as of June 30, 2020
Land improvements	$ 80,342	$ -	$ -	$ -	$ 80,342
Buildings and leasehold improvements	1,128,194	339	-	24,119	1,152,652
Equipment	300,652	6,910	(4,037)	9,734	313,259
Land	60,715	-	-	-	60,715
Construction in progress	40,582	27,888	(1,162)	(33,853)	33,455
	1,610,485	35,137	(5,199)	-	1,640,423
Less: accumulated depreciation and amortization	(594,352)	(42,999)	3,912	-	(633,439)
Capital assets, net	$ 1,016,133	$ (7,862)	$ (1,287)	$ -	$ 1,006,984

Construction commitments outstanding as of June 30, 2021, were $27,630.

Note 8 – 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 $6,797 and $6,903 included in deferred inflow of resources in the accompanying statements of net position as of June 30, 2021 and 2020, 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.

Note 8 – Investment in and Amounts Due from Affiliated Entities (continued)

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 $5,777 and $6,309 at June 30, 2021 and 2020, respectively. The total income from PH's investment in affiliates was ($377) and $444 for the years ended June 30, 2021 and 2020, respectively, and is included in other, net on the statements of changes in net position.

Note 9 – 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 $2,726 and $3,018 for the years ended June 30, 2021 and 2020, 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 $1,631 and $2,036 for the years ended June 30, 2021 and 2020, 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 were no amounts outstanding on the line of credit as of June 30, 2021 or 2020.

An unaudited summary of the Foundation's assets, liabilities, and net assets as of June 30, 2021 and 2020, was as follows (in thousands):

	2021	2020
Assets	$ 7,111	$ 6,605
Liabilities	$ (839)	$ 325
Net assets	7,950	6,280
Total liabilities and net assets	$ 7,111	$ 6,605

Note 9 – Related Organizations (continued)

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, 2021 and 2020, PIMG provided professional services to Arch in the amounts of $11,126 and $11,508, 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 $775 and $509 at June 30, 2021 and 2020, respectively.

Pacific Accountable Care, LLC – 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 at June 30, 2021 or 2020.

Pacific Accountable Management, LLC and Pacific Accountable Management San Diego, LLC – PAM and PAM-SD operated as MSO 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.

Note 10 – Long-Term Debt

The following is a summary of long-term debt transactions for PH for the years ended June 30, 2021 and 2020 (in thousands):

	Balance June 30, 2020	Additions	Reductions	Balance June 30, 2021	Amounts Due within One Year
General Obligation Bonds					
Series 2016A General Obligation Bonds	$ 51,276	$ -	$ (2,292)	$ 48,984	$ 1,835
Series 2016B General Obligation Bonds	179,268	-	(1,022)	178,246	-
Series 2010A General Obligation Bonds	65,504	-	(31)	65,473	-
Series 2009A General Obligation Bonds	109,455	-	(542)	108,913	665
Series 2007A General Obligation Bonds	44,917	-	(4,558)	40,359	4,799
Accrued interest on capital appreciation bonds	211,084	9,529	(507)	220,106	11,233
Total General Obligation Bonds	661,504	9,529	(8,952)	662,081	18,532
Other long-term debt					
Series 2017 Refunding Revenue Bonds	167,329	-	(659)	166,670	-
Series 2017 Certificates of Participation	59,319	-	(1,103)	58,216	1,085
Series 2016 Refunding Revenue Bonds	255,825	-	(7,315)	248,510	6,270
Series 2006 Certificates of Participation	143,655	-	(6,255)	137,400	6,500
Series 2021 Certificates of Participation	-	33,785		33,785	-
Notes payable	4,844	-	(959)	3,885	3,406
Capital leases	313	957	(339)	931	-
Long-term debt – Crisis Stabilization Unit	1,000	-	(143)	857	-
Total other long-term debt	632,285	34,742	(16,773)	650,254	17,261
Total long-term debt	$ 1,293,789	$ 44,271	$ (25,725)	$ 1,312,335	$ 35,793

