



*Report of Independent Auditors and
Combined Financial Statements*

Tahoe Forest Hospital District

June 30, 2021 and 2020

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Management's Discussion and Analysis

Tahoe Forest Hospital District Management's Discussion and Analysis For the Years Ended June 30, 2021, 2020, and 2019

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, 2021, 2020, and 2019. 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 2021

- The District's increase in net position was \$27.5 million for 2021 as compared to \$33.1 million for 2020.
- The District's income from operations for fiscal year 2021 was \$19.4 million as compared to \$7.3 million for 2020.
- Nonoperating revenues were \$8.6 million in fiscal year 2021 as compared to \$27.1 million for 2020.

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, 2021, and 2020.

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
For the Years Ended June 30, 2021, 2020, and 2019**

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 \$27.5 million for 2021 as compared to \$33.1 million for 2020, as presented in the following table (amounts are in thousands):

	As of June 30,		
	2021	2020	2019
Current assets	\$ 156,493	\$ 116,387	\$ 77,208
Capital assets	176,107	180,088	178,934
Restricted and other assets	74,416	77,686	67,826
Total assets	407,016	374,161	323,968
Deferred outflows of resources	6,778	7,553	7,386
Current liabilities	72,053	61,250	39,226
Long-term liabilities	125,849	132,114	136,856
Total liabilities	197,902	193,364	176,082
Net investment in capital assets	55,718	56,082	49,845
Restricted - expendable	4,969	4,205	3,625
Restricted - nonexpendable	75	54	41
Unrestricted	155,130	128,009	101,761
Total net position	\$ 215,892	\$ 188,350	\$ 155,272

Tahoe Forest Hospital District

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Operating Results and Changes in the District's Net Position

During 2021, the District's net position increased by \$27.5 million as compared to \$33.1 million in 2020, 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. Four areas of expenses created significant differences between 2021 and 2020: salaries, wages, and benefits increased by \$16.6 million, professional fees decreased by \$2.9 million, supplies increased \$2.4 million, and purchased services increased by \$2.2 million. The increase in salaries, wages, and benefits is due to increased staffing, merit increases, management incentive compensation bonuses, employee gain-sharing bonus program, and the continued employment of physicians that were previously contracted professionals. The decrease in professional fees is due to the employment of physicians that were previously contracted professionals. The increase in supplies is primarily pharmaceuticals and medical supply costs, which is directly connected to the increase in volumes and COVID-19. The increase in purchased services is due to contracting for billing and collections services, information technology services, laundry services, as well as the preparation necessary for COVID-19.

	Fiscal years ended June 30,		
	2021	2020	2019
Operating revenues (thousands)			
Net patient service revenues	\$ 237,686	\$ 205,979	\$ 188,880
Other operating revenues	11,751	12,447	11,105
Total operating revenues	<u>249,438</u>	<u>218,427</u>	<u>199,986</u>
Operating expenses (thousands)			
Salaries and wages	88,958	79,154	65,577
Employee benefits	45,692	38,864	32,733
Professional fees	16,988	19,907	27,823
Supplies	31,196	28,824	25,235
Purchased services	23,601	21,363	16,705
Depreciation and amortization	13,631	13,166	13,534
Other operating expenses	9,963	9,842	9,901
Total operating expenses	<u>230,028</u>	<u>211,121</u>	<u>191,508</u>
Income from operations	<u>19,410</u>	<u>7,306</u>	<u>8,478</u>
Nonoperating revenue (expenses) (thousands)			
Property tax revenue	8,432	7,985	7,549
Property tax revenue - general obligation bonds	4,900	5,220	5,220
Interest expense	(4,792)	(5,056)	(5,131)
Other nonoperating items	90	18,917	4,208
Total nonoperating revenues	<u>8,629</u>	<u>27,065</u>	<u>11,845</u>
Income before other revenue, expenses, gains, and losses	28,039	34,371	20,323
Capital transfers	(497)	(1,293)	-
Increase in net position	<u>\$ 27,542</u>	<u>\$ 33,078</u>	<u>\$ 20,323</u>

**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 2021 was \$19.4 million as compared to \$7.3 million in 2020. However, in 2021 and 2020, the District received \$0.375 million and \$13.5 million, respectively, in provider relief fund grants related to COVID-19 that are classified as other nonoperating items, which significantly contributed to the District's increase in net position in 2020. However, it is estimated that the District will have to return \$3.946 million of those funds 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 2021 was \$8.6 million as compared to \$27.1 million in 2020.

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

- Net patient service revenues increased in 2021 by \$31.7 million (15.4%) 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 2021 to 5,407 from 5,547 in 2020. Adjusted patient days were up 22.1% in 2021 as compared to 2020. Inpatient charges decreased by \$3.7 million to \$84.4 million in 2021 from \$88.1 million in 2020. Outpatient charges increased by \$78.3 million to \$368.9 million in 2021 from \$290.6 million in 2020, and as a percentage of total charges, outpatient charges increased to 81.4% of the total in 2021 from 76.7% in 2020. In addition, contractual allowances, charity care, and bad debt increased \$43.4 million to \$218.2 million in 2021 from \$174.8 million in 2020. Prior period settlements increased \$0.5 million to \$2.6 million in 2021 from \$2.1 million in 2020.
- A decrease in other operating revenues of \$0.7 million (5.6%) in 2021.
- Operating expenses increased by \$18.9 million (9.0%) in 2021 due to added services and providers, additional full time equivalents ("FTEs") including employed physicians, employee gain sharing program, management incentive compensation bonuses, increased pharmaceutical and medical supply costs, costs associated with contracting billing and collections services, information technology services, and laundry services. The District also had increased costs due to the impact of COVID-19.

