



FINAL DRAFT

*Report of Independent Auditors and  
Combined Financial Statements*

**Tahoe Forest Hospital District**

*June 30, 2023 and 2022*

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## **Management's Discussion and Analysis**

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FINAL DRAFT

# **Tahoe Forest Hospital District Management's Discussion and Analysis For the Years Ended June 30, 2023, 2022, and 2021**

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Tahoe Forest Hospital District (the "District") is a public entity organized under Local Hospital District Law as set forth in the Health and Safety Code of the State of California. The District includes the following component units, which are included as blended component units of the District's combined financial statements: Tahoe Forest Health System Foundation ("TFHSF"), Incline Village Community Hospital Foundation ("IVCHF"), TIRHR, LLC ("TIRHR"), and the Tahoe Institute for Rural Health Research (the "Institute").

Our discussion and analysis of the District financial performance provides an overview of the District's financial activities for the years ended June 30, 2023, 2022, and 2021. Please read this in conjunction with the District's combined financial statements and accompanying notes, which begin on page 13. Our discussion and analysis of the District does not include Truckee Surgery Center, LLC, which is a discretely presented component unit.

## **Financial Highlights for Fiscal Year 2023**

- The District's increase in net position was \$25.7 million for 2023 as compared to \$32.9 million for 2022.
- The District's income from operations for fiscal year 2023 was \$8.9 million as compared to \$23.8 million for 2022.
- Nonoperating revenues were \$17.6 million in fiscal year 2023 as compared to \$9.6 million for 2022.

The District's combined financial statements consist of the following: combined statements of net position; combined statements of revenues, expenses, and changes in net position; and combined statements of cash flows. These combined financial statements and accompanying notes provide information about the operations of the District as of and for the fiscal years ended June 30, 2023, and 2022.

## **The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position**

One of the most important questions asked about the District's finances is, "Is the District, as a whole, better off or worse off as a result of the year's activities?" The statement of net position and the statement of revenues, expenses, and changes in net position report information about the District's resources and its operations in a way that helps answer this question. These two statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. You can think of the District's net position (the difference between assets and liabilities) as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's patient base, and measures of quality of service it provides to the community, as well as local economic factors, in order to assess the overall financial health of the District.

**Tahoe Forest Hospital District  
Management's Discussion and Analysis  
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**The Statement of Cash Flows**

The final required financial statement is the combined statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, noncapital financing, capital and related financing, and investing activities. It provides answers to questions such as “where did the cash come from,” “what was cash used for,” or “what was the change in cash balance during the reporting period?”

**The District's Net Position**

The District's net position is the difference between its assets and liabilities reported in the combined statements of net position found on page 13. The District's net position changed by \$25.7 million for 2023 as compared to \$32.9 million for 2022, as presented in the following table (amounts are in thousands):

	As of June 30,		
	2023	2022 (As restated)	2021
Current assets	\$ 121,019	\$ 101,733	\$ 156,493
Capital assets	198,955	188,541	176,107
Restricted and other assets	157,301	167,413	80,902
<b>Total assets</b>	<b>477,275</b>	<b>457,687</b>	<b>413,502</b>
Deferred outflows of resources	5,017	5,729	6,773
Current liabilities	59,509	63,322	60,615
Long-term liabilities	148,470	151,492	143,908
<b>Total liabilities</b>	<b>207,979</b>	<b>214,814</b>	<b>204,523</b>
Net investment in capital assets	90,458	74,155	55,718
Restricted - expendable	7,729	6,538	4,969
Restricted - nonexpendable	604	79	75
Unrestricted	175,522	167,830	154,990
<b>Total net position</b>	<b>\$ 274,313</b>	<b>\$ 248,602</b>	<b>\$ 215,752</b>

# Tahoe Forest Hospital District

## Management's Discussion and Analysis

### For the Years Ended June 30, 2023, 2022, and 2021

#### Operating Results and Changes in the District's Net Position

During 2023, the District's net position increased by \$25.7 million as compared to \$32.9 million in 2022, as presented in the following table. These increases are comprised of operating and nonoperating components and represent the total change in net position of the District. Five areas of expenses created significant differences between 2023 and 2022: salaries, wages, and benefits increased by \$36.3 million, professional fees decreased by \$10.2 million, supplies increased \$5.7 million, purchased services increased by \$2.5 million, and other increased \$1.8 million. The increase in salaries, wages, and benefits is due to increased staffing, merit increases, management incentive compensation bonuses, employee gain-sharing bonus program, continued employment of physicians some of which were previously contracted professionals, and increased utilization of the District's self-insured health insurance program inclusive of some very high dollar claims. The decrease in professional fees is due to employment of previously contracted physicians and therapy services. The increase in supplies is primarily pharmaceuticals and medical supply costs, which is directly connected to the increase in volumes, inflation, and supply shortages. The increase in purchased services is due to contracting for medical scribe services, bad debt reporting services, process improvement work, and snow removal. The increase in other is due to equipment and building rent in and increases in utility costs.

	Fiscal years ended June 30,		
	2023	2022 (As restated)	2021
Operating revenues (thousands)			
Net patient service revenues	\$ 284,394	\$ 263,836	\$ 205,979
Other operating revenues	16,289	13,979	12,447
Total operating revenues	300,683	277,816	218,427
Operating expenses (thousands)			
Salaries and wages	122,564	99,485	79,154
Employee benefits	61,461	48,215	38,864
Professional fees	8,642	18,847	19,907
Supplies	42,662	36,925	28,824
Purchased services	24,713	22,208	21,363
Depreciation and amortization	19,757	18,209	13,166
Other operating expenses	11,959	10,152	9,843
Total operating expenses	291,758	254,041	211,121
Income from operations	8,926	23,775	7,306
Nonoperating revenue (expenses) (thousands)			
Property tax revenue	10,215	9,151	7,985
Property tax revenue - general obligation bonds	5,708	5,569	5,220
Interest expense	(5,804)	(6,018)	(5,056)
Other nonoperating revenues	7,447	935	18,917
Total nonoperating revenues	17,566	9,636	27,065
Income before other revenue, expenses, gains, and losses	26,492	33,411	34,371
Capital transfers	(780)	(561)	(1,293)
Increase in net position	\$ 25,711	\$ 32,850	\$ 33,078

**Tahoe Forest Hospital District  
Management's Discussion and Analysis  
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### **Operating Gains**

Usually the primary component of the overall change in the District's net position is its income from operations, generally the difference between net patient service revenues and the expenses incurred to perform those services. Income from operations in 2023 was \$8.9 million as compared to \$23.8 million in 2022. The District did not receive any provider relief fund grants related to COVID-19 in 2023 and 2022, and received only \$0.4 million in 2021, that is classified as other nonoperating revenues. The District returned \$3.9 million of the provider relief fund grants related to COVID-19 in 2021 that were received in 2020 as the District received excess funds when compared to expenses incurred and lost revenues that were related to COVID-19. Total nonoperating revenues in 2023 was \$17.6 million as compared to \$9.6 million in 2022.

These changes in the District's operations are attributable to:

- Net patient service revenues increased in 2023 by \$20.6 million (7.8%) due to a combination of changes in volumes, changes in payor mix, a charge increase, and additional reimbursements related to prior periods. Inpatient census days decreased in 2023 to 4,868 from 5,554 in 2022. Adjusted patient days were up 10.0% in 2023 as compared to 2022. Inpatient charges decreased by \$12.6 million to \$82.5 million in 2023 from \$95.1 million in 2022. Outpatient charges increased by \$60.2 million to \$482.2 million in 2023 from \$422.0 million in 2022, and as a percentage of total charges, outpatient charges increased to 85.4% of the total in 2023 from 81.6% in 2022. In addition, contractual allowances, charity care, and bad debt increased \$27.0 million to \$280.3 million in 2023 from \$253.3 million in 2022. Prior period settlements decreased \$3.2 million to \$0.8 million in 2023 from \$4.0 million in 2022.
- An increase in other operating revenues of \$2.3 million (16.5%) in 2023.
- Operating expenses increased by \$37.7 million (14.9%) in 2023 due to added services and providers, additional full time equivalents ("FTEs") including employed physicians, employee gain sharing program, management incentive compensation bonuses, merit increases, increased health insurance utilization, increased pharmaceutical and medical supply costs, costs associated with medical scribe services, bad debt reporting services, process improvement work, and snow removal, as well as increased costs for equipment and building rent and utilities. Many of these costs have been affected by inflation and supply shortages.

# **Tahoe Forest Hospital District**

## **Management's Discussion and Analysis**

### **For the Years Ended June 30, 2023, 2022, and 2021**

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Employee salaries, wages, and benefits were \$184.0 million in 2023 and \$147.7 million in 2022. The components of these costs are as follows:

- Salaries and wages totaled \$122.6 million in 2023 and \$99.5 million in 2022. Staffing, as measured by paid FTEs, was 1,060 in 2023 and 951 in 2022. The employee gain-sharing program and management incentive compensation bonuses totaled \$5.3 million in 2023 and \$6.9 million in 2022.
- Benefits totaled \$61.5 million in 2023 and \$48.2 million in 2022. The benefits associated with the employee gain-sharing program and management incentive compensation bonuses totaled \$2.2 million in 2023 and \$2.0 million in 2022.
- Salaries, wages, and benefits per paid FTE were \$173,608 in 2023 and \$155,310 in 2022. If we were to remove the 2023 and 2022 gain-sharing program and management incentive compensation bonuses from salaries, wages, and benefits, then the amount per paid FTE was \$166,518 in 2023 and \$145,997 in 2022.
- Other changes were as follows:
  - There was a decrease of \$10.2 million (54.1%) in professional fees. This was primarily due to due to employment of previously contracted physicians and therapy services.
  - There was a \$5.7 million (15.5%) increase in supplies primarily due to increase in pharmaceuticals and medical supply costs, which is directly connected to the increase in volumes, inflation, and supply shortages.
  - There was a \$2.5 million (11.3%) increase in purchased services primarily due to due to contracting for medical scribe services, bad debt reporting services, process improvement work, and snow removal.
  - There was an increase of \$1.5 million (8.5%) in depreciation and amortization expense due mainly to a net \$7.5 million increase in depreciable assets.
  - Other expense category changes (utilities, insurance, dues and subscriptions, travel and education, and other) increased \$1.8 million (17.8%) primarily due to an increase in equipment and building rents, and utilities.

#### **Nonoperating Revenues and Expenses**

Nonoperating revenues consist of property taxes paid to the District, investment income, contributions, unrealized gains and losses, interest expense, provider relief fund grants related to COVID-19, and other various types of items not specifically related to the operations of patient care.

#### **The District's Cash Flows**

Changes in the District's cash flows are consistent with the operating income and nonoperating revenues and expenses discussed earlier.



**Tahoe Forest Hospital District  
Management's Discussion and Analysis  
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### **Capital Assets**

At the end of 2022, the District had \$188.5 million in capital assets, net of depreciation, as detailed in the footnotes to the financial statements. At the end of 2023, the District had \$199.0 million invested in capital assets, net of depreciation. In 2023, the District improved facilities and acquired new equipment for a total net investment of \$25.3 million, net of disposals, as compared to \$25.8 million in 2022.

### **Debt Borrowings**

At the end of 2022, the District had \$124.3 million in long-term debt borrowings outstanding including current maturities. At the end of 2023, the District had \$118.1 million in long-term debt borrowings outstanding including current maturities.

There was no new debt financing in 2022 or 2023.

### **Other Economic Factors**

The District is located in Truckee, California, and Incline Village, Nevada.

The State of California continues to experience fiscal difficulties. As a result, the District will continue to see pressure placed on its Medi-Cal reimbursement for the foreseeable future.

The District's Board of Directors approved the fiscal year 2024 budget at a special board meeting in June 2023. For fiscal year 2024, the District is budgeted to increase its net position by \$15.5 million. The increase is due to the following assumptions:

- Net patient services revenue of \$286.9 million.
  - Outpatient volumes are projected to increase in fiscal year 2023, primarily in the multi-specialty clinics (4.0%), gastroenterology (11.2%), and surgical services (9.5%). This is due to the addition of new providers in the area of primary care and gastroenterology, as well as increased volumes for existing providers in just about all specialty areas and primary care.
  - The District will increase charges by 5%. As a result, the percentages of contractual allowances are budgeted to increase with an approximate 2.5% increase in net patient service revenue percentage.
- Other operating revenue of \$16.4 million.
- Total operating expenses of \$308.4 million.
  - Overall operating expenses will increase 5.7% due to an increase in salaries, wages, and benefits due to an increase in our overall FTEs and wage increases, medical supplies and pharmaceuticals related to patient volume and inflation, purchased services related to technology infrastructure as well as process improvement work, and other due to expected increases in utilities, building and equipment rent, and insurance.
- Loss from operations of \$5.1 million.