	Balance June 30, 2019	Additions	Reductions	Balance June 30, 2020	Amounts Due within One Year
General Obligation Bonds					
Series 2016A General Obligation Bonds	$ 53,460	$ -	$ (2,182)	$ 51,278	$ 1,720
Series 2016B General Obligation Bonds	180,288	-	(1,022)	179,266	-
Series 2010A General Obligation Bonds	65,535	-	(31)	65,504	-
Series 2009A General Obligation Bonds	113,070	-	(3,615)	109,455	327
Series 2007A General Obligation Bonds	49,128	-	(4,211)	44,917	4,450
Accrued interest on capital appreciation bonds	195,071	16,013	-	211,084	7,195
Total General Obligation Bonds	656,552	16,013	(11,061)	661,504	13,692
Other long-term debt					
Series 2017 Refunding Revenue Bonds	167,988	-	(659)	167,329	-
Series 2017 Certificates of Participation	60,373	-	(1,054)	59,319	1,035
Series 2016 Refunding Revenue Bonds	262,910	-	(7,085)	255,825	5,985
Series 2006 Certificates of Participation	149,680	-	(6,025)	143,655	6,275
Notes payable	50	4,794	-	4,844	959
Capital leases	365	-	(52)	313	114
Long-term debt – Crisis Stabilization Unit	-	1,000	-	1,000	-
Total other long-term debt	641,366	5,794	(14,875)	632,285	14,368
Total long-term debt	$ 1,297,918	$ 21,807	$ (25,936)	$ 1,293,789	$ 28,060

Note 10 – Long-Term Debt (continued)

The terms and due dates of PH's long-term debt as of June 30, 2021 and 2020, are as follows:

- 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 at June 30, 2021, 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 $15,210 and $15,869 at June 30, 2021 and 2020, respectively, and are collateralized by PH revenues as defined in the indenture agreement. The net unamortized loss on refunding is $17,341 and $18,092 at June 30, 2021 and 2020, 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 $985 in fiscal year 2020 to $3,450 in fiscal year 2048. The 2017 COP are net of unamortized original issue premium of $1,072 and $1,139 at June 30, 2021 and 2020, 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 $5,755 in fiscal year 2020 to $27,440 in fiscal year 2040. The Series 2016 Revenue Bonds are net of unamortized original issue premium of $24,389 and $25,719 at June 30, 2021 and 2020, respectively, and are collateralized by PH revenues as defined in the indenture agreement. The net unamortized loss on refunding is $32,990 and $34,789 at June 30, 2021 and 2020, 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 $1,610 in fiscal year 2020 to $4,345 in fiscal year 2035. The Series 2016A G.O. Bonds are net of unamortized original issue premium of $7,488 and $8,061 at June 30, 2021 and 2020, respectively.

Note 10 – Long-Term Debt (continued)

- 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 2029 to $19,305 in fiscal year 2038. The Series 2016B G.O. Bonds are net of unamortized original issue premium of $15,410 and $16,432 at June 30, 2021 and 2020, respectively. The net unamortized loss on refunding is $3,233 and $3,447 at June 30, 2021 and 2020, 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 $557 and $588 at June 30, 2021 and 2020, 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 $327 in fiscal year 2021 to $18,868 in fiscal year 2039. The Series 2009 G.O. Bonds are net of unamortized premium of $2,640 and $2,855 at June 30, 2021 and 2020, respectively.

Note 10 – Long-Term Debt (continued)

- 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 $557 in fiscal 2012 to $6,585 in fiscal 2027. The Series 2007A G.O. Bonds are net of unamortized premium of $352 and $460 at June 30, 2021 and 2020, 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.

- Series 2006 Certificates of Participation ("2006 COP") were issued as auction rate securities, whereby the interest rate for each series is generally determined during successive seven-day auction periods (a portion of the Series 20016 COP refunded the Series 1993 Insured Refunding Revenue Bonds). In addition, PH entered into an interest rate swap agreement with Citibank, N.A., New York, with respect to the 2006 COP in a notional amount of $180,000 (the "Swap Agreement") (see Note 11). Interest on the 2006 COP is accrued at 3.22%, which is the fixed rate to be paid by PH under the Swap Agreement; interest payments are due semiannually and principal payments are due annually in amounts ranging from $6,050 in fiscal year 2020 to $12,350 in fiscal year 2037. The 2006 COP are net of unamortized loss on refunding of $25 and $44 at June 30, 2021 and 2020, respectively, and are collateralized by PH revenues as defined in the indenture agreement.

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, Maximum Annual Debt Service Coverage, and Cushion Ratio) under its indenture 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.

At June 30, 2021 and 2020, long-term capital leases, net of current portion, amounted to $931 and $199, respectively. Related net book value of leased equipment totaled $1,038 and $325, and depreciation expense totaled $163 and $85 for the years ended June 30, 2021 and 2020, respectively.

The estimated fair value of PH's long-term debt was approximately $1,554 and $1,475 as of June 30, 2021 and 2020, respectively, based on quotations from independent third parties.