Tahoe Forest Hospital District Management's Discussion and Analysis For the Years Ended June 30, 2021, 2020, and 2019

Employee salaries, wages, and benefits were \$134.7 million in 2021 and \$118.0 million in 2020. The components of these costs are as follows:

- Salaries and wages totaled \$89.0 million in 2021 and \$79.2 million in 2020. Staffing, as measured by paid FTEs, was 900 in 2021 and 851 in 2020. The employee gain-sharing program and management incentive compensation bonuses totaled \$7.4 million in 2021 and \$5.2 million in 2020.
- Benefits totaled \$45.7 million in 2021 and \$38.9 million in 2020. The benefits associated with the employee gain-sharing program and management incentive compensation bonuses totaled \$1.1 million in 2021 and \$0.7 million in 2020.
- Salaries, wages, and benefits per paid FTE were \$149,611 in 2021 and \$138,682 in 2020. If we were to remove the 2021 and 2020 gain-sharing program and management incentive compensation bonuses from salaries, wages, and benefits, then the amount per paid FTE was \$140,196 in 2021 and \$131,682 in 2020.
- Other changes were as follows:
 - There was a decrease of \$2.9 million (14.7%) in professional fees. This was primarily due to employing physicians that were previously contracted under professional services agreements.
 - There was a \$2.4 million (8.2%) increase in supplies primarily due to increase in pharmaceuticals and medical supply costs, which is directly connected to the increase in volumes and COVID-19.
 - There was a \$2.2 million (10.5%) increase in purchased services primarily due to contracting for billing and collections services, information technology services, and laundry services, as well as the preparation necessary for COVID-19.
 - There was an increase of \$.50 million (3.5%) in depreciation and amortization expense due mainly to a net \$7.4 million increase in depreciable assets.
 - Other expense category changes (utilities, building and equipment rent, insurance, dues and subscriptions, travel and education, and other) increased \$0.1 million (1.2%) primarily due to an increase in insurance, rent, and marketing costs.

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 For the Years Ended June 30, 2021, 2020, and 2019

Capital Assets

At the end of 2020, the District had \$180.1 million in capital assets, net of depreciation, as detailed in the footnotes to the financial statements. At the end of 2021, the District had \$176.1 million invested in capital assets, net of depreciation. In 2021, the District improved facilities and acquired new equipment for a total net investment of \$9.6 million, net of disposals, as compared to \$14.5 million in 2020.

Debt Borrowings

At the end of 2021, the District had \$130.1 million in long-term debt borrowings outstanding including current maturities. At the end of 2020, the District had \$135.7 million in long-term debt borrowings outstanding including current maturities.

In January 2019, the District purchased land and a building in the amount of \$5.5 million, with seller financing of \$4.95 million of the purchase amount. The debt is to be repaid over 7 years at an interest rate of 4.00%, with a final maturity of February 2026.

In March 2019, the District replaced its copiers through a copier lease purchase agreement in the amount of \$0.24 million. The debt is to be repaid over 5 years at an interest rate of 4.05%, with a final maturity of March 2024.

In September 2019, the District refunded the Series C (2012) General Obligation Bonds totaling \$25.6 million with the Series 2019 General Obligation Refunding Bonds totaling \$24.7 million. The Series C (2012) were redeemed in full on September 4, 2019. The Series 2019 General Obligation Refunding Bonds mature August 2042.

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 2022 budget at a special board meeting in June 2021. For fiscal year 2022, the District is budgeted to increase its net position by \$18.0 million. The increase is due to the following assumptions:

- Net patient services revenue of \$235.5 million.
 - Outpatient volumes are projected to increase in fiscal year 2022, primarily in the multi-specialty clinics (4.8%), surgical services (11.7%) and medical oncology (21.3%). This is due to the addition of new providers in the area of primary care, OB/GYN, and ophthalmology, as well as increased volumes for existing providers in the specialty areas of ear, nose, throat, neurology, endocrinology, pediatrics, orthopedics, sports medicine, urgent care, oncology, 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.

Tahoe Forest Hospital District Management's Discussion and Analysis For the Years Ended June 30, 2021, 2020, and 2019

- Other operating revenue of \$13.8 million.
- Total operating expenses of \$242.6 million.
 - Overall operating expenses will increase 4.8% due to an increase in salaries, wages, and benefits due to an increase in our overall FTE's, medical supplies and pharmaceuticals related to patient volume and inflation, purchased services related to repairs and maintenance of our facilities and technology infrastructure, as well as coding, billing, and collection services, and other due to expected increases in rent, utilities, insurance and marketing. In addition, our overall operating costs will increase due to COVID-19.
- Income from operations of \$6.7 million.
- Nonoperating revenues of \$11.3 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.

Tahoe Forest Hospital District Management's Discussion and Analysis For the Years Ended June 30, 2021, 2020, and 2019

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.

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.

**Tahoe Forest Hospital District
Management's Discussion and Analysis
For the Years Ended June 30, 2021, 2020, and 2019**

Statistical Analysis

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Acute			
Admissions	1,475	1,626	1,765
Length of stay	3.67	3.41	3.28
Average daily census	14.81	15.16	15.89
Occupancy percentage	51%	52%	54%
Patient days	5,407	5,547	5,802
Total ICU days	1,531	1,311	1,240
Total medical/surgical days	2,720	2,818	2,843
Total obstetrics days	1,034	1,087	1,292
Total swing days	122	331	427
Nursery days	546	450	483
Deliveries	331	304	359
Skilled nursing units			
Patient days	8,496	9,902	11,673
Average daily census	23.28	27.05	31.98
Occupancy percentage	63%	73%	86%

Report of Independent Auditors

To the Board of Directors
Tahoe Forest Hospital District

Report on Combined Financial Statements

We have audited the accompanying combined financial statements of Tahoe Forest Hospital District (the “District”), and its discretely presented component unit, Truckee Surgery Center, LLC (the “TSC”), which comprise the combined statements of net position as of June 30, 2021 and 2020, and the related combined statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management’s Responsibility for the Combined Financial Statements

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

Auditor’s Responsibility

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

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the net position of the District and its discretely presented component unit, the TSC, as of June 30, 2021 and 2020, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

The Management's Discussion and Analysis on pages 1 through 9, is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational economic, or historical context. This supplementary information is the responsibility of the District's management. We have applied certain limited procedures in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Moss Adams LLP

Rancho Cordova, California
November 16, 2021

Combined Financial Statements
As of and for the Years Ended June 30, 2021 and 2020