# Tahoe Forest Hospital District Management's Discussion and Analysis For the Years Ended June 30, 2023, 2022, and 2021

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- Nonoperating revenues of \$20.6 million.

## **Payments from Federal and State Health Care Programs**

Entities doing business with governmental payors, including Medicare and Medicaid (Medi-Cal in California), are subject to risks unique to the government-contracting environment that are difficult to anticipate and quantify. Revenues are subject to adjustment as a result of examination by government agencies as well as auditors, contractors, and intermediaries retained by federal, state, or local governments (collectively "Government Agents"). Resolution of such audits or reviews often extends (and in some cases does not even commence until) several years beyond the year in which services were rendered and/or fees received.

Moreover, different Government Agents frequently interpret government regulations and other requirements differently. For example, Government Agents might disagree on a patient's principal medical diagnosis, the appropriate code for a clinical procedure, or many other matters. Such disagreements might have a significant effect on the ultimate payout due from the government to fully recoup sums already paid. Governmental agencies may make changes in program interpretations, requirements, or "conditions of participation," some of which may have implications for amounts previously estimated. In addition to varying interpretation and evolving codification of the regulations, standards of supporting documentation and required data are subject to wide variation.

In accordance with generally accepted accounting principles, to account for the uncertainty around Medicare and Medi-Cal revenues, the District estimates the amount of revenue that will ultimately be received under the Medicare and Medi-Cal programs. Amounts ultimately received or paid may vary significantly from these estimates.

## **Public Hospital Redesign and Incentives in Medi-Cal Program (PRIME) and Quality Incentive Pool (QIP)**

The Public Hospital Redesign and Incentives in Medi-Cal Program ("PRIME") was created to build upon the foundational delivery system transformation work, expansion of coverage, and increased access to coordinated primary care achieved through the prior California Section 1115 Bridge to Reform demonstration. Activities supported by the PRIME program are designed to accelerate efforts by participating PRIME entities to change care delivery to maximize health care value and strengthen their ability to successfully perform under risk-based alternative payment models ("APMs") in the long term, consistent with Centers for Medicare and Medicaid Services ("CMS") and Medi-Cal 2020 goals. The PRIME program is intentionally designed to be ambitious in scope and time-limited. Using evidence-based, quality improvement methods, the initial work required the establishment of performance baselines followed by target setting and the implementation and ongoing evaluation of quality improvement interventions. Participating PRIME entities consist of two types of entities: Designated Public Hospital ("DPH") systems and the District/Municipal Public Hospitals ("DMPH"). PRIME was a five-year program beginning July 1, 2015, and ending June 30, 2020. The District was a participant in the PRIME program.

The Quality Incentive Pool ("QIP") was implemented in 2019 as a result of new requirements in the federal Centers for Medicare & Medicaid Services' ("CMS") Medicaid and CHIP Managed Care Final Rule. QIP, a pay-for-performance program for California's public health care systems, converts funding from previously existing supplemental payments into a value-based structure, meeting the rule's option that allows quality-based payments. QIP payments are tied to the achievement of performance on measures that assess the quality of care provided to Medi-Cal managed care enrollees.

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Management's Discussion and Analysis  
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For three years, from mid-2017 to mid-2020, QIP existed in parallel with PRIME. With the expiration of PRIME in June 2020, California had the opportunity to redesign QIP to integrate successful components from PRIME and the first few years of QIP. CMS approved a transitional program period from July to December 2020 that allowed the existing PRIME measures and critical funding to continue through December 2020 under the auspices of QIP. The purpose of this transitional period was to maintain performance improvement efforts and funding for public health care systems while a new structure and measures for QIP were identified and approved. The new QIP design began January 1, 2021, and the District is now a participant in QIP.

**Cautionary Note Regarding Forward-Looking Statements**

Certain information provided by the District, including written as outlined above or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events, or developments that the District expects or anticipates will or may occur in the future, contain forward-looking information.

**Statistical Analysis**

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<b>Acute</b>			
Admissions	1,504	1,488	1,475
Length of stay	3.24	3.73	3.67
Average daily census	13.34	15.22	14.81
Occupancy percentage	46%	52%	51%
Patient days	4,868	5,554	5,407
Total ICU days	1,012	1,447	1,531
Total medical/surgical days	2,499	2,936	2,720
Total obstetrics days	1,357	1,171	1,034
Total swing days	287	408	122
Nursery days	488	623	546
Deliveries	375	366	331
<b>Skilled nursing units</b>			
Patient days	9,422	7,473	8,496
Average daily census	25.81	20.47	23.28
Occupancy percentage	70%	55%	63%
<b>Outpatient</b>			
Emergency department visits	14,808	13,700	12,291
Surgical cases	1,998	2,032	2,247
Laboratory tests	169,697	170,571	151,166
Nuclear medicine	351	367	384
MRI	2,479	2,751	2,688
Ultrasounds	4,476	4,174	4,250
CAT scans	7,890	7,177	6,379
Diagnostic imaging & mammography	17,196	16,399	14,465
Medical oncology procedures	10,448	11,381	9,639
Radiation oncology procedures	5,862	5,816	6,902
PET CTs	418	400	375

**Combined Financial Statements  
as of and for the Years Ended June 30, 2023 and 2022**

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**Tahoe Forest Hospital District  
Combined Statements of Net Position  
June 30, 2023 and 2022**

	2023		2022 (As restated)	
	Tahoe Forest Hospital District	Truckee Surgery Center, LLC	Tahoe Forest Hospital District	Truckee Surgery Center, LLC
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 32,011,691	\$ 145,124	\$ 25,418,950	\$ 233,298
Patient accounts receivable, net of allowances for doubtful accounts of \$11,536,780 and \$70,877 in 2023 and \$9,901,616 and \$103,209 in 2022	48,554,943	268,672	41,866,438	424,536
Other receivables	16,676,986	19,719	14,271,296	-
Assets limited as to use - required for current liabilities	10,301,387	-	10,003,370	-
Estimated amounts due from third-party payors	4,605,043	-	3,042,312	-
Inventories	5,275,644	-	4,469,265	-
Prepaid expenses and deposits	3,593,663	15,952	2,661,331	164,396
Total current assets	121,019,357	449,467	101,732,962	822,230
Assets limited as to use, net of current	109,616,744	-	128,713,679	-
Investments	6,261,725	-	-	-
Right-to-use assets, net of accumulated amortization	8,114,777	-	9,151,929	-
Subscription assets, net of accumulated amortization	30,684,471	-	26,804,688	-
Capital assets				
Nondepreciable	23,854,856	-	28,115,599	-
Depreciable, net of accumulated depreciation	175,100,511	915,643	160,424,964	833,318
	198,955,367	915,643	188,540,563	833,318
Other assets				
Beneficial interest in trusts	1,875,202	-	1,753,645	-
Other noncurrent receivables	747,334	20,256	988,581	20,256
Total assets	477,274,977	1,385,366	457,686,047	1,675,804
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred loss on defeasance, net	4,753,824	-	5,069,219	-
Accumulated decrease in fair value of hedging derivative	262,970	-	660,160	-
Total deferred outflows of resources	5,016,794	-	5,729,379	-
<b>LIABILITIES</b>				
Current liabilities				
Current maturities of long-term debt and capital lease obligations	5,336,573	-	5,974,499	-
Current maturities of lease liabilities	1,552,009	-	1,565,219	-
Current maturities of subscription liabilities	3,274,127	-	2,707,191	-
Accounts payable and accrued expenses	9,888,363	40,722	12,213,152	46,977
Accrued payroll and related expense	29,020,029	67,617	26,126,668	43,075
Medicare accelerated payments	-	-	5,563,499	-
Estimated claims incurred but not reported	8,597,247	-	7,253,703	-
Other accrued expenses	64,630	1,915	59,388	3,416
Accrued interest	1,775,858	-	1,859,100	-
Total current liabilities	59,508,836	110,254	63,322,419	93,468
Long-term debt and capital lease obligations, less current maturities	112,774,811	-	118,299,002	-
Lease liabilities, less current maturities	6,949,977	-	7,874,186	-
Subscription liabilities, less current maturities	28,482,161	-	24,658,076	-
Derivative instrument liability	262,970	-	660,160	-
Total liabilities	207,978,755	110,254	214,813,843	93,468
<b>NET POSITION</b>				
Net investment in capital assets	90,457,965	-	74,154,611	-
Restricted - expendable	7,729,496	-	6,018,697	-
Restricted - nonexpendable	603,984	-	598,484	-
Unrestricted	175,521,571	1,275,112	167,829,791	1,582,336
Total net position	\$ 274,313,016	\$ 1,275,112	\$ 248,601,583	\$ 1,582,336

**Tahoe Forest Hospital District**  
**Combined Statements of Revenues, Expenses, and Changes in Net Position**  
**For the Years Ended June 30, 2023 and 2022**

	2023		2022 (As restated)	
	Tahoe Forest Hospital District	Truckee Surgery Center, LLC	Tahoe Forest Hospital District	Truckee Surgery Center, LLC
Operating revenues				
Net patient service revenue (net of provision for bad debts of \$10,402,441 and \$90,564 in 2023 and \$11,803,996 and \$15,119 in 2022)	\$ 284,394,172	\$ 1,310,165	\$ 263,836,447	\$ 1,790,670
Other operating revenue	16,288,920	-	13,979,271	-
Total operating revenues	<u>300,683,092</u>	<u>1,310,165</u>	<u>277,815,718</u>	<u>1,790,670</u>
Operating expenses				
Salaries and wages	122,564,147	905,986	99,484,586	794,550
Employee benefits	61,460,687	158,784	48,215,159	110,427
Professional fees	8,642,051	11,736	18,847,495	8,200
Supplies	42,661,991	500,069	36,924,954	483,199
Purchased services	24,712,518	71,941	22,207,993	68,802
Depreciation and amortization	19,757,056	94,421	18,208,730	47,835
Insurance	3,044,647	640	2,466,951	4,944
Other	8,914,447	654,202	7,685,109	431,077
Total operating expenses	<u>291,757,544</u>	<u>2,397,779</u>	<u>254,040,977</u>	<u>1,949,034</u>
Income (loss) from operations	<u>8,925,548</u>	<u>(1,087,614)</u>	<u>23,774,741</u>	<u>(158,364)</u>
Nonoperating revenues (expenses)				
Property tax revenue	10,215,129	-	9,150,835	-
Property tax revenue - general obligation bonds	5,707,806	-	5,568,851	-
Contributions, net	4,825,343	-	4,128,543	-
Interest income	1,628,402	-	692,919	-
Rental income	912,517	-	669,658	-
Gain on disposal of assets	-	-	36,801	-
Interest expense	(5,803,942)	-	(6,017,891)	-
Net increase (decrease) in the fair value of investments	365,148	-	(3,514,449)	-
Other nonoperating (loss) income	(284,236)	108	(1,078,835)	151
Total nonoperating revenues	<u>17,566,167</u>	<u>108</u>	<u>9,636,432</u>	<u>151</u>
Income (loss) before other revenue, expenses, gains, and losses	<u>26,491,715</u>	<u>(1,087,506)</u>	<u>33,411,173</u>	<u>(158,213)</u>
Capital transfers	<u>(780,282)</u>	<u>780,282</u>	<u>(561,345)</u>	<u>561,345</u>
Increase (decrease) in net position	<u>25,711,433</u>	<u>(307,224)</u>	<u>32,849,828</u>	<u>403,132</u>
Net position, beginning of year	<u>248,601,583</u>	<u>1,582,336</u>	<u>215,751,755</u>	<u>1,179,204</u>
Net position, end of year	<u>\$ 274,313,016</u>	<u>\$ 1,275,112</u>	<u>\$ 248,601,583</u>	<u>\$ 1,582,336</u>

