



Report of Independent Auditors and
Combined Financial Statements

Tahoe Forest Hospital District

June 30, 2024 and 2023

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Management's Discussion and Analysis

Tahoe Forest Hospital District

Management's Discussion and Analysis

For the Years Ended June 30, 2024, 2023, and 2022

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

Our discussion and analysis of the District financial performance provides an overview of the District's financial activities for the years ended June 30, 2024, 2023, and 2022. Please read this in conjunction with the District's combined financial statements and accompanying notes, which begin on page 14. 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 2024

- The District's increase in net position was \$37.9 million for 2024 as compared to \$25.7 million for 2023.
- The District's income from operations for fiscal year 2024 was \$14.5 million as compared to \$8.9 million for 2023.
- Nonoperating revenues were \$24.0 million in fiscal year 2024 as compared to \$17.6 million for 2023.

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, 2024 and 2023.

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.

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Management's Discussion and Analysis

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The Statement of Cash Flows

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

The District's Net Position

The District's net position is the difference between its assets and liabilities reported in the combined statements of net position found on page 14. The District's net position changed by \$37.9 million for 2024 as compared to \$25.7 million for 2023, as presented in the following table (amounts are in thousands):

	As of June 30,		
	2024	2023	2022
Current assets	\$ 160,792	\$ 121,019	\$ 101,733
Capital assets	200,341	198,955	188,541
Other noncurrent assets	159,423	157,301	167,413
Total assets	520,556	477,275	457,687
Deferred outflows of resources	4,593	5,017	5,729
Current liabilities	69,329	59,509	63,322
Long-term liabilities	143,604	148,470	151,492
Total liabilities	212,933	207,979	214,814
Net investment in capital assets	97,427	90,458	74,155
Restricted - expendable	4,247	7,729	6,538
Restricted - nonexpendable	604	604	79
Unrestricted	209,939	175,522	167,830
Total net position	\$ 312,216	\$ 274,313	\$ 248,602

Tahoe Forest Hospital District

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Operating Results and Changes in the District's Net Position

During 2024, the District's net position increased by \$37.9 million as compared to \$25.7 million in 2023, as presented in the following table. These increases are comprised of operating and nonoperating components and represent the total change in net position of the District. Five areas of expenses created significant differences between 2024 and 2023: salaries, wages, and benefits increased by \$17.6 million, professional fees increased by \$0.6 million, supplies increased \$4.0 million, purchased services decreased by \$0.3 million, and depreciation and amortization increased \$0.7 million. The increase in salaries, wages, and benefits is due to increased staffing, merit increases, management incentive compensation bonuses, employee gain-sharing bonus program, additional employment of physicians, and increased utilization of the District's self-insured health insurance program inclusive of high dollar claims. The increase in professional fees is primarily due to consulting for process improvement work. The increase in supplies is primarily due to pharmaceuticals and medical supply costs, which is directly connected to the increase in volumes, inflation, and supply shortages. The decrease in purchased services is primarily due lower snow removal costs and the elimination of our employee parking shuttle service. The increase in depreciation and amortization is due to a net \$16.6 million increase in depreciable assets.

	Fiscal years ended June 30,		
	2024	2023	2022
Operating revenues (thousands)			
Net patient service revenues	\$ 306,941	\$ 284,394	\$ 263,836
Other operating revenues	21,988	16,289	13,979
Total operating revenues	328,929	300,683	277,816
Operating expenses (thousands)			
Salaries and wages	133,867	122,564	99,485
Employee benefits	67,793	61,461	48,215
Professional fees	9,255	8,642	18,847
Supplies	46,679	42,662	36,925
Purchased services	24,394	24,713	22,208
Depreciation and amortization	20,445	19,757	18,209
Other operating expenses	11,994	11,959	10,152
Total operating expenses	314,426	291,758	254,041
Income from operations	14,503	8,926	23,775
Nonoperating revenue (expenses) (thousands)			
Property tax revenue	10,804	10,215	9,151
Property tax revenue - general obligation bonds	5,581	5,708	5,569
Interest expense	(5,636)	(5,804)	(6,018)
Other nonoperating revenues	13,294	7,447	935
Total nonoperating revenues	24,043	17,566	9,636
Income before other revenue, expenses, gains, and losses	38,546	26,492	33,411
Capital transfers	(642)	(780)	(561)
Increase in net position	\$ 37,903	\$ 25,711	\$ 32,850

**Tahoe Forest Hospital District
Management's Discussion and Analysis
For the Years Ended June 30, 2024, 2023, and 2022**

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 2024 was \$14.5 million as compared to \$8.9 million in 2023. Total nonoperating revenues in 2024 was \$24.0 million as compared to \$17.6 million in 2023.