Tahoe Forest Hospital District

Combined Statements of Net Position

June 30, 2021 and 2020

	2021		2020	
	Tahoe Forest Hospital District	Truckee Surgery Center, LLC	Tahoe Forest Hospital District	Truckee Surgery Center, LLC
ASSETS				
Current assets				
Cash and cash equivalents	\$ 91,298,018	\$ 26,853	\$ 61,288,670	\$ 62,117
Patient accounts receivable, net of allowances for doubtful accounts of \$7,537,588 and \$93,266 in 2021 and \$8,137,053 and \$81,472 in 2020	35,773,985	358,190	29,478,033	106,574
Other receivables	13,020,382	-	9,677,624	-
Assets limited as to use - required for current liabilities	9,882,909	-	8,135,165	-
Inventories	4,289,922	-	3,828,579	-
Prepaid expenses and deposits	2,228,183	68,063	2,478,503	20,228
Estimated amounts due from third-party payors	-	-	1,500,697	-
Total current assets	156,493,399	453,106	116,387,271	188,919
Assets limited as to use, net of current	71,593,371	-	75,049,108	-
Capital assets				
Nondepreciable	14,541,767	-	12,313,944	-
Depreciable, net of accumulated depreciation	161,565,109	757,440	167,774,449	797,483
	176,106,876	757,440	180,088,393	797,483
Other assets				
Beneficial interest in trusts	1,952,812	-	1,615,408	-
Other noncurrent receivables	869,252	20,256	1,020,976	20,256
Total assets	407,015,710	1,230,802	374,161,156	1,006,658
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on defeasance, net	5,390,379	-	5,705,772	-
Accumulated decrease in fair value of hedging derivative	1,387,922	-	1,847,362	-
Total deferred outflows of resources	6,778,301	-	7,553,134	-
LIABILITIES				
Current liabilities				
Current maturities of long-term debt and capital lease obligations	5,618,136	-	5,385,925	-
Accounts payable and accrued expenses	7,365,875	22,261	8,110,734	29,399
Accrued payroll and related expense	24,222,769	24,429	19,619,489	24,612
Medicare accelerated payments	19,052,194	-	20,380,537	-
Estimated claims incurred but not reported	7,288,804	-	5,707,406	-
Estimated amounts due to third-party payors	6,703,302	-	-	-
Other accrued expenses	9,358	4,908	74,218	6,071
Accrued interest	1,792,526	-	1,971,636	-
Total current liabilities	72,052,964	51,598	61,249,945	60,082
Long-term debt and capital lease obligations, net of current portion	124,461,117	-	130,266,872	-
Derivative instrument liability	1,387,922	-	1,847,362	-
Total liabilities	197,902,003	51,598	193,364,179	60,082
NET POSITION				
Net investment in capital assets	55,718,273	-	56,081,597	-
Restricted - expendable	4,969,414	-	4,205,423	-
Restricted - nonexpendable	74,809	-	54,309	-
Unrestricted	155,129,512	1,179,204	128,008,782	946,576
Total net position	\$ 215,892,008	\$ 1,179,204	\$ 188,350,111	\$ 946,576

Tahoe Forest Hospital District
Combined Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2021 and 2020

	2021		2020	
	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 \$21,054,750 and \$11,167 in 2021 and \$20,644,665 and \$52,647 in 2020)	\$ 237,686,222	\$ 1,344,346	\$ 205,978,890	\$ 536,310
Other operating revenue	11,751,964	-	12,447,917	7,074
Total operating revenues	<u>249,438,186</u>	<u>1,344,346</u>	<u>218,426,807</u>	<u>543,384</u>
Operating expenses				
Salaries and wages	88,958,242	523,506	79,154,107	625,587
Employee benefits	45,691,609	75,186	38,864,380	66,230
Professional fees	16,988,355	5,585	19,907,408	64,722
Supplies	31,196,037	573,161	28,824,447	417,507
Purchased services	23,600,665	17,442	21,362,582	16,487
Depreciation and amortization	13,630,505	40,043	13,166,216	28,361
Insurance	1,960,625	9,862	1,629,877	22,784
Other	8,002,250	363,686	8,211,911	383,879
Total operating expenses	<u>230,028,288</u>	<u>1,608,471</u>	<u>211,120,928</u>	<u>1,625,557</u>
Income (loss) from operations	<u>19,409,898</u>	<u>(264,125)</u>	<u>7,305,879</u>	<u>(1,082,173)</u>
Nonoperating revenues (expenses)				
Property tax revenue	8,432,091	-	7,984,820	-
Property tax revenue - general obligation bonds	4,900,434	-	5,220,126	-
Contributions, net	1,954,867	-	3,432,875	-
Interest income	713,109	-	1,805,664	-
Rental income	645,750	-	528,044	-
Interest expense	(4,792,312)	-	(5,056,442)	-
Gain on disposal of assets	-	-	7,546	-
Other nonoperating (loss) income	(3,225,187)	-	13,142,312	-
Total nonoperating revenues	<u>8,628,752</u>	<u>-</u>	<u>27,064,945</u>	<u>-</u>
Income (loss) before other revenue, expenses, gains, and losses	28,038,650	(264,125)	34,370,824	(1,082,173)
Capital transfers	(496,753)	496,753	(1,293,006)	1,293,006
Increase in net position	<u>27,541,897</u>	<u>232,628</u>	<u>33,077,818</u>	<u>210,833</u>
Net position, beginning of year	<u>188,350,111</u>	<u>946,576</u>	<u>155,272,293</u>	<u>735,743</u>
Net position, end of year	<u>\$ 215,892,008</u>	<u>\$ 1,179,204</u>	<u>\$ 188,350,111</u>	<u>\$ 946,576</u>