# Tahoe Forest Hospital District

## Combined Statements of Cash Flows

### For the Years Ended June 30, 2023 and 2022

	2023		2022 (As restated)	
	Tahoe Forest Hospital District	Truckee Surgery Center, LLC	Tahoe Forest Hospital District	Truckee Surgery Center, LLC
<b>Cash flows from operating activities</b>				
Cash received from patients and third-party payors	\$ 276,142,936	\$ 1,466,029	\$ 247,998,380	\$ 1,724,324
Cash received from other sources	13,949,718	(19,611)	12,709,101	151
Medicare accelerated payments	(5,563,499)	-	(13,488,695)	-
Cash paid to suppliers for goods and services	(92,033,912)	(1,097,900)	(83,847,686)	(1,069,331)
Cash paid to employees for services	(180,326,964)	(1,040,228)	(146,511,621)	(886,331)
Net cash provided by (used in) operating activities	12,168,279	(691,710)	16,859,479	(231,187)
<b>Cash flows from noncapital financing activities</b>				
Property tax revenues	10,299,153	-	9,208,465	-
Noncapital grants and contributions, net of other expenses	5,205,332	-	3,814,620	-
Net cash provided by noncapital financing activities	15,504,485	-	13,023,085	-
<b>Cash flows from capital and related financing activities</b>				
Purchase of capital assets	(25,265,931)	(176,746)	(26,453,097)	(123,713)
Proceeds from sale of capital assets	-	-	189,291	-
Payments on general obligation bonds	(3,532,659)	-	(3,253,117)	-
Interest payments on general obligation bonds	(3,348,156)	-	(3,348,156)	-
Payments on long-term debt and capital leases	(2,441,841)	-	(2,365,019)	-
Interest payments on long-term debt and capital leases	(1,081,954)	-	(1,174,212)	-
Payments on lease liabilities	(1,587,767)	-	(1,349,398)	-
Interest payments on lease liabilities	(176,565)	-	(169,462)	-
Payments on subscription liabilities	(2,707,191)	-	(2,284,610)	-
Interest payments on subscription liabilities	(1,280,509)	-	(1,259,487)	-
Property tax revenue received for general obligation bonds	5,685,072	-	5,658,257	-
Capital transfer from Tahoe Forest Hospital District	-	780,282	-	561,345
Net cash (used in) provided by capital and related financing activities	(35,737,501)	603,536	(35,809,010)	437,632
<b>Cash flows from investing activities</b>				
Purchases of investments related to assets limited as to use	(78,189,514)	-	(84,020,380)	-
Sales of investments related to assets limited as to use	91,091,855	-	23,270,926	-
Interest received	1,628,402	-	692,919	-
Net cash received for rental activities	912,517	-	669,658	-
Purchases of investments in beneficial interest in trusts	(5,500)	-	(4,400)	-
Investment in Truckee Surgery Center, LLC	(780,282)	-	(561,345)	-
Net cash provided by (used in) investing activities	14,657,478	-	(59,952,622)	-
<b>Net change in cash and cash equivalents</b>	6,592,741	(88,174)	(65,879,068)	206,445
Cash and equivalents, beginning of year	25,418,950	233,298	91,298,018	26,853
<b>Cash and equivalents, end of year</b>	\$ 32,011,691	\$ 145,124	\$ 25,418,950	\$ 233,298

**Tahoe Forest Hospital District  
Combined Statements of Cash Flows (Continued)  
For the Years Ended June 30, 2023 and 2022**

	2023		2022 (As restated)	
	Tahoe Forest Hospital District	Truckee Surgery Center, LLC	Tahoe Forest Hospital District	Truckee Surgery Center, LLC
Reconciliation of income (loss) from operations to net cash from operating activities				
Income (loss) from operations	\$ 8,925,548	\$ (1,087,614)	\$ 23,774,741	\$ (158,364)
Adjustments to reconcile income (loss) from operations to net cash from operating activities:				
Depreciation and amortization	19,757,056	94,421	18,208,730	47,835
Amortization of bond premiums/discounts and bond issuance costs	(187,617)	-	(187,616)	-
Provision for doubtful accounts	10,402,441	90,564	11,803,966	15,119
Change in assets and liabilities:				
Patient accounts receivable, net	(17,090,946)	65,300	(17,896,419)	(81,465)
Other receivables	(2,466,980)	(19,719)	(1,397,950)	-
Inventories	(806,379)	-	(179,343)	-
Prepaid expenses and deposits	(932,332)	148,444	(433,148)	(96,333)
Other noncurrent receivables	(539,035)	-	(680,674)	-
Deferred loss on defeasance, net	315,395	-	315,396	-
Accounts payable and accrued expenses	(2,324,789)	(6,255)	4,847,277	24,716
Accrued payroll and related expense	2,893,361	24,542	1,903,899	18,646
Medicare accelerated payments	(5,563,499)	-	(13,488,695)	-
Estimated claims incurred but not reported	1,343,544	-	(35,101)	-
Estimated amounts due to third-party payors	(1,562,731)	-	(9,745,614)	-
Other accrued expenses	5,242	(1,393)	50,030	(1,341)
Total adjustments	3,242,731	395,904	(6,915,262)	(72,823)
Net cash provided by (used in) operating activities	\$ 12,168,279	\$ (691,710)	\$ 16,859,479	\$ (231,187)
Supplemental disclosure of noncash investing and financing activities:				
Gain on disposal of capital assets	\$ -	\$ -	\$ (36,801)	\$ -
Change in fair value of beneficial interest in trusts	\$ 116,057	\$ -	\$ (203,567)	\$ -
Change in fair value of assets limited as to use and investments	\$ 365,148	\$ -	\$ (3,514,449)	\$ -
Noncash acquisition of right-to-use assets	\$ 650,348	\$ -	\$ -	\$ -
Noncash acquisition of subscription assets	\$ 7,098,212	\$ -	\$ -	\$ -



# Tahoe Forest Hospital District

## Notes to Combined Financial Statements

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies applied in the preparation of the accompanying combined financial statements follows:

**Reporting entity** – Tahoe Forest Hospital District (the “District”) is a political subdivision of the State of California. The District was established in 1949 under the provisions of Local Health Care District Law as set forth in the Health and Safety Code of the State of California. The District operates Tahoe Forest Hospital in Truckee, California, and Incline Village Community Hospital in Incline Village, Nevada, which provide health care services to residents of the surrounding communities and visitors to the area. The District derives a significant portion of revenue from third-party payors, including Medicare, Medi-Cal, and commercial insurance organizations.

The District includes the following component units, which are included as blended component units of the District’s combined financial statements: Tahoe Forest Health System Foundation (the “TFHSF”), Incline Village Community Hospital Foundation (the “IVCHF”), collectively (the “Foundations”), Tahoe Institute for Rural Health Research (the “Institute”), and TIRHR, LLC (“TIRHR”). The Institute is a nonprofit public benefit corporation and is not organized for the private gain of any person. The purposes for which the Institute is formed are for scientific research. The Institute, as a tax-exempt, nonprofit public corporation, was ill-suited to pursue proposals for support that hinged on participation by private persons in future profit. Therefore, TIRHR, a for-profit, was formed in order that research programs that the Institute was pursuing, and that were identified as potentially suitable for private investment, could be transferred. The Truckee Surgery Center, LLC (the “TSC”), is organized and operated for the purpose of owning and lawfully operating the facility as a Medicare certified ambulatory surgery center that principally performs musculoskeletal surgery and related anesthesia services, all consistent with the purposes of the District of furthering the health care services of the surrounding communities and visitors to the area. TSC is included in the District’s combined financial statements as a discretely presented component unit.

In October 2018, the District entered into a Membership Purchase Agreement with TSC to purchase an additional 48% membership interest in TSC for \$451,785, which resulted in the District owning a 99% membership interest in TSC. In fiscal years 2023 and 2022, the District advanced \$780,282 and \$561,345 respectively, to TSC.

The District maintains its financial records in conformity with guidelines set forth by Local Health Care District Law and the Office of Statewide Health Planning and Development of the State of California.

**Basis of preparation** – The combined financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable statements of the Governmental Accounting Standards Board (“GASB”). The proprietary fund method of accounting is followed and uses the economic resources measurement focus and the accrual basis of accounting. In addition, these statements follow generally accepted accounting principles applicable to the health care industry, which are included in the American Institute of Certified Public Accountants’ Audit and Accounting Guide, *Health Care Entities*, to the extent that these principles do not contradict GASB standards.

The Foundations are not-for-profit public benefit corporations that report under Financial Accounting Standards Board standards, *Topic 958*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the combined financial statements for these differences.

## Tahoe Forest Hospital District Notes to Combined Financial Statements

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**Accounting standards** – Pursuant to GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (“FASB”) and American Institute of Certified Public Accountants (“AICPA”) Pronouncements*, the District’s proprietary fund accounting and financial reporting practices are based on all applicable GASB pronouncements, as well as codified pronouncements issued on or before November 30, 1989, and the California Code of Regulations, Title 2, Section 1131.2, State Controller’s *Minimum Audit Requirements* for California Special Districts and the State Controller’s Office prescribed reporting guidelines.

**Use of estimates** – The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amount of revenues and expenses during the reporting period. Major items requiring estimates and assumptions include net patient service revenue, allowance for contractual and doubtful accounts receivable, amounts due to or from third-party payors, uninsured losses for medical malpractice liabilities, liabilities for workers’ compensation claims, right-to-use lease assets and liabilities, subscription assets and liabilities, and useful lives of capital assets. Actual results could differ from those estimates.

**Cash and cash equivalents** – The District considers cash and cash equivalents to include cash on deposit and investments in highly liquid debt instruments with an initial maturity of three months or less, excluding amounts whose use is limited by board designation or other arrangements. Cash and cash equivalents also include investments in the Local Agency Investment Fund (“LAIF”), the State Treasurer’s pooled investment program and values participants’ shares on an amortized cost basis.

**Assets limited as to use** – Assets limited as to use consist principally of short-term money market funds, certificates of deposit, LAIF, and U.S. government and corporate fixed income securities, which are recorded at fair value. Certain assets have been designated by the Board of Directors for replacement or purchases of capital assets, and other specific purposes, and amounts held by trustees in accordance with the indentures relating to long-term debt. Amounts required to meet current liabilities of the District are included in current assets.

Investment income or loss (including realized gains and losses on investments, interest, and dividends) are included in the increase in unrestricted net position unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are included as the net increase (decrease) in the fair value of investments and reported in the accompanying combined statements of revenues, expenses, and changes in net position. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

**Patient accounts receivable, net** – Patient accounts receivable consist of amounts owed by various governmental agencies, insurance companies, and private patients. The District manages its receivables by regularly reviewing the accounts, inquiring with respective payors as to collectability, and providing for allowances in its accounting records for estimated contractual adjustments and doubtful accounts. Significant concentrations of patient accounts receivable are discussed further in the footnotes.

**Inventories** – Inventories are stated at the lower of cost or market. Cost is determined by the weighted-average, first-in, first-out method.

## Tahoe Forest Hospital District Notes to Combined Financial Statements

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**Beneficial interest in trusts** – The TFHSF entered into agreements with Tahoe Truckee Community Foundation (“TTCF”) to establish cancer care endowment funds with TTCF (the “TTCF Endowment”). The purpose of the TTCF Endowment is to help shape the future of cancer care and provide support to the communities served by TFHSF. The TTCF Endowment is protected from obsolescence in accordance with the provisions specified in the Articles of Incorporation and Bylaws creating the TTCF. Should the purposes for which the TTCF Endowment was created become obsolete or incapable of fulfillment, it is TTCF’s Board of Director’s responsibility, after contacting and being advised by the TFHSF, to revise the charitable intent of the remaining funds to use for a purpose similar to those set forth in the agreement.

The TFHSF has also been named a beneficiary under the terms of the Tahoe Forest Cancer Center General, Patient and Family, and Sustainability Grantmaking Funds (the “Funds”) administered by the TTCF. Under the terms of the agreement, distributions from the Funds shall be in accordance with the spending policy established by the Board of Directors of TTCF. Distributions shall be made annually or, as the parties may, from time to time, agree. Distributions in excess of TTCF’s spending policy may be made to the TFHSF in any year as determined by the Board of Directors of TTCF. The TFHSF may request, at any time, that TTCF disburse up to 100% of the Funds to the TFHSF. Such a request, however, is not binding on TTCF and may be accepted or rejected, in whole or in part, by TTCF at its sole and absolute discretion. At the establishment of the Funds, the TFHSF granted variance power to TTCF. That power gives TTCF the right to distribute the income and principal of the Funds to another not-for-profit organization of its choice if the TFHSF ceases to exist or if the governing board of TTCF votes that support of the TFHSF is no longer necessary or is inconsistent with the needs of TTCF. The TTCF Endowment and the Funds had a value of \$1,770,934 and \$1,664,641 as of June 30, 2023 and 2022, respectively, and is reported in the combined financial statements as beneficial interest in trusts.