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

- Net patient service revenues increased in 2024 by \$22.5 million (7.9%) due to a combination of changes in volumes, changes in payor mix, a charge increase, less requests for patient financial assistance, and additional reimbursements related to prior periods. Inpatient census days decreased in 2024 to 4,795 from 4,868 in 2023. Adjusted patient days were up 1.2% in 2024 as compared to 2023. Inpatient charges increased by \$9.4 million to \$91.9 million in 2024 from \$82.5 million in 2023. Outpatient charges increased by \$73.5 million to \$555.7 million in 2024 from \$482.2 million in 2023, and as a percentage of total charges, outpatient charges increased to 85.8% of the total in 2024 from 85.4% in 2023. In addition, contractual allowances, charity care, and bad debt increased \$60.3 million to \$340.6 million in 2024 from \$280.3 million in 2023. Prior period settlements increased \$2.2 million to \$3.0 million in 2024 from \$0.8 million in 2023.
- An increase in other operating revenues of \$5.7 million (35.0%) in 2024.
- Operating expenses increased by \$22.7 million (7.8%) in 2024 due to added services and providers, additional full time equivalents (FTEs) including employed physicians, employee gain sharing program, management incentive compensation bonuses, merit increases, increased health insurance utilization, consulting for process improvement work, increased pharmaceutical and medical supply costs, and increased costs related to education and travel.

Employee salaries, wages, and benefits were \$201.7 million in 2024 and \$184.0 million in 2023. The components of these costs are as follows:

- Salaries and wages totaled \$133.9 million in 2024 and \$122.6 million in 2023. Staffing, as measured by paid FTEs, was 1,112 in 2024 and 1,060 in 2023. The employee gain-sharing program and management incentive compensation bonuses totaled \$8.4 million in 2024 and \$5.3 million in 2023.
- Benefits totaled \$67.8 million in 2024 and \$61.4 million in 2023. The benefits associated with the employee gain-sharing program and management incentive compensation bonuses totaled \$2.6 million in 2024 and \$2.2 million in 2023.
- Salaries, wages, and benefits per paid FTE were \$181,349 in 2024 and \$173,608 in 2023. If we were to remove the June 30, 2024 and 2023 gain-sharing program and management incentive compensation bonuses from salaries, wages, and benefits, then the amount per paid FTE was \$171,455 in 2024 and \$166,518 in 2023.

**Tahoe Forest Hospital District
Management's Discussion and Analysis
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- Other changes were as follows:
 - ◆ There was an increase of \$0.6 million (7.1%) in professional fees. This was primarily due to consulting services for process improvement work.
 - ◆ There was a \$4.0 million (9.4%) increase in supplies primarily due to increase in pharmaceuticals and medical supply costs, which is directly connected to the increase in volumes, inflation, and supply shortages.
 - ◆ There was a \$0.3 million (1.3%) decrease in purchased services primarily due to lower snow removal costs and the elimination of our employee parking shuttle service.
 - ◆ There was an increase of \$0.7 million (3.5%) in depreciation and amortization expense due mainly to a net \$16.6 million increase in depreciable assets.
 - ◆ Other expense category changes (utilities, insurance, dues and subscriptions, travel and education, and other) increased \$0.04 million (0.3%) primarily due to an increase in education and travel costs, as well and equipment rent for two mobile CT units.

Nonoperating Revenues and Expenses

Nonoperating revenues consist of property taxes paid to the District, investment income, contributions, unrealized gains and losses, interest expense, 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.

Capital Assets

At the end of 2023, the District had \$199.0 million in capital assets, net of depreciation, as detailed in the footnotes to the combined financial statements. At the end of 2024, the District had \$200.3 million invested in capital assets, net of depreciation. In 2024, the District improved facilities and acquired new equipment for a total net investment of \$16.3 million, net of disposals, as compared to \$25.3 million in 2023.