Note 10 – Long-Term Debt (continued)

During the year ended June 30, 2020, Arch applied for and received a Paycheck Protection Loan from a bank in the amount of $2,487. The loan bears interest at a rate of 1%. The original term was 2 years, with payments due monthly beginning 7 months from the date of the loan. The payment terms were deferred with the issuance of the Paycheck Protection Program Flexibility Act of 2020 enacted June 5, 2020. The deferral period will last until the lender notifies Arch of either full forgiveness or the new payment terms. Arch applied for full loan forgiveness and is awaiting notification from the Small Business Administration of approval. Arch expects to be legally released from the loan; however, Arch has included the full amount as a current liability under other long-term debt as of June 30, 2021.

Estimated future principal and interest payments on long-term debt, including capital leases for PH, as of June 30, 2021, are as follows (in thousands):

	Principal	Interest	Total
Years Ending June 30,			
2022	$ 25,096	$ 55,823	$ 80,919
2023	23,479	56,767	80,246
2024	24,120	57,974	82,094
2025	25,320	59,315	84,635
2026	26,675	60,825	87,500
2027–2030	212,559	298,867	511,426
2031–2035	256,857	288,290	545,147
2036–2040	268,793	238,984	507,777
2041–2045	106,680	25,756	132,436
2046–2048	50,485	2,487	52,972
Sub-total	1,020,064	1,145,088	2,165,152
Net premium on bonds	72,164	-	72,164
Accrued interest on capital appreciation bonds	220,107	-	220,107
Total	$ 1,312,335	$ 1,145,088	$ 2,457,423

Note 11 – Interest Rate Swap

In 2006, PH entered into the Swap Agreement as a means to lower its borrowing costs on the 2006 COP (see Note 10) when compared against fixed-rate bonds at the time of issuance. The Swap Agreement was effective December 28, 2006, with an initial notional amount of $180,000 for the 2006 COP and terminates on November 1, 2036, simultaneously with the maturity of the 2006 COP.

Notes to Financial Statements (Dollars in Thousands)

Note 11 – Interest Rate Swap (continued)

Under the Swap Agreement, PH pays the swap provider amounts based on a fixed interest rate of 3.218%, and the swap provider pays to PH amounts based on 56% of the British Banker's Association 30-day London Interbank Offered Rate, LIBOR, plus 0.230% (0.067% and 0.069% at June 30, 2021 and 2020, respectively).

The significant terms of the Swap Agreement are as follows:

Corresponding bond series	Series 2006 Certificate of Participation bonds
Swap type	Fixed income
Initial notional amount	$ 180,000
Notional amount as of June 30, 2021	$ 137,425
Notional amount as of June 30, 2020	$ 143,700
Effective date	December 28, 2006
Termination date	November 1, 2036
Final bond maturity	November 1, 2036
PH pays	3.218 %
Cash payments remitted by PH for year ended June 30, 2021	$ 4,075
PH receives	56% of 30-day LIBOR + 0.23%
Swap fair value as of June 30, 2021	$ (25,739)
Change in fair value for the year ended June 30, 2021	$ 9,445
Classification	Liability

Fair value – As of June 30, 2021 and 2020, the swap had a negative fair value of $25,739 and $35,184, respectively, developed by a mark-to-market pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap. The negative fair value of the swap is reported in the accompanying statements of net position as a long-term liability. The change in the fair value of the swap is reported in the accompanying statements of revenue, expenses, and changes in net position as unrealized gain (loss) on interest rate swap.

Credit risk – PH seeks to limit its counterparty risk by contracting only with highly rated entities. As of June 30, 2021, the counterparty of the interest rate swap was rated "Aa3" by Moody's, "A+" by S&P, and "A+" by Fitch Ratings (Fitch). To mitigate the potential for credit risk, under the terms of the Swap Agreement, if the counterparty's credit quality falls below (1) Moody's rating of Baa2, (2) S&P's rating of BBB, or (3) Fitch's rating of BBB, the fair value of the swap will be collateralized by the counterparty with cash and/or treasury securities.

Basis risk – PH is exposed to basis risk on its Swap Agreement because the variable rate payments received by PH on the instruments are based on a rate or index other than the interest rate paid on its variable rate debt.

Note 11 – Interest Rate Swap (continued)

Termination risk – The swap uses the International Swaps & Derivatives Association Master Agreement (the "Master Agreement"), which includes standard termination events such as failure to pay and bankruptcy. The Master Agreement also includes an "additional termination event." The Master Agreement can be terminated if, at any time, a relevant credit rating with respect to a party declines below the termination level or is withdrawn, or if any party has no relevant rating but was previously rated by such rating agency. The termination levels are (1) Moody's rating of Baa2, (2) S&P rating of BBB, and (3) Fitch rating of BBB.