The IVCHF entered into agreements with The Parasol Tahoe Community Foundation (“Parasol”) to establish endowment and improvement funds with Parasol (the “Parasol Endowment”). The purpose of the Parasol Endowment is to provide support to, or for the benefit of, the Foundation and its activities in pursuit of its mission to deliver optimal health care services in the communities served by Incline Village Community Hospital. The Parasol Endowment is protected from obsolescence in accordance with the provisions specified in the Articles of Incorporation and Bylaws creating Parasol. Should the purposes for which the Parasol Endowment was created become obsolete or incapable of fulfillment, it is Parasol’s Board of Director’s responsibility, after contacting and being advised by the Foundation, to revise the charitable intent of the remaining funds to use for a purpose similar to those set forth in the agreement. The Parasol Endowment had a value of \$104,268 and \$89,004 as of June 30, 2023 and 2022, respectively, and is reported in the combined financial statements as beneficial interest in trusts.

The Foundations’ interest in the TTCF Endowment, the Fund, and the Parasol Endowment assets are recorded in the accompanying combined statements of revenues, expenses, and changes in net position. The change in fair value attributable to the interests of the Foundations are recorded in other nonoperating revenues in the accompanying combined statements of revenues, expenses, and changes in net position. This change in fair value may include community or donor gifts to the TTCF Endowment, the Fund, and the Parasol Endowment, investment results, and distributions from the TTCF Endowment, the Fund, and the Parasol Endowment.

## Tahoe Forest Hospital District Notes to Combined Financial Statements

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**Capital assets** – Capital assets consist of property and equipment and are reported on the basis of cost, or in the case of donated items, on the basis of fair market value at the date of donation. All purchased capital assets are valued at cost when historical records are available and at an estimated historical cost when no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Construction-in-progress includes capitalized interest costs of related borrowings, net of interest earned on unspent proceeds of the related borrowings. It is the policy of the District to capitalize equipment costing more than \$1,500. Costs of assets sold or retired are removed from the accounts in the year of sale or retirement, with any gain or loss included in the operating statements.

The District periodically evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Impairment losses on capital assets are measured using the method that best reflects the diminished service utility of the capital asset. There were no impairment losses in 2023 and 2022.

Depreciation of capital assets and amortization of capital assets under capital leases are computed by the straight-line method for both financial reporting and cost reimbursement purposes over the estimated useful lives of the assets, which range from 2 to 40 years for land improvements, 5 to 40 years for buildings and improvements, and 3 to 20 years for equipment and software.

Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase values, change capacities, or extend useful lives are capitalized.

**Right-to-use assets** – The District has recorded right-to-use lease assets as a result of implementing GASB Statement No. 87, *Leases*. The right-to-use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right-to-use assets are amortized on a straight-line basis over the life of the related lease.

**Subscription assets** – The District has recorded subscription assets as a result of implementing GASB No. 96, *Subscription-Based Information Technology Arrangements*. The subscription assets are initially measured at an amount equal to the initial measurement of the related subscription liability plus any contract payments made to the subscription-based information technology arrangements (“SBITA”) vendor at the commencement of the subscription term, capitalizable initial implementation cost, less any incentive payments received from the SBITA vendor at the commencement of the subscription term. The subscription assets are amortized on a straight-line basis over the shorter of the subscription term or the useful life of the underlying assets.

**Capitalized interest** – Interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no interest cost capitalized for the years ended June 30, 2023 and 2022.

**Deferred loss on defeasance** – The deferred loss on defeasance of the 1999 Series B Bonds is amortized using the straight-line method over the life of the bonds. The original amount of deferred loss on defeasance is \$769,305. Accumulated amortization as of June 30, 2023 and 2022, was \$497,783 and \$458,995, respectively. Amortization expense for each of the years ended June 30, 2023 and 2022, was \$38,788; and is estimated to be \$38,788 for each of the next five years.

## Tahoe Forest Hospital District Notes to Combined Financial Statements

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The deferred gain on defeasance of the Series 2006 Revenue bonds is amortized using the straight-line method over the life of the bonds. The original amount of deferred gain on defeasance is \$141,300. Accumulated amortization as of June 30, 2023 and 2022, was \$62,800 and \$54,950, respectively. Amortization income for each of the years ended June 30, 2023 and 2022, was \$7,850; and is estimated to be \$7,850 for each of the next five years.

The deferred loss on defeasance of the Series A (2008) General Obligation Bonds is amortized using the effective-interest method over the life of the bonds. The original amount of deferred loss on defeasance is \$2,016,320. Accumulated amortization as of June 30, 2023 and 2022, was \$733,208 and \$641,557, respectively. Amortization expense for each of the years ended June 30, 2023 and 2022, was \$91,651; and is estimated to be \$91,651 for each of the next five years.

The deferred loss on defeasance of the Series B (2010) General Obligation Bonds is amortized using the effective-interest method over the life of the bonds. The original amount of deferred loss on defeasance is \$4,627,331. Accumulated amortization as of June 30, 2023 and 2022, was \$1,349,636 and \$1,156,830, respectively. Amortization expense for each of the years ended June 30, 2023 and 2022, was \$192,806; and is estimated to be \$192,806 for each of the next five years.

There was no significant gain or loss on defeasance of the Series 2002 Revenue Bonds with the Series 2017 Revenue Bonds.

There was no significant gain or loss on defeasance of the Series C (2012) General Obligation Bonds with the 2019 General Obligation Bonds.

**Deferred outflows of resources** – In addition to assets, the combined statements of net position include a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and, as such, will not be recognized as an outflow of resources (expense/expenditures) until that time. The District has two items that qualify for reporting in this category, which are the net deferred loss on defeasance and accumulated decrease in fair value of hedging derivatives reported in the combined statement of net position. A deferred loss on refunding results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter life of the refunded or refunding debt.

**Compensated absences** – The District's employees earn paid time off ("PTO") and sick leave benefits at varying rates depending on hours worked and years of service. For most employees, PTO benefits can accumulate up to the maximum of 240 hours. Employees are paid for accumulated PTO either upon termination or retirement. Sick leave is accumulated indefinitely at a maximum of 48 hours and is not vested with the employee upon termination or retirement. Accrued PTO and sick leave liabilities included in accrued payroll and related expense as of June 30, 2023 and 2022, were \$6,658,981 and \$5,898,101, respectively.

## Tahoe Forest Hospital District Notes to Combined Financial Statements

The following is a summary of changes in compensated absences transactions for the years ended June 30,

	Balance as of July 1, 2022	Increases	Decreases	Balance as of June 30, 2023	Current Portion
Compensated absences	\$ 5,898,101	\$ 759,972	\$ 2,546	\$ 6,655,527	\$ 6,655,527
	Balance as of July 1, 2021	Increases	Decreases	Balance as of June 30, 2022	Current Portion
Compensated absences	\$ 5,647,345	\$ 269,704	\$ 18,948	\$ 5,898,101	\$ 5,898,101

**Lease liabilities** – The District recognizes lease contracts or equivalents that have a term exceeding one year and that meet the definition of an other than short-term lease. The District uses a discount rate that is explicitly stated or implicit in the contract. When a readily determinable discount rate is not available, the discount rate is determined using the District’s incremental borrowing rate at start of the lease for a similar asset type and term length to the contract. Short-term lease payments are expensed when incurred.

The following is a summary of changes in lease liabilities, net for the years ended June 30:

	Balance as of July 1, 2022	Increases	Decreases	Balance as of June 30, 2023	Current Portion
Lease liabilities	\$ 9,439,405	\$ 650,348	\$ 1,587,767	\$ 8,501,986	\$ 1,552,009
	Balance as of July 1, 2021	Increases	Decreases	Balance as of June 30, 2022	Current Portion
Lease liabilities	\$ 6,621,083	\$ 4,167,720	\$ 1,349,398	\$ 9,439,405	\$ 1,565,219

**Subscription liabilities** – The District entered into various agreements for IT subscriptions. These agreements range in terms up to year 2033. Total subscription payments were \$2,707,191 and \$2,284,610 for fiscal years 2023 and 2022, respectively. Variable payments based upon the use of the underlying IT asset are not included in the subscription liability because they are not fixed in substance — therefore, these payments are not included in subscription assets or subscription liabilities. There were no variable subscription expenses or payments in the fiscal years ended June 30, 2023 and 2022. The District did not enter into any additional subscription agreements that have yet to commence as of June 30, 2023.

The District recognizes contracts or equivalents that have a term exceeding one year and the cumulative future payments on the contract exceeding \$100,000 that meet the definition of an other than short-term subscription. The District uses a discount rate that is explicitly stated or implicit in the contract. When a readily determinable discount rate is not available, the discount rate is determined using the District’s incremental borrowing rate at start of the subscription for a similar asset type and term length to the contract. Short-term subscription payments are expensed when incurred.

## Tahoe Forest Hospital District Notes to Combined Financial Statements

The following is a summary of changes in subscription liabilities, net for the years ended June 30:

	Balance as of July 1, 2022 (As restated)	Increases	Decreases	Balance as of June 30, 2023	Current Portion
Subscription liabilities	\$ 27,365,267	\$ 7,098,212	\$ 2,707,191	\$ 31,756,288	\$ 3,274,127
	Balance as of July 1, 2021	Increases	Decreases	Balance as of June 30, 2022 (As restated)	Current Portion
Subscription liabilities	\$ 29,649,877	\$ -	\$ 2,284,610	\$ 27,365,267	\$ 2,707,191

**Net position** – The net position of the District is comprised of net investment in capital assets, restricted - expendable, restricted - nonexpendable, and unrestricted net positions.

**Net investment in capital assets** – Net investment in capital assets represents investments in all capital assets (land, construction in progress, land improvements, building and building improvements, and equipment), net of depreciation/amortization, less any debt issued to finance those capital assets.

**Restricted - expendable** – The restricted - expendable net position is restricted through external constraints imposed by creditors, grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation, and includes assets in self-insurance trust funds, revenue bond reserve fund assets, and net position restricted to use by donors.

**Restricted - nonexpendable** – The restricted - nonexpendable net position is equal to the principal portion of permanent endowments. The endowments remain intact, with unrestricted earnings on such funds available for use as expendable assets.

**Unrestricted** – Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets, restricted - expendable, or restricted - nonexpendable.

**Statements of revenues, expenses, and changes in net position** – All revenues and expenses directly related to the delivery of health care services are included in operating revenues and operating expenses in the combined statement of revenues, expenses, and changes in net position. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or investment return.

**Net patient service revenues** – Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Delinquent patient accounts are recorded as bad debts and transferred for collection. Recoveries are recorded, net of recovery costs estimated, as an increase to net patient service revenue.

## Tahoe Forest Hospital District Notes to Combined Financial Statements

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**Charity care** – The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The District accepts all patients regardless of their ability to pay. Partial payments to which the District is entitled from public assistance programs on behalf of patients that meet the District's charity care criteria are reported as patient service revenue. Charity care, which is excluded from recognition as receivables or revenue in the combined financial statements, is measured on the basis of uncompensated cost. The gross charges excluded from net patient service revenue under the District's charity care policy were, \$3,420,814 and \$13,477,214 for the years ended June 30, 2023 and 2022, respectively. Using the District's Medicare cost to charge ratio, the estimated cost of these charges was \$1,567,872 and \$6,055,824 for the years ended June 30, 2023 and 2022, respectively.

**Property tax revenues** – Property taxes are levied by Nevada and Placer Counties on the District's behalf during the year, and are intended to help finance the District's activities during the same year. The amount of property tax received is dependent upon the assessed real property valuation, as determined by Nevada and Placer Counties Assessors. Nevada and Placer Counties have established certain dates to levy, lien, mail bills, and receive payments from property owners during the year. Property taxes are considered delinquent on the day following each payment due date. These funds are used to support the general maintenance and operation of the District, including charity care and uncompensated care programs, and to service the debt on the general obligation bonds. The District received approximately 5% of its financial support from property taxes for the years ended June 30, 2023 and 2022, exclusive of property taxes received to pay principal and interest payments of the general obligation bonds.