Tahoe Forest Hospital District

Combined Statements of Cash Flows

For the Years Ended June 30, 2021 and 2020

	2021		2020	
	Tahoe Forest Hospital District	Truckee Surgery Center, LLC	Tahoe Forest Hospital District	Truckee Surgery Center, LLC
Cash flows from operating activities				
Cash received from patients and third-party payors	\$ 239,594,269	\$ 1,092,730	\$ 201,671,181	\$ 663,581
Cash received from other sources	8,300,077	-	13,436,254	7,074
Medicare accelerated payments	(1,328,343)	-	20,380,537	-
Cash paid to suppliers for goods and services	(82,768,674)	(1,025,872)	(81,241,035)	(1,181,186)
Cash paid to employees for services	(128,337,231)	(598,875)	(115,307,649)	(674,451)
Net cash provided by (used in) operating activities	35,460,098	(532,017)	38,939,288	(1,184,982)
Cash flows from noncapital financing activities				
Property tax revenues	8,365,736	-	8,010,896	-
Noncapital grants and contributions, net of other expenses	(1,562,642)	-	16,966,306	-
Net cash provided by noncapital financing activities	6,803,094	-	24,977,202	-
Cash flows from capital and related financing activities				
Purchase of capital assets	(9,885,825)	-	(14,360,718)	(145,399)
Proceeds from sale of capital assets	236,837	-	73,828	-
Proceeds from issuance of general obligation bonds	-	-	25,855,018	-
Payments on general obligation bonds	(2,779,840)	-	(28,034,314)	-
Interest payments on general obligation bonds	(3,509,496)	-	(3,713,205)	-
Payments on long-term debt and capital leases	(2,290,693)	-	(2,223,914)	-
Interest payments on long-term debt and capital leases	(1,461,926)	-	(1,386,832)	-
Property tax revenue received for general obligation bonds	4,888,300	-	5,222,171	-
Capital transfer from Tahoe Forest Hospital District	-	496,753	-	1,293,006
Net cash (used in) provided by capital and related financing activities	(14,802,643)	496,753	(18,567,966)	1,147,607
Cash flows from investing activities				
Purchases of investments related to assets limited as to use	(4,371,217)	-	(13,083,041)	-
Sales of investments related to assets limited as to use	6,079,210	-	3,630,612	-
Interest received	713,109	-	1,805,664	-
Net cash received for rental activities	645,750	-	528,044	-
Purchases of investments in beneficial interest in trusts	(21,300)	-	(18,000)	-
Investment in Truckee Surgery Center, LLC	(496,753)	-	(1,293,006)	-
Net cash provided by (used in) investing activities	2,548,799	-	(8,429,727)	-
Net change in cash and cash equivalents	30,009,348	(35,264)	36,918,797	(37,375)
Cash and equivalents, beginning of year	61,288,670	62,117	24,369,873	99,492
Cash and equivalents, end of year	\$ 91,298,018	\$ 26,853	\$ 61,288,670	\$ 62,117

**Tahoe Forest Hospital District
Combined Statements of Cash Flows (Continued)
For the Years Ended June 30, 2021 and 2020**

	2021		2020	
	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	\$ 19,409,898	\$ (264,125)	\$ 7,305,879	\$ (1,082,173)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	13,630,505	40,043	13,166,216	28,361
Amortization of bond premiums/discounts and bond issuance costs	(187,618)	-	(137,833)	-
Provision for doubtful accounts	21,054,750	11,167	20,644,665	52,647
Change in assets and liabilities:				
Patient receivables, net	(27,350,702)	(262,783)	(22,904,856)	74,624
Other receivables	(3,264,269)	-	1,125,296	-
Inventories	(461,343)	-	(344,051)	-
Unconditional promises to give, net	-	-	874	-
Prepaid expenses and deposits	250,320	(47,835)	45,367	(20,228)
Other noncurrent receivables	127,942	-	(135,265)	-
Accounts payable and accrued expenses	(744,859)	(7,138)	(621,587)	(238,293)
Accrued payroll and related expense	4,603,280	(183)	2,750,459	17,366
Medicare accelerated payments	(1,328,343)	-	20,380,537	-
Estimated amounts due from third-party payors	1,500,697	-	(1,500,697)	-
Estimated claims incurred but not reported	1,581,398	-	95,644	-
Estimated amounts due to third-party payors	6,703,302	-	(546,821)	-
Other accrued expenses	(64,860)	(1,163)	(384,539)	(17,286)
Total adjustments	16,050,200	(267,892)	31,633,409	(102,809)
Net cash provided by (used in) operating activities	<u>\$ 35,460,098</u>	<u>\$ (532,017)</u>	<u>\$ 38,939,288</u>	<u>\$ (1,184,982)</u>
Supplemental disclosure of noncash investing and financing activities:				
Gain on disposal of capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (7,546)</u>	<u>\$ -</u>
Change in fair value of beneficial interest in trusts	<u>\$ 316,104</u>	<u>\$ -</u>	<u>\$ (91,981)</u>	<u>\$ -</u>
Capital expenditure funded by capital lease obligations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,011</u>	<u>\$ -</u>

Tahoe Forest Hospital District

Notes to Combined Financial Statements

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 person 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 2021 and 2020, the District advanced \$496,753 and \$1,293,006, 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 reports 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

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 worker’s compensation claims, 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 include amounts designated by the Board of Directors for replacement or purchases of capital assets, and other specific purposes, and amounts held by trustees under specified agreements. Amounts required to meet current liabilities of the District are included in current assets. Assets limited as to use also include investments in the LAIF.

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

Beneficial interest in trusts – The TFHSF has been named a beneficiary under the terms of the Community for Cancer Care Endowment (the “Fund”) administered by the Tahoe Truckee Community Foundation (“TTCF”). Under the terms of the agreement, distributions from the Fund 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 Foundation 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 Fund 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 Fund, the TFHSF granted variance power to TTCF. That power gives TTCF the right to distribute the income and principal of the Fund to another not-for-profit organization of its choice if the TFHSF ceases to exist or if that governing board of TTCF votes that support of TFHSF is no longer necessary or inconsistent with the needs of TTCF. The Fund had a value of \$1,847,728 and \$1,550,602 as of June 30, 2021 and 2020, 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 purpose of the endowment and improvement funds is to provide support to or for the benefit of the IVCHF and its activities in pursuit of its mission to deliver optimal health care services in the communities served by Incline Village Community Hospital. The IVCHF Endowment Fund (the “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 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 IVCHF, to revise the charitable intent of remaining funds to use for a purpose as similar to those set forth in the agreement. The Endowment had a value of \$105,084 and \$64,806 as of June 30, 2021 and 2020, respectively, and is reported in the combined financial statements as beneficial interest in trusts.

The Foundations’ interest in the endowment assets is 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 Funds, investment results, and distributions from the Funds.

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 2021 and 2020.

Tahoe Forest Hospital District Notes to Combined Financial Statements

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.

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. The District's interest cost capitalized was \$0 for the years ended June 30, 2021 and 2020.

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, 2021 and 2020, was \$420,207 and \$381,419, respectively. Amortization expense for each of the years ended June 30, 2021 and 2020, was \$38,788; and is estimated to be \$38,788 for each of the next five years.

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, 2021 and 2020, was \$47,100 and \$39,250, respectively. Amortization income for each of the years ended June 30, 2021 and 2020, 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, 2021 and 2020, was \$549,906 and \$458,255, respectively. Amortization expense for each of the years ended June 30, 2021 and 2020, 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, 2021 and 2020, was \$964,025 and \$771,220, respectively. Amortization expense for each of the years ended June 30, 2021 and 2020, was \$192,805; and is estimated to be \$192,805 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.