The negative swap fair value in the accompanying statements of net position approximates the termination payment that would be owed by PH to the swap counterparty if the swap was terminated. The payments from PH to the swap counterparty are insured by Assured Guaranty. This insurance provides protection to the swap counterparty in the event PH fails to make payments due under the swap. Under the terms of the Swap Agreement, an "insurer event" will occur if both Moody's and S&P's ratings for Assured Guaranty fall below the A category. If an insurer event happens, PH would be required to post collateral by a first priority perfected security interest in the gross revenues of PH. Assured Guaranty was rated A3 by Moody's with a stable outlook effective August 2021.

Note 12 – Operating Leases

PH leases certain office space and equipment under operating leases. Lease expense on all such leases for the years ended June 30, 2021 and 2020, totaled $28,381 and $23,325, respectively. PH also leases office space to others which qualify as operating leases. Future minimum lease payments and receipts under office space and equipment leases as of June 30, 2021, were as follows (in thousands):

	Lease Payments	Lease Receipts
Years Ending June 30,		
2022	$ 14,462	$ 1,159
2023	13,746	1,404
2024	14,045	1,299
2025	14,010	1,327
2026	13,611	3,446
2027–2031	68,825	6,332
2032–2036	55,294	2,393
2037–2041	-	1,250
2042–2082	-	125
Total	$ 193,993	$ 18,735

Note 12 – Operating Leases (continued)

Effective July 1, 2020, Arch adopted ASU 2016-02, *Leases (Topic 842)*, using the modified retrospective approach, which requires leases with durations greater than 12 months to be recognized on the statement of net position. Prior period financial statement amounts and disclosures have not been adjusted to reflect the provisions of the new standard. Arch elected the package of transition provisions available which allowed Arch to carry forward historical assessments of (1) whether contracts are or contain leases, (2) lease classification, and (3) initial direct costs.

These changes to the lease accounting model require operating leases to be recorded on the statement of net position through recognition of a liability for the discounted represent value of future fixed lease payments and a corresponding ROU asset. Arch's accounting for finance leases remained substantially unchanged from its prior accounting as capital leases. The ROU asset recorded at commencement of the lease represents the right to use the underlying asset over the lease term in exchange for the lease payments. Leases with an initial term of 12 months or less that do not have an option to purchase the underlying asset that is deemed reasonably certain to be exercised are not recorded on the statement of net position; rather, rent expense for these leases is recognized on a straight-line basis over the lease term, or when incurred if a month-to-month lease. When readily determinable, Arch uses the interest rate implicit in a lease to determine the present value of future lease payments. For leases where the implicit rate is not readily determinable, Arch's incremental borrowing rate is utilized.

Arch calculates its incremental borrowing rate on a quarterly basis using a financial model that estimates the rate of interest Arch would have to pay to borrow an amount equal to the total lease payments on a collateralized basis over a term similar to the lease. Arch's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Arch elected the amended transition requirements which provide entities relief by allowing them not to recast prior comparative periods from the adoption of Topic 842. As a result, the prior year comparative financial statements have not been restated to reflect the adoption of Topic 842. Additionally, Arch elected the package of practical expedients available upon adoption of Topic 842, whereby an entity need not reassess expired contracts for lease identification or classification as a finance or operating lease, or for the reassessment of initial direct costs. Arch has not elected the practical expedient to use hindsight to determine the lease term for its leases at transition. Certain of Arch's lease agreements have lease and non-lease components, which for the majority of leases Arch accounts for separately when the actual lease and non-lease components are determinable. For equipment leases with immaterial non-lease components incorporated into the fixed rent payment, Arch accounts for the lease and non-lease components as a single lease component in determining the lease payment.

Operating lease obligations are amortized in the manner consistent with the policy for owned assets or over the lease term, whichever is shorter. Arch leases property and equipment under finance and operating leases. For leases with terms greater than 12 months, Arch records the related ROU assets and ROU obligations at the present value of lease payments over the term. Generally, Arch uses estimated incremental borrowing rate to discount the lease payments based on information available at lease commencement, as most of the leases do not provide a readily determinable implicit interest rate.

Note 12 – Operating Leases (continued)

The following table presents certain information related to lease expense for operating leases for the year ended June 30, 2021 (in thousands):

Component of lease expense	Statement of Revenue, Expenses and Changes in Net Position classification	Amount
Operating lease expense	Rent expense	$ 7,471
Variable and short-term lease expense	Rent expense	271
Total lease expense		$ 7,742

As of June 30, 2021, future minimum lease payments under non-cancelable operating leases (with an initial or remaining lease term in excess in one year) are as follows (in thousands):

Years Ending June 30,	
2022	$ 4,391
2023	3,943
2024	773
2025	436
2026	346
Thereafter	1,227
Total minimum lease payments	11,116
Less: imputed interest	1,396
Total lease obligations	9,720
Less operating lease right of use obligation, current	3,444
Operating lease right of use obligation, net	$ 6,276
Weighted-average remaining lease term (in years)	4.44
Weighted-average discount rate	4.34%

Note 13 – 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.