**CARES Act grant and Medicare accelerated payments** – On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by the novel coronavirus, a pandemic. Management is closely monitoring the evolution of this pandemic, including how it may affect operations and the general population. Management has not yet determined the full financial impact of these events. Centers for Medicare and Medicaid Services ("CMS") distributed \$50 billion of the \$100 billion in the form of grants to hospitals.

The District received approximately \$0 and \$100,000 of provider relief funds for the years ended June 30, 2023 and 2022, respectively. The District 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 used for health care related expenses or lost revenue attributable to the coronavirus, limitations of out of pocket payments from certain patients, and the acceptance of several other reporting and compliance requirements. Refunding of amounts received may be required by the CARES Act grant if a receiving entity is unable to quantify the financial losses intended to be covered by the provider relief funds. For the year ended June 30, 2022, the District determined that it had not met all of the terms and conditions of the CARES Act grant, and accordingly, recognized a refundable advance of approximately \$100,000 of provider relief funds, included in estimated amounts due to third-party payors in the combined statements of net position and other nonoperating (loss) income in the combined statements of revenues, expenses, and changes in net position. There were no provider relief funds recognized for the year ended June 30, 2023.



## Tahoe Forest Hospital District

### Notes to Combined Financial Statements

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Separately, CMS initiated an Accelerated Payment Program to hospitals. The accelerated payments represent advance payments for services to be provided and were based on a hospital's historical Medicare volume. In April 2020, the District received \$20,380,537 in accelerated payments. CMS began recoupment of these accelerated payments in April 2021 and will continue to recoup the accelerated payments from billings for services rendered until they are fully repaid. Any accelerated payments still open after 29 months from receipt will be charged interest at 4%. As of June 30, 2023 and 2022, the District had \$0 and \$5,563,499, respectively, in accelerated payments, included in Medicare accelerated payments in the combined statements of financial position.

**Risk management** – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters.

The District participates in a risk management authority for comprehensive liability self-insurance. The District is also partially self-insured for employee health insurance and workers' compensation insurance, up to certain stop-loss limits. The District estimates liabilities for claims incurred but not reported based on historical claims' activity. Paid claims, estimated losses, and changes in reserves are expensed in the current period. These self-insurance programs are more fully described in Note 9.

**Income taxes** – The District operates under the purview of the Internal Revenue Code ("IRC"), Section 115, and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to state or federal taxes on income.

The Foundations are exempt from federal income tax under Section 501(c)(3) of the IRC. TFHSF is also exempt under Section 23701d of the California Franchise Tax Board except to the extent of unrelated business taxable income as defined under IRC Sections 511 through 515. The Foundations have not entered into any activities that would jeopardize its tax-exempt status. Therefore, no provision for income taxes is required.

**Reclassifications** – Certain reclassifications have been made to the 2022 financial statements to conform to the 2023 financial statement presentation. These reclassifications had no effect on the changes in net position.

**New accounting pronouncements** – In May 2020, the GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* ("GASB 96"). GASB 96 establishes a uniform accounting and financial reporting requirement for SBITAs in order to improve the comparability of financial statements among governments that have entered into SBITAs and enhance the understandability, reliability, and consistency of information about SBITAs. GASB 96 is effective for reporting periods beginning after June 15, 2022. The District adopted GASB 96 as of July 1, 2022, applied retrospectively. The District calculated and recognized subscription assets, net of \$26,804,688 and subscription liabilities of \$27,365,267 as of July 1, 2022. The impact to beginning net position was not significant. See Note 14 for disclosure of SBITAs and Note 15 for restatement.

In June 2022, the GASB also issued GASB Statement No. 101, *Compensated Absences* ("GASB 101"). GASB 101 establishes standards of accounting and financial reporting for compensated absences and associated salary-related payments, including certain defined contribution pensions and defined contribution other postemployment benefits. GASB 101 is effective for reporting periods beginning after December 15, 2023. The District is currently assessing the impact of this standard on the District's combined financial statements.

**NOTE 2 – NET PATIENT SERVICE REVENUE**

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

*Medicare:* Payments for inpatient acute care services rendered to Medicare program beneficiaries are based on prospectively determined rates, which vary according to the patient diagnostic classification system. Outpatient services are generally paid under an outpatient classification system subject to certain limitations. Certain reimbursement areas are still subject to final settlement that are determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. At June 30, 2023, Tahoe Forest Hospital and Incline Village Community Hospital cost reports through June 30, 2019, and June 30, 2021, respectively, have been audited or otherwise final settled.

*Medi-Cal:* Prior to July 1, 2013, inpatient acute care services rendered to Medi-Cal program beneficiaries were reimbursed under a cost reimbursement methodology; however, the District is also subject to per discharge limits. The District was paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by Medi-Cal. Per discharge limits for the District have been determined by Medi-Cal through June 30, 2011. Beginning on July 1, 2013, inpatient acute care services were rendered to Medi-Cal program beneficiaries under a diagnostic related group (“DRG”) methodology. Under this methodology, similar to Medicare, services are paid at prospectively determined rates per discharge according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient skilled nursing care services rendered to Medi-Cal program beneficiaries are reimbursed at prospectively determined per diem rates. Outpatient services rendered to Medi-Cal program beneficiaries are reimbursed based on prospectively determined fee schedules. At June 30, 2023, Tahoe Forest Hospital and Incline Village Community Hospital cost reports through June 30, 2021, have been audited or otherwise final settled.

*Other:* Payments for services rendered to other than Medicare and Medi-Cal program beneficiaries are based on established rates or on agreements with certain commercial insurance companies, health maintenance organizations, and preferred provider organizations that provide for various discounts from established rates.

## Tahoe Forest Hospital District Notes to Combined Financial Statements

Net patient service revenue is comprised of the following for the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Daily hospital service	\$ 37,396,859	\$ 41,151,149
Inpatient ancillary services	45,085,271	53,970,304
Outpatient services	<u>482,205,164</u>	<u>422,018,506</u>
Gross patient service revenues	564,687,294	517,139,959
Less contractual allowances and provision for doubtful accounts	<u>(280,293,122)</u>	<u>(253,303,512)</u>
Net patient service revenue at Tahoe Forest Hospital District	<u>284,394,172</u>	<u>263,836,447</u>
Net patient service revenue at Truckee Surgery Center, LLC	<u>1,310,165</u>	<u>1,790,670</u>
Total net patient service revenue	<u>\$ 285,704,337</u>	<u>\$ 265,627,117</u>

Gross patient service revenue, before any provision for bad debts, summarized by payor is as follows, for the years ended June 30:

	<u>2023</u>	<u>2022</u>
Commercial	46%	45%
Medicare	38%	37%
Medi-Cal	14%	16%
Others	<u>2%</u>	<u>2%</u>
Total	<u>100%</u>	<u>100%</u>

Medicare and Medi-Cal revenue accounts for a large percentage of the District's gross patient revenues for each year. Laws and regulations governing the Medicare and Medi-Cal programs are extremely 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.

Over five years, up to \$7.5 billion in combined federal and state funds will be available to participating entities from the Public Hospital Redesign and Incentives in Medi-Cal Program ("PRIME"), which is a successor program within the Medi-Cal waiver. As a result of participating in PRIME, the District recorded a receivable of \$3,311,464 and \$2,817,793 at June 30, 2023 and 2022, respectively. This program requires a qualitative assessment of certain metrics and is subject to future audits by CMS.

The District receives funds through the Assembly Bill 915 legislation through an intergovernmental transfer ("IGT"), where funds are put up by the District to be matched by the federal government. As a result of two of these IGT programs, the District recorded a receivable of \$10,871,879 at June 30, 2023, for funds related to fiscal years 2023 and 2022, and a receivable of \$10,236,259 at June 30, 2022, for funds related to fiscal years 2022 and 2021.

## Tahoe Forest Hospital District Notes to Combined Financial Statements

### NOTE 3 – CASH AND CASH EQUIVALENTS, ASSETS LIMITED AS TO USE, AND INVESTMENTS

The District has deposits held by various financial institutions in the form of operating cash and cash equivalents. All of these funds are held in deposits, which are collateralized in accordance with the California Government Code (“CGC”), except for \$250,000 per account that is federally insured. At June 30, 2023 and 2022, the District’s cash deposits had carrying amounts of \$32,011,691 and \$25,418,950, and bank balances of \$34,505,617 and \$30,122,845, respectively. All of these funds were held in cash deposits, which are collateralized with the California Government Code (“CGC”), except for \$250,000 per account that is federally insured by the Federal Deposit Insurance Corporation (“FDIC”).

The District is generally authorized, under state statute and local resolutions, to invest in demand deposits with financial institutions, savings accounts, certificates of deposit, U.S. Treasury securities, federal agency securities, State of California notes or bonds, notes or bonds of agencies within the State of California, obligations guaranteed by the Small Business Administration, bankers’ acceptances, commercial paper, and the LAIF.

As of June 30, 2023 and 2022, assets limited as to use and investments, at carrying value, consisted of the following:

	<b>2023</b>	<b>2022</b>
Assets limited as to use - required for current liabilities	\$ 10,301,387	\$ 10,003,370
Assets limited as to use, net of current	109,616,744	128,713,679
Investments	6,261,725	-
Total	\$ 126,179,856	\$ 138,717,049

As of June 30, 2023 and 2022, assets limited as to use and investments, at carrying value, have been set aside as follows:

	<b>2023</b>	<b>2022</b>
Board designated assets	\$ 113,584,253	\$ 132,353,640
Assets held by trustees	6,333,878	6,363,409
Unrestricted investments	6,261,725	-
Total	\$ 126,179,856	\$ 138,717,049

# Tahoe Forest Hospital District

## Notes to Combined Financial Statements

A summary of scheduled maturities by investment type at June 30, 2023 and 2022, were as follows:

Investment type	2023			
	Carrying Value	Investment Maturities (in years)		
		Less than 1	1 to 5	6 to 10+
Short-term money market	\$ 18,275,388	\$ 18,275,388	\$ -	\$ -
U.S. corporate fixed income securities	25,222,299	-	25,222,299	-
U.S. government fixed income securities	71,399,614	-	71,399,614	-
Local agency investment fund	11,282,555	11,282,555	-	-
<b>Total</b>	<b>\$ 126,179,856</b>	<b>\$ 29,557,943</b>	<b>\$ 96,621,913</b>	<b>\$ -</b>

  

Investment type	2022			
	Carrying Value	Investment Maturities (in years)		
		Less than 1	1 to 5	6 to 10+
Short-term money market	\$ 8,039,935	\$ 8,039,935	\$ -	\$ -
U.S. corporate fixed income securities	28,392,602	-	28,392,602	-
U.S. government fixed income securities	42,188,319	-	42,188,319	-
Certificates of deposit	4,483,448	4,483,448	-	-
Local agency investment fund	55,612,745	55,612,745	-	-
<b>Total</b>	<b>\$ 138,717,049</b>	<b>\$ 68,136,128</b>	<b>\$ 70,580,921</b>	<b>\$ -</b>

**Interest rate risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes.

**Credit risk and concentration of credit risk** – Investment activities of the District are governed by sections of the CGC, which specify the authorized investments that may be made by the District. The District's investment policy (the "Policy") requires that all investing activities of the District comply with the CGC and also sets forth certain additional restrictions which exceed those imposed by the CGC. Investment activities of the Foundations are governed by the Internal Revenue Code; therefore, its investment activities are not subject to the same requirements as the District.

CGC, Section 53635, places the following concentration limits on LAIF, which is unrated:

No more than 40% may be invested in eligible commercial paper; no more than 10% may be invested in the outstanding commercial paper of any single issuer; and no more than 10% of the outstanding commercial paper of any single issuer may be purchased.

CGC, Section 53601, places the following concentration limits on the District's investments:

No more than 5% may be invested in the securities of any one issuer, except the obligations of the U.S. government, U.S. government agencies, and U.S. government-sponsored enterprises; no more than 10% may be invested in any one mutual fund; no more than 25% may be invested in commercial paper; no more than 10% of the outstanding commercial paper of any single issuer may be purchased; no more than 30% may be invested in bankers' acceptances of any one commercial bank; no more than 30% may be invested in negotiable certificates of deposit; no more than 20% of the value of the portfolio may be invested in reverse repurchase agreements; and no more than 30% may be invested in medium-term notes.

## Tahoe Forest Hospital District Notes to Combined Financial Statements

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The District's policy maximizes the return on invested cash while minimizing risk of capital loss. The District's policy limits investments to one and one-half years, unless otherwise approved by the Board of Directors. The District was in compliance with their investment policies as of June 30, 2023.