Tahoe Forest Hospital District

Notes to Combined Financial Statements

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, 2021 and 2020, were \$5,647,345 and \$4,842,325, respectively.

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion</u>
2021	\$ 4,842,325	\$ 1,393,572	\$ 588,552	\$ 5,647,345	\$ 5,647,345
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion</u>
2020	\$ 3,680,021	\$ 1,815,188	\$ 652,884	\$ 4,842,325	\$ 4,842,325

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.

Tahoe Forest Hospital District Notes to Combined Financial Statements

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.

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, \$15,499,801 and \$15,292,435 for the years ended June 30, 2021 and 2020, respectively. Using the District's Medicare cost to charge ratio, the estimated cost of these charges were \$6,800,507 and \$7,049,277 for the years ended June 30, 2021 and 2020, 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% and 6% of its financial support from property taxes for the years ended June 30, 2021 and 2020, respectively, 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.

Tahoe Forest Hospital District Notes to Combined Financial Statements

The District received approximately \$378,000 and \$13,521,000 of provider relief funds for the years ended June 30, 2021 and 2020, 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, 2020, the District recognized approximately \$13,521,000 of provider relief funds, included in other nonoperating (loss) income in the combined statements of revenues, expenses, and changes in net position. For the year ended June 30, 2021, the District has determined that it has not met all of the terms and conditions of the CARES Act grant, and accordingly, has recognized a refundable advance of approximately \$3,946,000 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.

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, 2021 and 2020, the District had \$19,052,194 and \$20,380,537, respectively, in accelerated payments, included in Medicare accelerated payments in the combined statements of financial position. During the year ended June 30, 2021, \$1,328,343 had been recouped.

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.

Tahoe Forest Hospital District Notes to Combined Financial Statements

New accounting pronouncements – In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities* (“GASB 84”), which provides improved guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (“GASB 95”), which extended the effective date for GASB 84 to reporting periods beginning after December 15, 2019. In June 2020, the GASB also issued GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation* (“GASB 97”). GASB No. 97 amends the criteria for reporting governmental fiduciary component units – separate legal entities included in a government’s financial statements. GASB 97 clarifies rules related to reporting of fiduciary activities under GASB Statement No. 14 and GASB 84 for defined contribution plans and to enhance the relevance, consistency, and comparability of the accounting and financial reporting of IRC Code section 457 plans that meet the definition of a pension plan. The District adopted GASB 84 and GASB 97 for the year beginning July 1, 2020. The adoption did not result in a material impact to the District’s combined financial statements.

In June 2017, the GASB issued GASB Statement No. 87, *Leases* (“GASB 87”), which intends to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB 87 increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. GASB 95 extended the effective date for GASB 87 to fiscal years beginning after June 15, 2021. The District is currently assessing the impact of this standard on the District’s combined financial statements.

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* (“GASB 89”). GASB 89 establishes accounting requirements for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. GASB 95 extended the effective date for GASB 89 to reporting periods beginning after December 15, 2020. The District is currently assessing the impact of this standard on the District’s combined financial statements.

In May 2019, the GASB also issued GASB Statement No. 91, *Conduit Debt Obligation* (“GASB 91”). GASB No. 91 provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. GASB 95 extended the effective date for GASB 91 to reporting periods beginning after December 15, 2021. The District is currently assessing the impact of this standard on the District’s combined financial statements.

Tahoe Forest Hospital District Notes to Combined Financial Statements

In March 2020, the GASB also issued GASB Statement No. 93, *Replacement of Interbank Offered Rates* ("GASB 93"). GASB 93 establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate ("LIBOR") for hedging derivative instruments. As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form after December 31, 2021. The requirements of this statement, except for paragraphs 11b, 13, and 14, are effective for reporting periods beginning after June 15, 2020. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2021. GASB 95 extended the effective date for paragraphs 13 and 14 to fiscal years beginning after June 15, 2021. 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, 2021, Tahoe Forest Hospital and Incline Village Community Hospital cost reports through June 30, 2019, 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, 2021, Tahoe Forest Hospital and Incline Village Community Hospital cost reports through June 30, 2019, have been audited or otherwise final settled. Medi-Cal I-IMO services are paid on a pre-determined rate and are not subject to cost reimbursement.

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, 2021 and 2020:

	2021	2020
Daily hospital service	\$ 38,736,127	\$ 34,783,400
Inpatient ancillary services	46,167,748	53,764,783
Outpatient services	370,962,255	292,274,930
Gross patient service revenues	455,866,130	380,823,113
Less contractual allowances and provision for doubtful accounts	(218,179,908)	(174,844,223)
Net patient service revenue at Tahoe Forest Hospital District	237,686,222	205,978,890
Net patient service revenue at Truckee Surgery Center, LLC	1,344,346	536,310
Total net patient service revenue	\$ 239,030,568	\$ 206,515,200

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

	2021	2020
Commercial	45%	44%
Medicare	36%	38%
Medi-Cal	16%	15%
Others	3%	3%
Total	100%	100%

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 \$600,000 and \$308,793 at June 30, 2021 and 2020, respectively. This program requires a qualitative assessment of certain metrics and is subject to future audits by CMS.

The District receives funds through the AB 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 \$11,442,897 at June 30, 2021, for funds related to fiscal years 2021 and 2020, and a receivable of \$7,818,657 at June 30, 2020, for funds related to fiscal years 2020 and 2019.