Notes to Financial Statements (Dollars in Thousands)

Note 13 – Deferred Annuity Contracts (continued)

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.

Note 14 – 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, 2021 and 2020, 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, 2021 and 2020, were $20,286 and $18,568, respectively.

Note 15 – 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, 2020	July 1, 2018
Inactive employees currently receiving benefit payments	4	8
Active employees	3,498	3,634
Total	3,502	3,642

Total OPEB liability – PH's total OPEB liability of $1,403 was measured as of June 30, 2021, and was determined by an actuarial valuation as of that date.

Note 15 – Postemployment Healthcare Plan (continued)

Actuarial assumptions and other inputs – The total OPEB liability in the June 30, 2021 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, 2021 valuation were based on the results of an actuarial experience study for the period June 30, 2020 to June 30, 2021.

Inflation	2.50%
Salary increases	3.00%–18.50%, including inflation
Discount rate	2.16%
Healthcare cost trend rates	6.75% for 2020, 7.0% for 2021, and decreasing to an ultimate rate of 4% in 2031

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):

	2021	2020
Total OPEB liability – prior measurement date	$ 1,404	$ 1,230
Changes in total OPEB liability		
(a) Service cost	91	67
(b) Interest on the total OPEB liability	30	44
(c) Changes on benefit terms	-	-
(d) Differences between expected and actual experience	(139)	-
(e) Changes of assumptions or other inputs	54	120
(f) Benefit payments	(37)	(57)
Total OPEB liability – current measurement date	$ 1,403	$ 1,404
Covered-employee payroll	$ 257,890	$ 227,447
Total OPEB liability as a % of covered-employee payroll	0.50%	0.62%
Key information		
Valuation date	July 1, 2020	July 1, 2018
Reporting date	June 30, 2021	June 30, 2020
Measurement date	June 30, 2021	June 30, 2020
Discount rate as of the measurement date	2.16%	2.21%
Municipal bond index rate	2.16%	2.21%
Municipal bond index date	June 30, 2021	June 30, 2020

Note 15 – Postemployment Healthcare Plan (continued)

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 2.16% and preliminary discount rate of 2.21% for June 30, 2021 and 2020 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, 2021			June 30, 2020		
	1% Decrease 1.16%	Discount Rate 2.16%	1% Increase 3.16%	1% Decrease 1.21%	Discount Rate 2.21%	1% Increase 3.21%
Net OPEB liability	$ 1,517	$ 1,403	$ 1,299	$ 1,509	$ 1,404	$ 1,308

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, 2021			June 30, 2020		
	1% Decrease 5.75% to 3.00%	Current 6.75% to 4.00%	1% Increase 7.75% to 5.00%	1% Decrease 6.0% to 3.0%	Current 7.0% to 4.0%	1% Increase 8.0% to 5.0%
Net OPEB liability	$ 1,270	$ 1,403	$ 1,557	$ 1,258	$ 1,404	$ 1,574

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB – For the fiscal year ended June 30, 2021, PH recognized OPEB expense of $84. At June 30, 2021, the deferred outflows of resources and deferred inflows of resources related to OPEB are as follows (in thousands):

	June 30, 2021			June 30, 2020		
	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	$ -	$ (123)	$ (123)	$ -	$ -	$ -
Changes of assumptions and other inputs	116	(1)	$ 115	110	32	78
Total	$ 116	$ (124)	$ (8)	$ 110	$ 32	$ 78

Note 15 – Postemployment Healthcare Plan (continued)

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,		
2022	$	5
2023		8
2024		(12)
2025		(9)
	$	(8)

Note 16 – 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.

Note 16 – Commitments and Contingencies (continued)

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 is treated as a loan bearing no interest. Medicare began recouping the loan in April 2021 by withholding 25% of Medicare patient claim payments and applying withheld amounts against the outstanding loan balance. Recoupment at the 25.00% rate will continue for eleven months, then at the rate of 50.00% of Medicare patient claim payments for the subsequent six months. At the end of the six-month period, Medicare will issue a letter for any remaining loan balance. As of June 30, 2021, the outstanding balance is $50,793, of which $31,956 is classified in current other accrued liabilities.

During April, May, and June 2020, 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 $21,349. 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. At June 30, 2021 and 2020, estimated claims liabilities for workers' compensation recorded were $7,300 and $6,523, respectively.