Debt Borrowings

At the end of 2023, the District had \$118.1 million in long-term debt borrowings outstanding including current maturities. At the end of 2024, the District had \$112.6 million in long-term debt borrowings outstanding including current maturities.

There was no new debt financing in 2023 or 2024.

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Statistical Analysis

	2024	2023	2022
Acute			
Admissions	1,555	1,504	1,488
Length of stay	3.08	3.24	3.73
Average daily census	13.10	13.34	15.22
Occupancy percentage	45%	46%	52%
Patient days	4,795	4,868	5,554
Total ICU days	999	1,012	1,447
Total medical/surgical days	2,508	2,499	2,936
Total obstetrics days	1,288	1,357	1,171
Total swing days	279	287	408
Nursery days	493	488	623
Deliveries	367	375	366
Skilled nursing units			
Patient days	10,948	9,422	7,473
Average daily census	29.91	25.81	20.47
Occupancy percentage	81%	70%	55%
Outpatient			
Emergency department visits	14,010	14,808	13,700
Surgical cases	2,186	1,998	2,032
Laboratory tests	169,857	169,697	170,571
Nuclear medicine	364	351	367
MRI	3,577	2,479	2,751
Ultrasounds	4,581	4,476	4,174
CAT scans	8,703	7,890	7,177
Diagnostic imaging & mammography	17,733	17,196	16,399
Medical oncology procedures	11,463	10,448	11,381
Radiation oncology procedures	5,175	5,862	5,816
PET CTs	485	418	400

Other Economic Factors: Summary Fiscal Year 2024 and Looking Forward to Fiscal Year 2025

We are pleased to report that we are completing our fiscal year (FY) 2024 in a very positive manner. FY 2024 will be the first year we will have ever exceeded \$300 million in net patient service revenues, thanks to the support from our community and the patients we serve. In addition to our financial position, there has been much we have been able to accomplish.

As always, we must always recognize and honor our patients first. We have heard the challenges our patients face when trying to access care at the District and have invested significant resources to improve this situation. We have embarked on a multi-year process improvement journey embracing a management systems approach to improve access to care. With this important work and the addition of necessary providers, we expect to see improvements in our wait times for appointments for our patients in FY 2025, as well as continued growth in our provider office visits.

As the District has grown to be the second largest Critical Access Health System in the US per data extracted from the journal Modern Healthcare (dated January 2, 2023), we have had to continue to be nimble and creative in our approach to finding space and locations for providers and patients alike. We have been able to acquire a new space under a long-term lease, and purchased two new locations in order to expand services. In addition, we've been able to expand availability of current services in several existing locations by adding additional open hours per day and additional days of the week.

Tahoe Forest Hospital District Management's Discussion and Analysis For the Years Ended June 30, 2024, 2023, and 2022

During FY 2024, we recognized the need to implement a few critical programs to further support our community and patients such as the Cardiac Pacemaker, Defibrillator and Right Sided Heart Catheterization program, as well as the Telestroke/Teleneurology program. Both have been quite successful with great outcomes for our patients.

We have continued to invest in equipment and technology within our District. Thanks to the Helmsley Family Trust and the IVCHF, we were able to replace our X-Ray and CT scanner at Incline Village Community Hospital, and add Mammography as a new service line too! It is wonderful to see the support from our Foundation to help us add a much needed service for our patients in Incline Village.

We have also continued to work on our remaining seismic projects, which are also tied to some equipment and technology replacement, at Tahoe Forest Hospital. In FY 2024 and 2025, we are working to update the OR suites, which requires a significant coordinated effort to keep the other rooms operational during construction. We have begun the replacement of our CT scanner. We also have X-Ray, Fluoroscopy, Nuclear Medicine, and the PET CT all on the horizon in FY 2025 and 2026. We expect to replace our Radiology PACs system in FY 2025, which stores all radiology images, which will be a great improvement for our medical staff and our patients.

Our Information Technology (IT) department has been quite busy protecting the District from the numerous cybersecurity threats. They have implemented enhanced measures and securities to keep us safe from harm. All staff members remain extremely diligent in making sure the technology infrastructure stays as secure as possible. Of course that has not been the only focus of IT. They have worked hard to support the implementation of our clinic projects such as Epiphany and the integration of the new infusion pumps with EPIC. They have also been working hard on the implementation of Microsoft Office 365, which is a huge undertaking. In FY 2025, they will be looking to upgrade our telephony/communications systems.