**Custodial credit risk** – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event or failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party.

Under the provisions of the CGC, California banks and savings and loan associations are required to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits. The pledged securities are held by the pledging financial institution's trust department in the name of the District.

### **NOTE 4 – FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

**Level 1** – Quoted prices in active markets for identical assets or liabilities.

**Level 2** – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

**Level 3** – Unobservable inputs supported by little or no market activity and significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies and inputs used for instruments measured at fair value on a recurring basis and recognized in the accompanying combined statements of net position or for which the fair value is disclosed in the notes to the combined financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended June 30, 2023 and 2022.

**Cash and cash equivalents** – The carrying amount approximates fair value.

**Investments** – Where quoted market prices are available in active markets, investments are classified within Level 1 of the valuation hierarchy. Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, are classified within Level 2 of the valuation hierarchy.

# Tahoe Forest Hospital District

## Notes to Combined Financial Statements

**Beneficial interest in trusts** – As described in Note 1, the Foundations established the TTCF and Parasol Endowment and are the beneficiary of the Funds held at the TTCF. The fair value of the beneficial interest is estimated using the fair value of the assets held in trust reported by the trustees as of June 30, 2023 and 2022.

**Hedging derivative** – The fair value of the hedging derivative is valued using market to market valuations as of June 30, 2023 and 2022.

The following tables present the fair value measurements of instruments recognized in the accompanying combined statements of net position measured on a recurring basis and the level within the GASB 72 fair value hierarchy in which the fair value measurements fall at June 30:

Description	2023			Total
	Level 1	Level 2	Level 3	
Hedging derivative	\$ -	\$ (262,970)	\$ -	\$ (262,970)
Short-term money market	18,275,388	-	-	18,275,388
U.S. corporate fixed income securities	-	25,222,299	-	25,222,299
U.S. government fixed income securities	-	71,399,614	-	71,399,614
Beneficial interest in trusts	-	-	1,875,202	1,875,202
Total by fair value level	<u>\$ 18,275,388</u>	<u>\$ 96,358,943</u>	<u>\$ 1,875,202</u>	116,509,533
Local agency investment fund				<u>11,282,555</u>
Total				<u>\$ 127,792,088</u>

Description	2022			Total
	Level 1	Level 2	Level 3	
Hedging derivative	\$ -	\$ (660,160)	\$ -	\$ (660,160)
Short-term money market	8,039,935	-	-	8,039,935
U.S. corporate fixed income securities	-	28,392,602	-	28,392,602
U.S. government fixed income securities	-	42,188,319	-	42,188,319
Beneficial interest in trusts	-	-	1,753,645	1,753,645
Total by fair value level	<u>\$ 8,039,935</u>	<u>\$ 69,920,761</u>	<u>\$ 1,753,645</u>	79,714,341
Certificates of deposit				4,483,448
Local agency investment fund				<u>55,612,745</u>
Total				<u>\$ 139,810,534</u>

## Tahoe Forest Hospital District Notes to Combined Financial Statements

The following table summarizes the changes in the District's Level 3 financial instruments for the years ended June 30, 2023 and 2022:

	<b>2023</b>	<b>2022</b>
Beginning balance	\$ 1,753,645	\$ 1,952,812
Additional amounts invested in beneficial interest in trusts	5,500	4,400
Change in value of beneficial interest in trusts	116,057	(203,567)
Ending balance	\$ 1,875,202	\$ 1,753,645

The table below presents information about significant unobservable inputs related to material categories of Level 3 financial instruments as of June 30, 2023 and 2022:

<b>Description</b>	<b>Fair Value as of June 30, 2023</b>	<b>Valuation Technique</b>	<b>Unobservable Input</b>	<b>Range</b>
Beneficial interest in trusts	\$ 1,875,202	Asset fair value from Trustee	Asset fair value from Trustee	Varies

  

<b>Description</b>	<b>Fair Value as of June 30, 2022</b>	<b>Valuation Technique</b>	<b>Unobservable Input</b>	<b>Range</b>
Beneficial interest in trusts	\$ 1,753,645	Asset fair value from Trustee	Asset fair value from Trustee	Varies

### NOTE 5 – PATIENT ACCOUNTS RECEIVABLE

The District grants credit without collateral to its patients and third-party payors. Patient accounts receivable from government agencies represent the only concentrated group of credit risk for the District and management does not believe that there are any credit risks associated with these governmental agencies. Contracted and other patient accounts receivable consist of various payors including individuals involved in diverse activities subject to differing economic conditions, and do not represent any concentrated credit risks to the District.



## Tahoe Forest Hospital District Notes to Combined Financial Statements

Patient accounts receivable is comprised of the following as of June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Medicare and Medicare managed care	\$ 20,140,559	\$ 22,098,870
Medi-Cal and Medi-Cal managed care	24,394,843	21,239,422
Other payors	42,347,190	40,567,328
Self-pay	<u>12,800,662</u>	<u>11,526,078</u>
Gross patient accounts receivable	99,683,254	95,431,698
Less allowances for contractual adjustments and bad debts	<u>(51,128,311)</u>	<u>(53,565,260)</u>
Net patient accounts receivable at Tahoe Forest Hospital District	<u>48,554,943</u>	<u>41,866,438</u>
Net patient accounts receivable at Truckee Surgery Center, LLC	<u>268,672</u>	<u>424,536</u>
Total net patient accounts receivable	<u>\$ 48,823,615</u>	<u>\$ 42,290,974</u>

Concentration of net patient accounts receivable as of June 30, 2023 and 2022, were as follows:

	<u>2023</u>	<u>2022</u>
Commercial and other payors	72%	72%
Medicare	16%	17%
Medi-Cal	9%	7%
Self-pay	<u>3%</u>	<u>4%</u>
Total	<u>100%</u>	<u>100%</u>

## Tahoe Forest Hospital District Notes to Combined Financial Statements

### NOTE 6 – CAPITAL ASSETS

The capital asset activity of the District for the years ended June 30, 2023 and 2022, were as follows:

	2023				Balance June 30, 2023
	Balance June 30, 2022	Increases	Decreases	Transfers	
Capital assets - nondepreciable					
Land	\$ 8,579,997	\$ -	\$ -	\$ -	\$ 8,579,997
Construction in progress, net	18,624,634	17,915,946	-	(22,176,689)	14,363,891
Property held for future expansion	910,968	-	-	-	910,968
	<u>28,115,599</u>	<u>17,915,946</u>	<u>-</u>	<u>(22,176,689)</u>	<u>23,854,856</u>
Capital assets - depreciable					
Land improvements	5,730,707	-	-	58,255	5,788,962
Building and improvements	232,912,983	2,270,492	-	22,118,434	257,301,909
Equipment and software	107,059,965	5,079,493	(91,220)	-	112,048,238
Capital assets at Truckee Surgery Center, LLC	1,466,650	176,746	-	-	1,643,396
	<u>347,170,305</u>	<u>7,526,731</u>	<u>(91,220)</u>	<u>22,176,689</u>	<u>376,782,505</u>
Less accumulated depreciation for					
Land improvements	3,567,574	108,388	-	-	3,675,962
Building and improvements	91,932,983	8,990,269	-	-	100,923,252
Equipment and software	89,778,134	5,752,470	(91,220)	-	95,439,384
Capital assets at Truckee Surgery Center, LLC	633,332	94,421	-	-	727,753
	<u>185,912,023</u>	<u>14,945,548</u>	<u>(91,220)</u>	<u>-</u>	<u>200,766,351</u>
Total capital assets - depreciable, net	<u>161,258,282</u>	<u>(7,418,817)</u>	<u>-</u>	<u>22,176,689</u>	<u>176,016,154</u>
Total capital assets, net	<u>\$ 189,373,881</u>	<u>\$ 10,497,129</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 199,871,010</u>
	2022				Balance June 30, 2022
	Balance June 30, 2021	Increases	Decreases	Transfers	
Capital assets - nondepreciable					
Land	\$ 7,112,997	\$ 1,467,000	\$ -	\$ -	\$ 8,579,997
Construction in progress, net	6,517,802	13,834,328	(264,703)	(1,462,793)	18,624,634
Property held for future expansion	910,968	-	-	-	910,968
	<u>14,541,767</u>	<u>15,301,328</u>	<u>(264,703)</u>	<u>(1,462,793)</u>	<u>28,115,599</u>
Capital assets - depreciable					
Land improvements	5,727,716	-	-	2,991	5,730,707
Building and improvements	224,484,783	6,968,398	-	1,459,802	232,912,983
Equipment and software	103,254,243	4,183,371	(377,649)	-	107,059,965
Capital assets at Truckee Surgery Center, LLC	1,342,937	123,713	-	-	1,466,650
	<u>334,809,679</u>	<u>11,275,482</u>	<u>(377,649)</u>	<u>1,462,793</u>	<u>347,170,305</u>
Less accumulated depreciation for					
Land improvements	3,411,831	155,743	-	-	3,567,574
Building and improvements	83,738,771	8,194,212	-	-	91,932,983
Equipment and software	84,751,031	5,516,965	(489,862)	-	89,778,134
Capital assets at Truckee Surgery Center, LLC	585,497	47,835	-	-	633,332
	<u>172,487,130</u>	<u>13,914,755</u>	<u>(489,862)</u>	<u>-</u>	<u>185,912,023</u>
Total capital assets - depreciable, net	<u>162,322,549</u>	<u>(2,639,273)</u>	<u>112,213</u>	<u>1,462,793</u>	<u>161,258,282</u>
Total capital assets, net	<u>\$ 176,864,316</u>	<u>\$ 12,662,055</u>	<u>\$ (152,490)</u>	<u>\$ -</u>	<u>\$ 189,373,881</u>

# Tahoe Forest Hospital District

## Notes to Combined Financial Statements

### NOTE 7 – LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

A summary of long-term debt and capital lease obligations as of June 30, 2023 and 2022, were as follows:

<b>2023</b>						
	<b>Date of Issue</b>	<b>Date of Maturity</b>	<b>Interest Rates</b>	<b>Annual Principal Installments</b>	<b>Original Issue Amount</b>	<b>Outstanding at June 30, 2023</b>
General obligation bonds						
2016 GOB	March 2016	August 2040	2.00% - 5.00%	\$935,000 - \$3,625,000	\$ 45,110,000	\$ 40,210,000
2015 GOB	February 2015	August 2038	2.00% - 5.00%	\$670,000 - \$2,895,000	30,810,000	27,515,000
2019 GOB	September 2019	August 2042	3.00% - 5.00%	\$340,000 - \$2,270,000	24,710,000	23,740,000
Revenue bonds						
Series 2017	March 2017	July 2032	1.49%	\$544,552 - \$663,805	9,060,000	6,081,943
Series 2015	March 2015	July 2033	3.87%	\$1,073,107- \$1,583,873	20,979,000	14,514,044
Notes payable						
11046 Donner Pass Road	January 2019	February 2026	4.00%	\$533,255 - \$773,730	4,950,000	2,050,426
Opus Bank Muni Lease	October 2018	November 2023	2.82%	\$714,103 - \$1,671,641	8,000,000	714,103
Capital lease obligations						
US Bank Equipment Financing	September 2019	September 2024	8.30%	\$273 monthly	18,176	4,936
US Bank Equipment Financing	October 2019	October 2024	8.28%	\$117 monthly	7,835	2,272
Westamerica Bank	March 2019	March 2024	4.05%	\$39,111 - \$50,336	239,669	39,111
					<b>\$ 143,884,680</b>	<b>\$ 114,871,835</b>
<b>2022</b>						
	<b>Date of Issue</b>	<b>Date of Maturity</b>	<b>Interest Rates</b>	<b>Annual Principal Installments</b>	<b>Original Issue Amount</b>	<b>Outstanding at June 30, 2022</b>
General obligation bonds						
2016 GOB	March 2016	August 2040	2.00% - 5.00%	\$935,000 - \$3,625,000	\$ 45,110,000	\$ 41,145,000
2015 GOB	February 2015	August 2038	2.00% - 5.00%	\$670,000 - \$2,895,000	30,810,000	28,185,000
2019 GOB	September 2019	August 2042	3.00% - 5.00%	\$340,000 - \$2,270,000	24,710,000	24,080,000
Revenue bonds						
Series 2017	March 2017	July 2032	1.49%	\$544,552 - \$663,805	9,060,000	6,626,495
Series 2015	March 2015	July 2033	3.87%	\$1,073,107- \$1,583,873	20,979,000	15,557,151
Notes payable						
11046 Donner Pass Road	January 2019	February 2026	4.00%	\$533,255 - \$773,730	4,950,000	2,764,765
Opus Bank Muni Lease	October 2018	November 2023	2.82%	\$714,103 - \$1,671,641	8,000,000	2,385,744
Capital lease obligations						
US Bank Equipment Financing	September 2019	September 2024	8.30%	\$273 monthly	18,176	8,804
US Bank Equipment Financing	October 2019	October 2024	8.28%	\$117 monthly	7,835	3,929
Westamerica Bank	March 2019	March 2024	4.05%	\$39,111 - \$50,336	239,669	89,447
					<b>\$ 143,884,680</b>	<b>\$ 120,846,335</b>