Note 16 – Commitments and Contingencies (continued)

Activity in PH's workers' compensation claims liability during the years ended June 30, 2021 and 2020, is summarized as follows (in thousands):

	2021	2020
BALANCE, beginning of the year	$ 6,523	$ 5,441
Current year claims incurred and changes in estimates for claims incurred in the prior year	4,936	4,380
Claims and expenses paid	(4,159)	(3,298)
BALANCE, end of year	7,300	6,523
Less current portion, included in other accrued liabilities	(3,228)	(2,381)
BALANCE, end of year, less current portion	$ 4,072	$ 4,142

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. At June 30, 2021, as estimated claims liability recorded was $3,127 and is included in accrued compensation and related liabilities on the statement 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, which covers asserted claims and incidents reported to the insurance carrier, and has a per-claim deductible of $100 for professional liability. PH's comprehensive liability insurance was renewed effective July 1, 2021, and the current policy expires on June 30, 2022. 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.

Effective July 1, 2019, PH withdrew its membership from its insurance carrier and has contracted with the California Nurses Association (CNA) to provide comprehensive liability insurance. PH is self-insured for the first $1,000 for each claim and $7,000 in aggregate.

Note 16 – Commitments and Contingencies (continued)

Activity in PH's comprehensive liability insurance coverage liability during the years ended June 30, 2021 and 2020, is summarized as follows (in thousands):

	2021	2020
BALANCE, beginning of the year	$ 3,947	$ 2,463
Current year claims incurred and changes in estimates	1,135	1,484
BALANCE, end of the year	$ 5,082	$ 3,947

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 17 – Condensed Combining Information

A summary of the condensed combining information for PH and PHMG as of June 30, 2021, is as follows (in thousands):

ASSETS AND DEFERRED OUTFLOW OF RESOURCES

CONDENSED COMBINING STATEMENT OF NET POSITION AS OF JUNE 30, 2021

	PH	PHMG	PAM	PAM-SD	PAC	Eliminations	Total
Current assets	$ 555,289	$ 21,267	$ 392	$ 1,895	$ 67	$ (12,850)	$ 566,060
Capital assets, net	965,421	5,176	-	-	-	-	970,597
Operating lease right of use asset, net	-	23,352	-	-	-	(14,478)	8,874
Noncurrent assets	107,747	5,285	-	-	-	(8,158)	104,874
Total assets	1,628,457	55,080	392	1,895	67	(35,486)	1,650,405
Deferred outflow of resources	53,564	-	-	-	-	-	53,564
Total assets and deferred outflow of resources	$ 1,682,021	$ 55,080	$ 392	$ 1,895	$ 67	$ (35,486)	$ 1,703,969
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION							
Current liabilities	$ 200,631	$ 40,313	$ 2,344	$ -	$ 2,076	$ (15,895)	$ 229,469
Long-term liabilities	1,335,945	11,275	-	-	-	(15,754)	1,331,466
Total liabilities	1,536,576	51,588	2,344	-	2,076	(31,649)	1,560,935
Deferred inflow of resources	7,486	-	-	-	-	-	7,486
Total liabilities and deferred inflow of resources	1,544,062	51,588	2,344	-	2,076	(31,649)	1,568,421
Net investment in capital assets	(201,829)	28,507	-	-	-	-	(173,322)
Restricted	34,676	-	-	-	-	-	34,676
Unrestricted	305,112	(25,015)	(1,952)	1,895	(2,009)	(3,837)	274,194
Total net position	137,959	3,492	(1,952)	1,895	(2,009)	(3,837)	135,548
Total liabilities, deferred inflow of resources, and net position	$ 1,682,021	$ 55,080	$ 392	$ 1,895	$ 67	$ (35,486)	$ 1,703,969

PH is the sole corporate member of PHMG and PHMG is dependent upon PH for financial support. PHMG received $30,420 and $18,959 in financial support for years ending June 30, 2021 and 2020, respectively.

Subsequent to June 30, 2021, PHMG has received an additional $5,970 of financial support.

Notes to Financial Statements (Dollars in Thousands)

Note 17 – Condensed Combining Information (continued)