Tahoe Forest Hospital District Notes to Combined Financial Statements

NOTE 3 – CASH AND CASH EQUIVALENTS AND ASSETS LIMITED AS TO USE

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, 2021 and 2020, the District’s cash deposits had carrying amounts of \$91,298,018 and \$61,288,670, and bank balances of \$93,186,658 and \$60,832,542, 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, 2021 and 2020, cash and cash equivalents and assets limited as to use, at carrying value, consisted of the following:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 91,298,018	\$ 61,288,670
Assets limited as to use - required for current liabilities	9,882,909	8,135,165
Assets limited as to use, net of current	<u>71,593,371</u>	<u>75,049,108</u>
Total at Tahoe Forest Hospital District	<u>172,774,298</u>	<u>144,472,943</u>
Total Truckee Surgery Center, LLC	<u>26,853</u>	<u>62,117</u>
Total	<u>\$ 172,801,151</u>	<u>\$ 144,535,060</u>

As of June 30, 2021 and 2020, assets limited as to use, at carrying value, have been set aside as follows:

	<u>2021</u>	<u>2020</u>
Board designated assets	\$ 75,556,021	\$ 75,547,390
Assets held by trustees	<u>5,920,259</u>	<u>7,636,883</u>
Total	<u>\$ 81,476,280</u>	<u>\$ 83,184,273</u>

Tahoe Forest Hospital District Notes to Combined Financial Statements

A summary of scheduled maturities by investment type at June 30, 2021 and 2020, were as follows:

Investment type	2021			
	Carrying Value	Investment Maturities (in years)		
		Less than 1	1 to 5	6 to 10+
Cash and cash equivalents	\$ 97,801,152	\$ 97,801,152	\$ -	\$ -
Local agency investment fund	74,999,999	74,999,999	-	-
Total	\$ 172,801,151	\$ 172,801,151	\$ -	\$ -

Investment type	2020			
	Carrying Value	Investment Maturities (in years)		
		Less than 1	1 to 5	6 to 10+
Cash and cash equivalents	\$ 69,535,241	\$ 69,535,241	\$ -	\$ -
Local agency investment fund	74,999,819	74,999,819	-	-
Total	\$ 144,535,060	\$ 144,535,060	\$ -	\$ -

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

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, 2021.

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, 2021 and 2020.

Beneficial interest in trusts – As described in Note 1, the Foundations are the beneficiary of funds held at TTCF and Parasol. 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, 2021 and 2020.

Hedging derivative – The fair value of the hedging derivative is valued using market to market valuations as of June 30, 2021 and 2020.

Tahoe Forest Hospital District Notes to Combined Financial Statements

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:

<u>Description</u>	2021			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Hedging derivative	\$ -	\$ (1,387,922)	\$ -	\$ (1,387,922)
Beneficial interest in trusts	-	-	1,952,812	1,952,812
Total by fair value level	<u>\$ -</u>	<u>\$ (1,387,922)</u>	<u>\$ 1,952,812</u>	<u>564,890</u>
Cash and cash equivalents				<u>97,801,152</u>
Total				<u>\$ 98,366,042</u>

<u>Description</u>	2020			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Hedging derivative	\$ -	\$ (1,847,362)	\$ -	\$ (1,847,362)
Beneficial interest in trusts	-	-	1,615,408	1,615,408
Total by fair value level	<u>\$ -</u>	<u>\$ (1,847,362)</u>	<u>\$ 1,615,408</u>	<u>(231,954)</u>
Cash and cash equivalents				<u>69,535,241</u>
Total				<u>\$ 69,303,287</u>

The following table summarizes the changes in the District's Level 3 financial instruments for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 1,615,408	\$ 1,689,389
Additional amounts invested in Fund	21,300	18,000
Change in value of beneficial interest in trusts	<u>316,104</u>	<u>(91,981)</u>
Ending balance	<u>\$ 1,952,812</u>	<u>\$ 1,615,408</u>

The table below presents information about significant unobservable inputs related to material categories of Level 3 financial instruments as of June 30, 2021:

<u>Description</u>	<u>Fair Value as of June 30, 2021</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range</u>
Beneficial interest in trusts	\$ 1,952,812	Asset fair value from Trustee	Asset fair value from Trustee	Varies

Tahoe Forest Hospital District

Notes to Combined Financial Statements

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.

Patient accounts receivable is comprised of the following as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Medicare and Medicare managed care	\$ 23,366,833	\$ 19,177,986
Medi-Cal and Medi-Cal managed care	21,044,919	20,340,786
Other payors	32,659,323	27,446,809
Self-pay	<u>9,646,026</u>	<u>10,424,355</u>
Gross patient accounts receivable	86,717,101	77,389,936
Less allowances for contractual adjustments and bad debts	<u>(50,943,116)</u>	<u>(47,911,903)</u>
Net patient accounts receivable at Tahoe Forest Hospital District	<u>35,773,985</u>	<u>29,478,033</u>
Net patient accounts receivable at Truckee Surgery Center, LLC	<u>358,190</u>	<u>106,574</u>
Total net patient accounts receivable	<u>\$ 36,132,175</u>	<u>\$ 29,584,607</u>

Concentration of net patient accounts receivable as of June 30, 2021 and 2020, were as follows:

	<u>2021</u>	<u>2020</u>
Commercial and other payors	55%	51%
Medicare	30%	27%
Medi-Cal	9%	14%
Self-pay	<u>6%</u>	<u>8%</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, 2021 and 2020, were as follows:

	2021				Balance June 30, 2021
	Balance June 30, 2020	Increases	Decreases	Transfers	
Capital assets - nondepreciable					
Land	\$ 3,212,997	\$ 3,900,000	\$ -	\$ -	\$ 7,112,997
Construction in progress, net	8,189,979	3,810,364	(104,255)	(5,378,286)	6,517,802
Property held for future expansion	910,968	-	-	-	910,968
	<u>12,313,944</u>	<u>7,710,364</u>	<u>(104,255)</u>	<u>(5,378,286)</u>	<u>14,541,767</u>
Capital assets - depreciable					
Land improvements	5,616,084	-	-	111,632	5,727,716
Building and improvements	222,810,080	1,354	(132,582)	1,805,931	224,484,783
Equipment and software	97,619,413	2,174,107	-	3,460,723	103,254,243
Capital assets at Truckee Surgery Center, LLC	1,342,937	-	-	-	1,342,937
	<u>327,388,514</u>	<u>2,175,461</u>	<u>(132,582)</u>	<u>5,378,286</u>	<u>334,809,679</u>
Less accumulated depreciation for					
Land improvements	3,287,141	124,690	-	-	3,411,831
Building and improvements	75,511,420	8,227,351	-	-	83,738,771
Equipment and software	79,472,567	5,278,464	-	-	84,751,031
Capital assets at Truckee Surgery Center, LLC	545,454	40,043	-	-	585,497
	<u>158,816,582</u>	<u>13,670,548</u>	<u>-</u>	<u>-</u>	<u>172,487,130</u>
Total capital assets - depreciable, net	<u>168,571,932</u>	<u>(11,495,087)</u>	<u>(132,582)</u>	<u>5,378,286</u>	<u>162,322,549</u>
Total capital assets, net	<u>\$ 180,885,876</u>	<u>\$ (3,784,723)</u>	<u>\$ (236,837)</u>	<u>\$ -</u>	<u>\$ 176,864,316</u>
	2020				Balance June 30, 2020
	Balance June 30, 2019	Increases	Decreases	Transfers	Balance June 30, 2020
Capital assets - nondepreciable					
Land	\$ 2,829,147	\$ 383,850	\$ -	\$ -	\$ 3,212,997
Construction in progress, net	15,643,342	6,064,574	-	(13,517,937)	8,189,979
Property held for future expansion	845,258	65,710	-	-	910,968
	<u>19,317,747</u>	<u>6,514,134</u>	<u>-</u>	<u>(13,517,937)</u>	<u>12,313,944</u>
Capital assets - depreciable					
Land improvements	5,432,813	-	-	183,271	5,616,084
Building and improvements	205,680,346	4,131,016	(66,282)	13,065,000	222,810,080
Equipment and software	93,608,168	3,741,579	-	269,666	97,619,413
Capital assets at Truckee Surgery Center, LLC	1,197,538	145,399	-	-	1,342,937
	<u>305,918,865</u>	<u>8,017,994</u>	<u>(66,282)</u>	<u>13,517,937</u>	<u>327,388,514</u>
Less accumulated depreciation for					
Land improvements	3,138,629	148,512	-	-	3,287,141
Building and improvements	67,450,298	8,061,122	-	-	75,511,420
Equipment and software	74,515,985	4,956,582	-	-	79,472,567
Capital assets at Truckee Surgery Center, LLC	517,093	28,361	-	-	545,454
	<u>145,622,005</u>	<u>13,194,577</u>	<u>-</u>	<u>-</u>	<u>158,816,582</u>
Total capital assets - depreciable, net	<u>160,296,860</u>	<u>(5,176,583)</u>	<u>(66,282)</u>	<u>13,517,937</u>	<u>168,571,932</u>
Total capital assets, net	<u>\$ 179,614,607</u>	<u>\$ 1,337,551</u>	<u>\$ (66,282)</u>	<u>\$ -</u>	<u>\$ 180,885,876</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, 2021 and 2020, were as follows:

2021						
	Date of Issue	Date of Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2021
General obligation bonds						
2016 GOB	March 2016	August 2040	2.00% - 5.00%	\$840,000 - \$3,625,000	\$ 45,110,000	\$ 41,985,000
2015 GOB	February 2015	August 2038	2.00% - 5.00%	\$585,000 - \$2,895,000	30,810,000	28,770,000
2019 GOB	September 2019	August 2042	3.00% - 5.00%	\$340,000 - \$2,270,000	24,710,000	24,370,000
Revenue bonds						
Series 2017	March 2017	July 2032	1.49%	\$523,406 - \$663,805	9,060,000	7,160,369
Series 2015	March 2015	July 2033	3.87%	\$1,004,243 - \$1,583,873	20,979,000	16,561,394
Notes payable						
11046 Donner Pass Road	January 2019	February 2026	4.00%	\$533,255 - \$773,730	4,950,000	3,451,139
Opus Bank Muni Lease	October 2018	November 2023	2.82%	\$714,103 - \$1,671,641	8,000,000	4,010,960
Capital lease obligations						
US Bank Equipment Financing	September 2019	September 2024	8.30%	\$273 monthly	18,176	12,366
US Bank Equipment Financing	October 2019	October 2024	8.28%	\$117 monthly	7,835	5,454
Westamerica Bank	March 2019	March 2024	4.05%	\$39,111 - \$50,336	239,669	137,789
					\$ 143,884,680	\$ 126,464,471
2020						
	Date of Issue	Date of Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2020
General obligation bonds						
2016 GOB	March 2016	August 2040	2.00% - 5.00%	\$755,000 - \$3,625,000	\$ 45,110,000	\$ 42,740,000
2015 GOB	February 2015	August 2038	2.00% - 5.00%	\$510,000 - \$2,895,000	30,810,000	29,280,000
Series C (2012) GOB	July 2012	August 2042	3.00% - 5.50%	\$175,000 - \$2,440,000	26,100,000	-
2019 GOB	September 2019	August 2042	3.00% - 5.00%	\$290,000 - \$2,270,000	24,710,000	24,710,000
Revenue bonds						
Series 2017	March 2017	July 2032	1.49%	\$503,082 - \$663,805	9,060,000	7,683,775
Series 2015	March 2015	July 2033	3.87%	\$896,124 - \$1,583,873	20,979,000	17,528,221
Notes payable						
11046 Donner Pass Road	January 2019	February 2026	4.00%	\$533,255 - \$773,730	4,950,000	4,110,645
Opus Bank Muni Lease	October 2018	November 2023	2.82%	\$714,103 - \$1,671,641	8,000,000	5,591,038
Capital lease obligations						
US Bank Equipment Financing	June 2016	June 2021	5.28%	\$228 monthly	12,069	-
US Bank Equipment Financing	June 2014	June 2019	4.40%	\$727 monthly	39,240	-
US Bank Equipment Financing	September 2019	September 2024	8.30%	\$273 monthly	18,176	15,644
US Bank Equipment Financing	October 2019	October 2024	8.28%	\$117 monthly	7,835	6,859
Westamerica Bank	March 2019	March 2024	4.05%	\$39,111 - \$50,336	239,669	184,215
					\$ 170,035,989	\$ 131,850,397

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, 2021 and 2020:

	2021				
	Balance June 30, 2020	Net Borrowings and Issuance Proceeds	Payments and Bond Premium/Discount Amortization During the Year	Balance June 30, 2021	Current Portion
2016 General obligation bond	\$ 42,740,000	\$ -	\$ (755,000)	\$ 41,985,000	\$ 840,000
2015 General obligation bond	29,280,000	-	(510,000)	28,770,000	585,000
2019 General obligation bond	24,710,000	-	(340,000)	24,370,000	290,000
General obligation bond premium/discount	3,802,400	-	(187,618)	3,614,782	-
Series 2017 Revenue bonds	7,683,775	-	(523,406)	7,160,369	533,874
Series 2015 Revenue bonds	17,528,221	-	(966,827)	16,561,394	1,004,243
11046 Donner Pass Road	4,110,645	-	(659,506)	3,451,139	686,374
Opus Bank Muni Lease	5,591,038	-	(1,580,078)	4,010,960	1,625,217
US Bank equipment financing	15,644	-	(3,278)	12,366	3,561
US Bank equipment financing	6,859	-	(1,405)	5,454	1,525
Westamerica Bank	184,215	-	(46,426)	137,789	48,342
	<u>\$ 135,652,797</u>	<u>\$ -</u>	<u>\$ (5,573,544)</u>	<u>\$ 130,079,253</u>	<u>\$ 5,618,136</u>