It is also worth mentioning that the District has been facing, and will continue to face, challenges with new legislation. One to note is the Office of Health Care Affordability (OHCA), which will put significant pressure on the District. OHCA's directives will limit revenue growth, which will force expense reductions. This will be a challenging directive to carry out based on the current economic conditions, such as labor, medical supply and pharmaceutical costs and inflation factors.

On a more upbeat note, this year we have been able to celebrate our team's success and longevity with a historic and significant milestone - 75 years of providing lifesaving health care to our community. This couldn't happen without an amazing team and community! We look forward to another 75 plus years!

We continue to look forward each year as a team. We have focused effort on our 1 year goals and our 5 year winning aspirations. We have thoughtfully incorporated resources into the FY 2025 budget to help us accomplish our goals.

Protecting at least a BBB- financial strength will be critically important, but an A- or better investment rating for the District is one of our winning aspirations and is a foundational goal. Our team's pledge is to protect the District for the long term and to not propose actions which could place long term sustainability in jeopardy.

Tahoe Forest Hospital District

Management's Discussion and Analysis

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The District's Board of Directors approved the FY 2025 budget at a board meeting in June 2024. For FY 2025, the District is budgeted to increase its net position by \$18.3 million. The increase is due to the following assumptions:

- Net patient services revenue of \$314.9 million.
 - ◆ Outpatient volumes are projected to increase in fiscal year 2025, primarily in the primary care and multi-specialty clinics (5.1%), gastroenterology procedures (49%), and mammography exams (6.3%). This is due to the addition of new providers in the area of primary care, specialty care, and gastroenterology, as well as increased volumes for existing providers in just about all specialty areas and primary care. Increase in mammography exams is due to the addition of mammography at our Incline Village Community Hospital location.
 - ◆ The District will increase charges by 5%. As a result, the percentages of contractual allowances are budgeted to increase with an approximate 2.5% increase in net patient service revenue percentage.
- Other operating revenue of \$20.4 million.
- Total operating expenses of \$333.4 million.
 - ◆ Overall operating expenses will increase 8.1% due to an increase in salaries, wages, and benefits due to an increase in our overall FTEs, wage increases, and medical insurance costs, professional fees related to continue process improvement work, medical supplies and pharmaceuticals related to patient volume and inflation, and depreciation due to expected increases to capital assets.
- Income from operations of \$1.9 million.
- Nonoperating revenues of \$16.4 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.

**Tahoe Forest Hospital District
Management's Discussion and Analysis
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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.

One additional note, 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.

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.

Report of Independent Auditors

The Board of Directors
Tahoe Forest Hospital District

Report on the Audit of the Financial Statements

Opinion

We have audited the combined financial statements of Tahoe Forest Hospital District, and its discretely presented component unit, Truckee Surgery Center, LLC, which comprise the combined statements of net position as of June 30, 2024 and 2023, 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.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of Tahoe Forest Hospital District, and its discretely presented component unit, Truckee Surgery Center, LLC as of June 30, 2024 and 2023, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Purpose Districts. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Tahoe Forest Hospital District, and its discretely presented component unit, Truckee Surgery Center, LLC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Tahoe Forest Hospital District, and its discretely presented component unit, Truckee Surgery Center, LLC's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Purpose Districts will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with GAAS and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Purpose Districts, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Tahoe Forest Hospital District, and its discretely presented component unit, Truckee Surgery Center, LLC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Tahoe Forest Hospital District, and its discretely presented component unit, Truckee Surgery Center, LLC's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 9 be presented to supplement the combined financial statements. Such information is the responsibility of management and, although not a part of the combined financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the combined financial statements, and other knowledge we obtained during our audit of the combined 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.