CONDENSED COMBINING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2021

	PH	PHMG	PAM	PAM-SD	PAC	Elimination	Total
OPERATING REVENUE							
Net patient service revenue	$ 688,110	$ 40,837	$ -	$ -	$ -	$ -	$ 728,947
Shared risk revenue	69,289	32,103	-	-	-	(3,778)	97,614
Other revenue	9,900	6,295	-	-	-	145	16,340
PH program revenue	-	4,326	-	-	-	(4,326)	-
Total operating revenue	767,299	83,561	-	-	-	(7,959)	842,901
OPERATING EXPENSES	692,449	104,901	122	25	467	(8,377)	789,587
DEPRECIATION AND AMORTIZATION	42,556	2,141	-	-	-	-	44,697
Total operating expenses	735,005	107,042	122	25	467	(8,377)	834,284
INCOME (LOSS) FROM OPERATIONS	32,294	(23,481)	(122)	(25)	(467)	418	8,617
NON-OPERATING INCOME (EXPENSE)							
Investment income	(267)	-	-	-	-	-	(267)
Unrealized gain on interest rate swap	9,445	-	-	-	-	-	9,445
Interest expense	(63,164)	(82)	-	-	-	-	(63,246)
Property tax revenue	59,170	-	-	-	-	-	59,170
Interfund support	(30,420)	30,241	-	-	-	-	(179)
Other, net	4,772	195	105	25	-	-	5,097
Total nonoperating (expense) income, net	(20,464)	30,354	105	25	-	-	10,020
CHANGE IN NET POSITION	11,830	6,873	(17)	-	(467)	418	18,637
NET POSITION, beginning of year	126,129	(3,381)	(1,935)	1,895	(1,542)	(4,255)	116,911
NET POSITION, end of year	$ 137,959	$ 3,492	$ (1,952)	$ 1,895	$ (2,009)	$ (3,837)	$ 135,548

CONDENSED COMBINING STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2021

	PH	PHMG	PAM	PAM-SD	PAC	Elimination	Total
CASH FLOWS FROM							
Operating activities	$ 50,756	$ (25,276)	$ (104)	$ (25)	$ (27)	$ -	$ 25,324
Noncapital financing activities	19,613	-	-	-	-	-	19,613
Capital and related financing activities	(34,608)	25,187	105	25	-	-	(9,291)
Investing activities	(5,944)	1,334	-	-	-	-	(4,610)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	29,817	1,245	1	-	(27)	-	31,036
CASH AND CASH EQUIVALENTS, beginning of year	19,126	3,107	-	-	94	-	22,327
CASH AND CASH EQUIVALENTS, end of year	$ 48,943	$ 4,352	$ 1	$ -	$ 67	$ -	$ 53,363

Note 17 – Condensed Combining Information (continued)

A summary of the condensed combining information for PH and Arch as of June 30, 2020, is as follows (in thousands):

ASSETS AND DEFERRED OUTFLOW OF RESOURCES

	CONDENSED COMBINING STATEMENT OF NET POSITION AS OF JUNE 30, 2020						
	PH	Arch	PAM	PAM-SD	PAC	Eliminations	Total
Current assets	$ 516,538	$ 8,874	$ 391	$ 1,895	$ 94	$ (8,111)	$ 519,681
Capital assets, net	1,004,012	2,972	-	-	-	-	1,006,984
Noncurrent assets	78,400	1,227	-	-	-	(4,658)	74,969
Total assets	1,598,950	13,073	391	1,895	94	(12,769)	1,601,634
Deferred outflow of resources	56,329	-	-	-	-	-	56,329
Total assets and deferred outflow of resources	$ 1,655,279	$ 13,073	$ 391	$ 1,895	$ 94	$ (12,769)	$ 1,657,963
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION							
Current liabilities	$ 171,522	$ 12,571	$ 2,326	$ -	$ 1,636	$ (8,514)	$ 179,541
Long-term liabilities	1,350,024	3,883	-	-	-	-	1,353,907
Total liabilities	1,521,546	16,454	2,326	-	1,636	(8,514)	1,533,448
Deferred inflow of resources – deferred revenue	7,604	-	-	-	-	-	7,604
Total liabilities and inflow of resources	1,529,150	16,454	2,326	-	1,636	(8,514)	1,541,052
Invested in capital assets, net of related debt	(167,331)	2,935	-	-	-	-	(164,396)
Restricted	31,438	-	-	-	-	-	31,438
Unrestricted	262,022	(6,316)	(1,935)	1,895	(1,542)	(4,255)	249,869
Total net position	126,129	(3,381)	(1,935)	1,895	(1,542)	(4,255)	116,911
Total liabilities, deferred inflow of resources, and net position	$ 1,655,279	$ 13,073	$ 391	$ 1,895	$ 94	$ (12,769)	$ 1,657,963

Notes to Financial Statements (Dollars in Thousands)

Note 17 – Condensed Combining Information (continued)