## Tahoe Forest Hospital District Notes to Combined Financial Statements

The following tables summarize the District's long-term debt and capital lease transactions for the years ended June 30, 2023 and 2022:

	<b>2023</b>				
	<b>Balance June 30, 2022</b>	<b>Net Borrowings and Issuance Proceeds</b>	<b>Payments and Bond Premium/Discount Amortization During the Year</b>	<b>Balance June 30, 2023</b>	<b>Current Portion</b>
2016 General obligation bond	\$ 41,145,000	\$ -	\$ (935,000)	\$ 40,210,000	\$ 1,040,000
2015 General obligation bond	28,185,000	-	(670,000)	27,515,000	765,000
2019 General obligation bond	24,080,000	-	(340,000)	23,740,000	390,000
General obligation bond premium/discount	3,427,166	-	(187,617)	3,239,549	-
Series 2017 Revenue bonds	6,626,495	-	(544,552)	6,081,943	555,443
Series 2015 Revenue bonds	15,557,151	-	(1,043,107)	14,514,044	1,083,475
11046 Donner Pass Road	2,764,765	-	(714,339)	2,050,426	743,441
Opus Bank Muni Lease	2,385,744	-	(1,671,641)	714,103	714,103
US Bank equipment financing	8,804	-	(3,868)	4,936	4,109
US Bank equipment financing	3,929	-	(1,657)	2,272	1,891
Westamerica Bank	89,447	-	(50,336)	39,111	39,111
	<b>\$ 124,273,501</b>	<b>\$ -</b>	<b>\$ (6,162,117)</b>	<b>\$ 118,111,384</b>	<b>\$ 5,336,573</b>

  

	<b>2022</b>				
	<b>Balance June 30, 2021</b>	<b>Net Borrowings and Issuance Proceeds</b>	<b>Payments and Bond Premium/Discount Amortization During the Year</b>	<b>Balance June 30, 2022</b>	<b>Current Portion</b>
2016 General obligation bond	\$ 41,985,000	\$ -	\$ (840,000)	\$ 41,145,000	\$ 935,000
2015 General obligation bond	28,770,000	-	(585,000)	28,185,000	670,000
2019 General obligation bond	24,370,000	-	(290,000)	24,080,000	340,000
General obligation bond premium/discount	3,614,782	-	(187,616)	3,427,166	-
Series 2017 Revenue bonds	7,160,369	-	(533,874)	6,626,495	544,552
Series 2015 Revenue bonds	16,561,394	-	(1,004,243)	15,557,151	1,043,107
11046 Donner Pass Road	3,451,139	-	(686,374)	2,764,765	714,338
Opus Bank Muni Lease	4,010,960	-	(1,625,216)	2,385,744	1,671,641
US Bank equipment financing	12,366	-	(3,562)	8,804	3,868
US Bank equipment financing	5,454	-	(1,525)	3,929	1,657
Westamerica Bank	137,789	-	(48,342)	89,447	50,336
	<b>\$ 130,079,253</b>	<b>\$ -</b>	<b>\$ (5,805,752)</b>	<b>\$ 124,273,501</b>	<b>\$ 5,974,499</b>

As of June 30, 2023, the District's long-term debt and capital lease obligation requirements to maturity, excluding unamortized bond premium and bond issuance costs of \$3,239,549, are as follows:

<b>Years Ending June 30,</b>	<b>Long-Term Debt</b>			<b>Capital Lease Obligations</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2024	\$ 5,291,462	\$ 3,781,828	\$ 9,073,290	\$ 45,111	\$ 663	\$ 45,774
2025	4,905,687	3,585,558	8,491,245	1,208	18	1,226
2026	5,010,097	3,376,546	8,386,643	-	-	-
2027	4,833,638	3,173,027	8,006,665	-	-	-
2028	5,217,416	2,965,417	8,182,833	-	-	-
2029 - 2033	32,583,343	11,588,510	44,171,853	-	-	-
2034 - 2038	33,878,873	5,922,243	39,801,116	-	-	-
2039 - Thereafter	23,105,000	1,030,340	24,135,340	-	-	-
	<b>\$ 114,825,516</b>	<b>\$ 35,423,469</b>	<b>\$ 150,248,985</b>	<b>\$ 46,319</b>	<b>\$ 681</b>	<b>\$ 47,000</b>

**Advanced refunding** – On April 13, 2006, the District advance refunded the 1999 Series A Bonds totaling \$11,790,000 with Series 2006 Revenue Bonds totaling \$24,347,998. The 1999 Series A Bonds were redeemed on July 1, 2009, in accordance with the escrow agreement.

## Tahoe Forest Hospital District Notes to Combined Financial Statements

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On March 10, 2015, the District advance refunded the Series A (2008) General Obligation Bonds totaling \$29,345,000 with the 2015 General Obligation Bonds totaling \$30,810,000 at a premium of \$1,040,802. Resources totaling \$31,361,320 were placed in an escrow account for the purpose of generating resources for all future debt service payments.

This advance refunding was undertaken to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding general obligation bonds) of \$3,631,371. As a result of the refunding, total debt service payments over the next 24 years will decrease by \$5,184,014.

On May 29, 2015, the District advance refunded the Series 2006 Revenue Bonds totaling \$23,240,000 with the Series 2015 Revenue Bonds totaling \$20,979,000. Resources totaling \$24,036,325 were placed in an escrow account for the purpose of generating resources for all future debt service payments.

This advance refunding was undertaken to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding revenue bonds) of \$2,331,620. As a result of the refunding, total debt service payments over the next 22 years will decrease by \$2,570,928.

On April 7, 2016, the District advance refunded the Series B (2010) General Obligation Bonds totaling \$42,785,000 with the 2016 General Obligation Bonds totaling \$45,110,000. Resources totaling \$47,412,331 were placed in an escrow account for the purpose of generating resources for all future debt service payments.

This advance refunding was undertaken to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding general obligation bonds) of \$7,718,216. As a result of the refunding, total debt service payments over the next 22 years will decrease by \$10,617,709.

On March 27, 2017, the District advance refunded the Series 2002 Variable Rate Demand Revenue Bonds totaling \$8,890,000 with the Series 2017 Variable Rate Demand Revenue Bonds totaling \$9,060,000.

This advance refunding was undertaken to obtain an economic gain by eliminating the required line of credit associated with the Series 2002 Bonds, therefore saving approximately \$100,000 annually for the District. The Series 2017 Bonds were issued on a parity as to payment and security with the District's Series 2015 Bonds.

On August 1, 2019, the District advanced refunded the Series C (2012) General Obligation Bonds totaling \$25,570,000 with the 2019 General Obligation Bonds totaling \$24,710,000 at a premium of \$1,251,639.

This advance refunding was undertaken to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding general obligation bonds) of \$860,000. As a result of the refunding, total debt service payments over the next 23 years will decrease by \$4,591,190.

### **NOTE 8 – INTEREST RATE SWAP AGREEMENT**

In May 2005, as a means to lower its borrowing costs when compared against fixed rate bonds, the District entered into an interest rate swap in connection with its Series 2002 Variable Rate Revenue Bonds. The intention of the swap was to effectively change the District's variable interest rate on the Bonds to a synthetic fixed rate of 3.54%.

## Tahoe Forest Hospital District Notes to Combined Financial Statements

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The Series 2002 Bonds, and the related swap agreement, mature on July 1, 2033. The swap's original notional amount of \$11,800,000 matched the variable-rate bonds at the agreement date. The swap commenced three years after the Bonds were issued (July 2002). Starting in fiscal year 2005, the notional value of the swap, and the principal amount of the associated debt, will decline with each principal payment made by the District. Under the swap, the District pays the counterparty a fixed payment of 3.54% and receives a variable payment computed as 70% of the LIBOR one-month rate.

In 2017, the 2002 bonds were defeased and the funds were used to issue the Series 2017 Revenue Bonds. The Series 2017 Revenue bonds are for a marginally larger notional amount, with the same end date, and the same interest rate based on the same driver. The swap was then found to still be effective with the new Series 2017 Revenue Bonds, and hedge accounting for the swap continued forward. At the date of defeasance, the value of the swap was approximately \$1,400,000. In June 2023, the District amended the Series 2017 Revenue Bonds Indenture of Trust. As part of the amendment, effective July 1, 2023, the Series 2017 Revenue Bonds shall bear interest at a variable rate equal to 65% of the aggregate of the daily Secured Overnight Financing Rate plus 1.70%, minus 0.10%.

As interest rates have declined since execution of the swap, the swap had negative fair values of \$262,970 and \$660,160 as of June 30, 2023 and 2022, respectively. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the District's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using mathematical approximations of market values derived from proprietary models. The valuations are calculated on a mid-market basis and do not include bid/offer spread that would be reflected in an actual price quotation. It should be assumed that the actual price quotations for unwinding the transactions would be different. In connection with the fair value determination of the interest rate swap, the District has recorded a derivative instrument liability in the amount of \$262,970 and \$660,160 at June 30, 2023 and 2022, respectively, and a corresponding accumulated decrease in fair value of hedging derivative (deferred outflow of resources). Fair values are based on a market to market report which is considered a Level 2 fair value input.

**Credit risk** – As of June 30, 2023, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the District would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AA-/Aa3 as of June 30, 2023. To mitigate the potential for credit risk, if the counterparty's credit quality falls below AA/Aa, the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

**Termination risk** – The District, or the counterparty, may terminate the swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the District if the counterparty's credit rating falls below A3/A-/A-. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. If at the time of termination, the swap has a negative fair value, the District would also be liable to the counterparty for a payment equal to the swap's fair value.

# Tahoe Forest Hospital District

## Notes to Combined Financial Statements

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### NOTE 9 – RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors, and omissions, injuries to employees, and natural disasters. The District carries insurance for medical malpractice and general comprehensive liability, and workers' compensation claims.

**Workers' compensation insurance** – The District is self-insured for workers' compensation claims. A stop-loss insurance contract executed with an insurance carrier covers individual claims in excess of \$500,000 per plan year with an aggregate limit of \$1,000,000. There were no significant changes in insurance coverage from the prior year.

Workers' compensation benefits costs from reported and unreported claims were accrued based on estimates that incorporate the District's past experience, as well as other considerations, including the nature of each claim or incident and other relevant trend factors. While the ultimate amount of workers' compensation liability is dependent on future developments, management is of the opinion that the associated liabilities for claims pending and incurred but not reported recognized in the accompanying combined financial statements is adequate to cover such claims. The liability has not been discounted. Management is aware of no potential workers' compensation liability the settlement of which, if any, would have a material adverse effect on the District's net position for the years ended June 30, 2023 and 2022.

**Employee health insurance** – The District is self-insured to provide group medical, dental, and vision coverage. The District funds its liability based on actual claims. A stop-loss insurance contract executed with an insurance carrier provides a specific stop-loss deductible per claim of \$375,000 with an aggregate specific annual deductible of \$100,000. There were no significant changes in insurance coverage from the prior year.

The liability for unpaid claims is estimated using an industry average that is based on actual claims paid. The estimated liability for claims pending and incurred but not reported at June 30, 2023 and 2022, has been included in the accompanying combined statements of net position under estimated claims incurred but not reported.