	2020				
	Balance June 30, 2019	Net Borrowings and Issuance Proceeds	Payments and Bond Premium/Discount Amortization During the Year	Balance June 30, 2020	Current Portion
2016 General obligation bond	\$ 43,415,000	\$ -	\$ (675,000)	\$ 42,740,000	\$ 755,000
2015 General obligation bond	29,715,000	-	(435,000)	29,280,000	510,000
Series C (2012) General obligation bond	25,790,000	-	(25,790,000)	-	-
2019 General obligation bond	-	24,710,000	-	24,710,000	340,000
General obligation bond premium/discount	2,795,215	1,145,018	(137,833)	3,802,400	-
Series 2017 Revenue bonds	8,196,918	-	(513,143)	7,683,775	523,406
Series 2015 Revenue bonds	18,459,025	-	(930,804)	17,528,221	966,827
11046 Donner Pass Road	4,744,332	-	(633,687)	4,110,645	659,505
Opus Bank Muni Lease	7,127,231	-	(1,536,193)	5,591,038	1,580,078
US Bank equipment financing	5,213	-	(5,213)	-	-
US Bank equipment financing	727	-	(727)	-	-
US Bank equipment financing	-	18,176	(2,532)	15,644	3,278
US Bank equipment financing	-	7,835	(976)	6,859	1,405
Westamerica Bank	228,801	-	(44,586)	184,215	46,426
	<u>\$ 140,477,462</u>	<u>\$ 25,881,029</u>	<u>\$ (30,705,694)</u>	<u>\$ 135,652,797</u>	<u>\$ 5,385,925</u>

As of June 30, 2021, the District's long-term debt and capital lease obligation requirements to maturity, excluding unamortized bond premium and bond issuance costs of \$3,614,782, are as follows:

Years Ending June 30,	Long-Term Debt			Capital Lease Obligations		
	Principal	Interest	Total	Principal	Interest	Total
2022	\$ 5,564,708	\$ 4,178,015	\$ 9,742,723	\$ 53,428	\$ 5,977	\$ 59,405
2023	5,918,638	3,978,442	9,897,080	55,861	3,544	59,405
2024	5,291,462	3,781,828	9,073,290	45,111	1,036	46,147
2025	4,905,687	3,585,558	8,491,245	1,209	14	1,223
2026	5,010,097	3,376,546	8,386,643	-	-	-
2027 - 2031	28,236,894	13,758,194	41,995,088	-	-	-
2032 - 2036	34,046,376	8,186,392	42,232,768	-	-	-
2037 - Thereafter	37,335,000	2,734,951	40,069,951	-	-	-
	<u>\$ 126,308,862</u>	<u>\$ 43,579,926</u>	<u>\$ 169,888,788</u>	<u>\$ 155,609</u>	<u>\$ 10,571</u>	<u>\$ 166,180</u>

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

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 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

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.

As interest rates have declined since execution of the swap, the swap had negative fair values of \$1,387,922 and \$1,847,362 as of June 30, 2021 and 2020, 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 \$1,387,922 and \$1,847,362 at June 30, 2021 and 2020, 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, 2021, 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, 2021. 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.

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.

Tahoe Forest Hospital District Notes to Combined Financial Statements

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, 2021 and 2020.

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 \$350,000 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, 2021 and 2020, has been included in the accompanying combined statements of net position under estimated claims incurred but not reported.

The following is a summary of the changes in the workers' compensation and employee health insurance liabilities for the years ended June 30, 2021 and 2020:

	2021			Balance June 30, 2021
	Balance June 30, 2020	Increases	Decreases	
Workers' compensation	\$ 2,173,244	\$ 1,007,732	\$ -	\$ 3,180,976
Employee health	2,171,369	232,314	-	2,403,683
	<u>\$ 4,344,613</u>	<u>\$ 1,240,046</u>	<u>\$ -</u>	<u>\$ 5,584,659</u>
	2020			
	Balance June 30, 2019	Increases	Decreases	Balance June 30, 2020
Workers' compensation	\$ 2,396,860	\$ -	\$ (223,616)	\$ 2,173,244
Employee health	2,042,670	128,699	-	2,171,369
	<u>\$ 4,439,530</u>	<u>\$ 128,699</u>	<u>\$ (223,616)</u>	<u>\$ 4,344,613</u>

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

Tahoe Forest Hospital District Notes to Combined Financial Statements

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 \$1,704,145 and \$1,362,793 for the years ended June 30, 2021 and 2020, respectively.

NOTE 10 – RESTRICTED NET ASSETS

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

	2021	2020
Restricted - expendable net assets		
Cancer prevention	\$ 622,311	\$ 586,583
Cancer care	1,847,728	1,545,219
Hospice and other	2,499,375	2,073,621
	\$ 4,969,414	\$ 4,205,423
Restricted - nonexpendable net assets		
Investments in perpetuity, Parasol endowment	\$ 74,809	\$ 54,309
	\$ 74,809	\$ 54,309

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.

Tahoe Forest Hospital District Notes to Combined Financial Statements

Total employer contributions under the above retirement plans were \$6,294,548 and \$5,682,907 for the years ended June 30, 2021 and 2020, respectively. As of June 30, 2021 and 2020, the District has accrued \$3,132,879 and \$2,619,302, 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, 2021 and 2020, the District had recorded \$6,517,802 and \$8,189,979, 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, 2021, is \$9,658,644.

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.

Tahoe Forest Hospital District Notes to Combined Financial Statements

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, 2021, does not expect to incur a significant liability.

Operating leases – The District leases various equipment and facilities under operating leases expiring at various dates. Total building and equipment rent expense for the years ended June 30, 2021 and 2020, were \$3,216,605 and \$2,957,980, respectively. Future minimum lease payments, by year and in the aggregate, for all operating leases consist of the following:

Years ending June 30,

2022	\$ 1,894,760
2023	986,032
2024	880,741
2025	463,479
2026	261,682
Thereafter	<u>219,945</u>
	<u>\$ 4,706,639</u>

NOTE 13 – 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 Districts 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.