CONDENSED COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020

	PH	Arch	PAM	PAM-SD	PAC	Elimination	Total
OPERATING REVENUE							
Net patient service revenue	$ 642,723	$ 28,195	$ -	$ -	$ -	$ -	$ 670,918
Shared risk revenue	71,732	10,893	-	-	-	-	82,625
Other revenue	10,948	1,522	-	-	-	(85)	12,385
PH Program revenue	-	1,914	-	-	-	(1,914)	-
Total operating revenue	725,403	42,524	-	-	-	(1,999)	765,928
OPERATING EXPENSES	691,182	64,990	94	-	488	(1,999)	754,755
DEPRECIATION AND AMORTIZATION	41,698	1,233	-	68	-	-	42,999
Total operating expenses	732,880	66,223	94	68	488	(1,999)	797,754
INCOME (LOSS) FROM OPERATIONS	(7,477)	(23,699)	(94)	(68)	(488)	-	(31,826)
NON-OPERATING INCOME (EXPENSE)							
Investment income	6,762	-	-	-	-	-	6,762
Unrealized loss on interest rate swap	(9,643)	-	-	-	-	-	(9,643)
Interest expense	(63,150)	(40)	-	-	-	-	(63,190)
Property tax revenue	47,229	-	-	-	-	-	47,229
Interfund support	(18,960)	19,684	-	-	-	-	724
Other, net	17,886	206	63	(14)	1	-	18,142
Total nonoperating (expense) income, net	(19,876)	19,850	63	(14)	1	-	24
CHANGE IN NET POSITION	(27,353)	(3,849)	(31)	(82)	(487)	-	(31,802)
NET POSITION, beginning of year	153,482	468	(1,904)	1,977	(1,055)	(4,255)	148,713
NET POSITION, end of year	$ 126,129	$ (3,381)	$ (1,935)	$ 1,895	$ (1,542)	$ (4,255)	$ 116,911

CONDENSED COMBINING STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2020

	PH	Arch	PAM	PAM-SD	PAC	Elimination	Total
CASH FLOWS FROM							
Operating activities	$ 110,766	$ (21,115)	$ (63)	$ 13	$ (16)	$ -	$ 89,585
Noncapital financing activities	38,489	-	-	-	-	-	38,489
Capital and related financing activities	(95,831)	23,130	63	(13)	-	-	(72,651)
Investing activities	(83,232)	-	-	-	-	-	(83,232)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(29,808)	2,015	-	-	(16)	-	(27,809)
CASH AND CASH EQUIVALENTS, beginning of year	48,934	1,092	-	-	110	-	50,136
CASH AND CASH EQUIVALENTS, end of year	$ 19,126	$ 3,107	$ -	$ -	$ 94	$ -	$ 22,327

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									
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
1. Total OPEB liability – prior measurement date	$ 1,404	$ 1,230	$ 1,193	$ 1,176	$ 1,190	n/a	n/a	n/a	n/a	n/a
2. Changes in total OPEB liability										
(a) Service cost	91	67	69	60	72	n/a	n/a	n/a	n/a	n/a
(b) Interest on the total OPEB liability	30	44	46	43	35	n/a	n/a	n/a	n/a	n/a
(c) Changes on benefit terms	-	-	(48)	-	-	n/a	n/a	n/a	n/a	n/a
(d) Differences between expected and actual experience	-	-	-	-	-	n/a	n/a	n/a	n/a	n/a
(e) Changes of assumptions or other inputs	(85)	120	34	(24)	(63)	n/a	n/a	n/a	n/a	n/a
(f) Benefit payments	(37)	(57)	(64)	(62)	(58)	n/a	n/a	n/a	n/a	n/a
(g) Total	$ 1,403	$ 1,404	$ 1,230	$ 1,193	$ -	$ -	$ -	$ -	$ -	$ -
3. Total OPEB liability – current measurement date	$ 1,403	$ 1,404	$ 1,230	$ 1,193	$ 1,176	$ 1,190	$ -	$ -	$ -	$ -
4. Estimated covered-employee payroll	$ 257,890	$ 227,447	$ 258,493	$ 209,718	240492	n/a	n/a	n/a	n/a	n/a
5. Total OPEB liability as a % of covered-employee payroll	0.50%	0.62%	0.48%	0.60%	0.005	n/a	n/a	n/a	n/a	n/a
Key information										
Valuation date	July 1, 2020	July 1, 2019	July 1, 2018	July 1, 2016	July 1, 2016	July 1, 2016	n/a	n/a	n/a	n/a
Reporting date	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	n/a	n/a	n/a	n/a	n/a
Measurement date	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	n/a	n/a	n/a	n/a
Discount rate as of the measurement date	2.16%	2.21%	3.48%	3.87%	3.58%	0.0285	n/a	n/a	n/a	n/a
Bond index rate	2.16%	2.21%	3.48%	3.87%	3.58%	0.0285	n/a	n/a	n/a	n/a
Bond index date	June 30, 2021	June 30, 2020	June 11, 2019	June 30, 2018	June 30, 2017	June 30, 2016	n/a	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.