## Tahoe Forest Hospital District Notes to Combined Financial Statements

The following is a summary of the changes in the workers' compensation and employee health insurance liabilities for the years ended June 30, 2023 and 2022:

		<b>2023</b>			
		<b>Balance July 1, 2022</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2023</b>
Workers' compensation		\$ 2,947,527	\$ 339,844	\$ -	\$ 3,287,371
Employee health		2,224,062	498,888	-	2,722,950
		\$ 5,171,589	\$ 838,732	\$ -	\$ 6,010,321
		<b>2022</b>			
		<b>Balance July 1, 2021</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2022</b>
Workers' compensation		\$ 3,180,976	\$ -	\$ (233,449)	\$ 2,947,527
Employee health		2,403,683	-	(179,621)	2,224,062
		\$ 5,584,659	\$ -	\$ (413,070)	\$ 5,171,589

**Medical malpractice insurance** – The District participates in a joint powers agreement (“JPA”) with the Program BETA Risk Management Authority (the “Program”).

The Program was formed for the purpose of operating a comprehensive liability self-insurance program for certain hospital districts of the Association of California Healthcare Districts, Inc. (“ACHD”). The Program operates as a separate JPA established as a public agency separate and distinct from ACHD. Each member hospital pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in the Program. The District maintains coverage on a claims-made basis.

Coverage under a claims-made policy could expose the District to a gap in coverage if the District were to terminate coverage with the Program. In order to mitigate this potential gap in coverage, the District has accrued an estimated premium to purchase an unlimited extended reporting amendment (tail coverage) in the amount of \$2,586,926 and \$2,082,114 for the years ended June 30, 2023 and 2022, respectively.



# Tahoe Forest Hospital District

## Notes to Combined Financial Statements

### NOTE 10 – RESTRICTED NET ASSETS

Net assets are maintained for the following programs and services at June 30:

	<u>2023</u>	<u>2022</u>
Restricted - expendable net assets		
Cancer prevention	\$ 742,893	\$ 702,784
Cancer care	1,251,559	1,145,266
Hospice and other	5,735,044	4,170,647
	<u>\$ 7,729,496</u>	<u>\$ 6,018,697</u>
Restricted - nonexpendable net assets		
Investments in perpetuity, TTCF Endowment	\$ 519,375	\$ 519,375
Investments in perpetuity, Parasol Endowment	84,609	79,109
	<u>\$ 603,984</u>	<u>\$ 598,484</u>

### NOTE 11 – EMPLOYEES' RETIREMENT PLANS

The District contributes to the Tahoe Forest Hospital District Employee Money Purchase Pension Plan (the "MPP Plan"), a defined contribution pension plan administered by the District. The MPP Plan covers employees who complete 1,000 hours of service in a calendar year. The District is required to make annual contributions to the MPP Plan equal to 3% of each eligible employee's annual compensation, plus 3% of an eligible employee's annual compensation in excess of the Social Security tax wage base. Employee contributions are voluntary and are limited to 10% of an employee's annual compensation.

The District also offers its employees a deferred compensation plan (the "457 Plan") created in accordance with Internal Revenue Code Section 457(b). The 457 Plan allows employees to defer a portion of their current compensation until future years. The District matches participant's deferrals from 3% to 7% of compensation. Employee contributions are limited to 100% of total employee compensation or the maximum amount allowable by law. The employer matching contributions under the 457 Plan are deposited into employee accounts in the MPP Plan.

Total employer contributions under the above retirement plans were \$7,882,348 and \$7,482,223 for the years ended June 30, 2023 and 2022, respectively. As of June 30, 2023 and 2022, the District has accrued \$4,138,765 and \$3,707,660, respectively, of employer contributions related to the above retirement plans in accrued payroll and related expense on the accompanying combined statements of net position.

### NOTE 12 – COMMITMENTS AND CONTINGENCIES

**Construction in progress** – As of June 30, 2023 and 2022, the District had recorded \$14,363,891 and \$18,624,634, respectively, as construction-in-progress representing cost capitalized for various remodeling, major repair, and expansion projects on the District's premises. Estimated cost to complete all projects as of June 30, 2023, is \$8,867,331.

## Tahoe Forest Hospital District Notes to Combined Financial Statements

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**Litigation** – The District is a defendant in various legal proceedings arising out of the normal conduct of its business. In the opinion of management and its legal representatives, the District has valid and substantial defenses, and settlements or awards arising from legal proceedings, if any, will not exceed existing insurance coverage, nor will they have a material adverse effect on the net position, results of operations, or liquidity of the District.

**Regulatory environment** – The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. The District is subject to routine surveys and reviews by federal, state, and local regulatory authorities. The District has also received inquiries from health care regulatory authorities regarding its compliance with laws and regulations. Although the District management is not aware of any violations of laws and regulations, it has received corrective action requests as a result of completed and ongoing surveys from applicable regulatory authorities. Management continually works in a timely manner to implement operational changes and procedures to address all corrective action requests from regulatory authorities. Breaches of these laws and regulations and noncompliance with survey corrective action requests could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

**Hospital Seismic Safety Act** – The California Hospital Facilities Seismic Safety Act (“SB 1953”) specifies certain requirements that must be met at various dates in order to increase the probability that a California hospital can maintain uninterrupted operations following a major earthquake. Management believes that the District is currently substantially in compliance with these requirements.

**Arbitrage** – The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years. During the current year, the District performed calculations of excess investment earnings on various bonds and financings and, at June 30, 2023, does not expect to incur a significant liability.

### **NOTE 13 – RIGHT-TO-USE ASSETS AND LEASE LIABILITIES**

The District is a lessee for noncancellable leases of office space and equipment with lease terms through 2035. There are no residual value guarantees included in the measurement of the District’s lease liabilities nor recognized as an expense for the years ended June 30, 2023 and 2022. The District does not have any commitments that were incurred at the commencement of the leases. The District is subject to variable equipment usage payments that are expenses when incurred. There were no amounts recognized as variable lease payments as lease expense on the combined statements of revenues, expenses, and changes in net position for the years ended June 30, 2023 and 2022. No termination penalties were incurred during the fiscal year.

## Tahoe Forest Hospital District Notes to Combined Financial Statements

	Balance as of July 1, 2022	Increases	Decreases	Balance as of June 30, 2023
Right-to-use assets	\$ 11,816,083	\$ 650,348	\$ -	\$ 12,466,431
Less accumulated amortization	<u>2,664,154</u>	<u>1,687,500</u>	<u>-</u>	<u>4,351,654</u>
Right to use assets, net	<u>\$ 9,151,929</u>	<u>\$ (1,037,152)</u>	<u>\$ -</u>	<u>\$ 8,114,777</u>
	Balance as of July 1, 2021	Increases	Decreases	Balance as of June 30, 2022
Right-to-use assets	\$ 7,648,363	\$ 4,167,720	\$ -	\$ 11,816,083
Less accumulated amortization	<u>1,167,533</u>	<u>1,496,621</u>	<u>-</u>	<u>2,664,154</u>
Right to use assets, net	<u>\$ 6,480,830</u>	<u>\$ 2,671,099</u>	<u>\$ -</u>	<u>\$ 9,151,929</u>

For the years ended June 30, 2023 and 2022, the District recognized \$1,687,500 and \$1,496,621, respectively, in amortization expense included in depreciation and amortization expense on the combined statements of revenues, expenses, and changes in net position.

## Tahoe Forest Hospital District Notes to Combined Financial Statements

The future principal and interest lease payments as of June 30, 2023, were as follows:

<u>Years ending June 30,</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Total</u>
2024	\$ 1,552,009	\$ 156,324	\$ 1,708,333
2025	1,455,525	125,343	1,580,868
2026	1,297,349	97,813	1,395,162
2027	1,074,909	72,737	1,147,646
2028	696,684	55,801	752,485
Thereafter	2,425,510	104,643	2,530,153
	<u>\$ 8,501,986</u>	<u>\$ 612,661</u>	<u>\$ 9,114,647</u>

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

### NOTE 14 – SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS

The District has the following subscription assets activity as of June 30:

	<u>Balance as of July 1, 2022 (As restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance as of June 30, 2023</u>
Subscription assets	\$ 29,649,877	\$ 7,098,212	\$ -	\$ 36,748,089
Less accumulated amortization	<u>2,845,189</u>	<u>3,218,429</u>	<u>-</u>	<u>6,063,618</u>
Subscription assets, net	<u>\$ 26,804,688</u>	<u>\$ 3,879,783</u>	<u>\$ -</u>	<u>\$ 30,684,471</u>
	<u>Balance as of July 1, 2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance as of June 30, 2022 (As restated)</u>
Subscription assets	\$ 29,649,877	\$ -	\$ -	\$ 29,649,877
Less accumulated amortization	<u>-</u>	<u>2,845,189</u>	<u>-</u>	<u>2,845,189</u>
Subscription assets, net	<u>\$ 29,649,877</u>	<u>\$ (2,845,189)</u>	<u>\$ -</u>	<u>\$ 26,804,688</u>

For the years ended June 30, 2023 and 2022, the District recognized \$3,218,429 and \$2,845,189, respectively, in amortization expense included in depreciation and amortization expense on the combined statements of revenues, expenses, and changes in net position.

# Tahoe Forest Hospital District

## Notes to Combined Financial Statements

The future subscription payments as of June 30, 2023, were as follows:

<u>Years ending June 30,</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Total</u>
2024	\$ 3,274,127	\$ 1,362,052	\$ 4,636,179
2025	3,413,835	1,211,719	4,625,554
2026	3,552,843	1,057,836	4,610,679
2027	3,422,042	894,883	4,316,925
2028	2,760,369	756,755	3,517,124
Thereafter	15,333,072	1,891,092	17,224,164
	<u>\$ 31,756,288</u>	<u>\$ 7,174,337</u>	<u>\$ 38,930,625</u>

The District evaluated the subscription assets for impairment and determined there was no impairment for the years ended June 30, 2023 and 2022.

### NOTE 15 – RESTATEMENTS

The adoption of GASB 96 resulted in adjustments to the prior period financial statements as follows at June 30, 2022:

	<u>As previously presented</u>	<u>Adjustment</u>	<u>As restated</u>
<b>Combined Statement of Net Position</b>			
Assets and deferred outflows:			
Subscription assets, net of accumulated amortization	\$ -	\$ 26,804,688	\$ 26,804,688
Liabilities and net position:			
Current maturities of subscription liabilities	\$ -	\$ 2,707,191	\$ 2,707,191
Subscription liabilities, less current maturities	\$ -	\$ 24,658,076	\$ 24,658,076
Net position, end of year	\$ 249,162,162	\$ (560,579)	\$ 248,601,583
<b>Combined Statement of Revenues, Expenses, and Changes in Net Position:</b>			
Purchased services	\$ 25,668,579	\$ (3,460,586)	\$ 22,207,993
Depreciation and amortization	\$ 15,363,541	\$ 2,845,189	\$ 18,208,730
Other	\$ 7,768,620	\$ (83,511)	\$ 7,685,109
Income from operations	\$ 23,075,833	\$ 698,908	\$ 23,774,741
Interest expense	\$ (4,758,404)	\$ (1,259,487)	\$ (6,017,891)
Total nonoperating revenues	\$ 10,895,919	\$ (1,259,487)	\$ 9,636,432
Income before other revenue, expenses, gains, and losses	\$ 33,971,752	\$ (560,579)	\$ 33,411,173
Increase in net position	\$ 33,410,407	\$ (560,579)	\$ 32,849,828
<b>Combined Statement of Cash Flows:</b>			
Cash flows from operating activities:			
Cash paid to suppliers for goods and services	\$ (87,391,783)	\$ 3,544,097	\$ (83,847,686)
Net cash provided by operating activities	\$ 13,315,382	\$ 3,544,097	\$ 16,859,479
Cash flows from financing activities:			
Payments on subscription liabilities	\$ -	\$ (2,284,610)	\$ (2,284,610)
Interest payments on subscription liabilities	\$ -	\$ (1,259,487)	\$ (1,259,487)
Net cash used in capital and related financing activities	\$ (32,264,913)	\$ (3,544,097)	\$ (35,809,010)
Reconciliation of income from operations to net cash from operating activities:			
Income from operations	\$ 23,075,833	\$ 698,908	\$ 23,774,741
Depreciation and amortization	\$ 15,363,541	\$ 2,845,189	\$ 18,208,730

**NOTE 16 – SUBSEQUENT EVENTS**

Subsequent events are events or transactions that occur after the combined statement of net position date but before the combined financial statements are issued. The District recognizes in the combined financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the combined statement of net position, including the estimates inherent in the process of preparing the combined financial statements. The District's combined financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the combined statement of net position but arose after the combined statement of net position date and before the combined financial statements are issued.

FINAL DRAFT