A handwritten signature in dark ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Rancho Cordova, California
October 29, 2024

Combined Financial Statements
as of and for the Years Ended June 30, 2024 and 2023

Tahoe Forest Hospital District
Combined Statements of Net Position
June 30, 2024 and 2023

	2024		2023	
	Tahoe Forest Hospital District	Truckee Surgery Center, LLC	Tahoe Forest Hospital District	Truckee Surgery Center, LLC
ASSETS				
Current assets				
Cash and cash equivalents	\$ 69,761,269	\$ 179,446	\$ 32,011,691	\$ 145,124
Patient accounts receivable, net of allowances for doubtful accounts of \$8,571,259 and \$105,428 in 2024 and \$11,536,780 and \$70,877 in 2023	51,525,666	482,863	48,554,943	268,672
Other receivables	21,174,431	5,094	16,676,986	19,719
Assets limited as to use - required for current liabilities	10,294,862	-	10,301,387	-
Estimated amounts due from third-party payors	-	-	4,605,043	-
Inventories	5,566,886	-	5,275,644	-
Prepaid expenses and deposits	2,468,469	28,943	3,593,663	15,952
Total current assets	160,791,583	696,346	121,019,357	449,467
Assets limited as to use, net of current	115,098,840	-	109,616,744	-
Investments	1,612,129	-	6,261,725	-
Right-to-use assets, net of accumulated amortization	11,666,684	-	8,114,777	-
Subscription assets, net of accumulated amortization	27,116,972	-	30,684,471	-
Capital assets				
Nondepreciable	22,842,920	-	23,854,856	-
Depreciable, net of accumulated depreciation	177,498,091	1,086,035	175,100,511	915,643
	200,341,011	1,086,035	198,955,367	915,643
Other assets				
Beneficial interest in trusts	2,026,240	-	1,875,202	-
Other noncurrent receivables	1,902,743	20,256	747,334	20,256
Total assets	<u>\$ 520,556,202</u>	<u>\$ 1,802,637</u>	<u>\$ 477,274,977</u>	<u>\$ 1,385,366</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on defeasance, net	\$ 4,438,430	\$ -	\$ 4,753,824	\$ -
Accumulated decrease in fair value of hedging derivative	154,402	-	262,970	-
Total deferred outflows of resources	<u>\$ 4,592,832</u>	<u>\$ -</u>	<u>\$ 5,016,794</u>	<u>\$ -</u>
LIABILITIES				
Current liabilities				
Current maturities of long-term debt and capital lease obligations	\$ 4,906,895	\$ -	\$ 5,336,573	\$ -
Current maturities of lease liabilities	1,617,347	-	1,552,009	-
Current maturities of subscription liabilities	3,413,835	-	3,274,127	-
Accounts payable and accrued expenses	8,777,809	82,653	9,888,363	40,722
Accrued payroll and related expense	34,593,454	77,520	29,020,029	67,617
Estimated claims incurred but not reported	8,008,440	-	8,597,247	-
Estimated amounts due to third-party payors	6,244,959	-	-	-
Other accrued expenses	58,391	285	64,630	1,915
Accrued interest	1,708,137	-	1,775,858	-
Total current liabilities	69,329,267	160,458	59,508,836	110,254
Long-term debt and capital lease obligations, less current maturities	107,680,298	-	112,774,811	-
Lease liabilities, less current maturities	10,516,720	-	6,949,977	-
Subscription liabilities, less current maturities	25,251,850	-	28,482,161	-
Derivative instrument liability	154,402	-	262,970	-
Total liabilities	<u>\$ 212,932,537</u>	<u>\$ 160,458</u>	<u>\$ 207,978,755</u>	<u>\$ 110,254</u>
NET POSITION				
Net investment in capital assets	\$ 97,426,692	\$ -	\$ 90,457,965	\$ -
Restricted - expendable	4,246,752	-	7,729,496	-
Restricted - nonexpendable	603,984	-	603,984	-
Unrestricted	209,939,069	1,642,179	175,521,571	1,275,112
Total net position	<u>\$ 312,216,497</u>	<u>\$ 1,642,179</u>	<u>\$ 274,313,016</u>	<u>\$ 1,275,112</u>

See accompanying notes.

Tahoe Forest Hospital District
Combined Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2024 and 2023

	2024		2023	
	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 \$7,988,325 and \$34,550 in 2024 and \$10,402,441 and \$90,564 in 2023)	\$ 306,941,252	\$ 1,981,564	\$ 284,394,172	\$ 1,310,165
Other operating revenue	21,987,599	-	16,288,920	-
Total operating revenues	328,928,851	1,981,564	300,683,092	1,310,165
Operating expenses				
Salaries and wages	133,866,628	1,007,303	122,564,147	905,986
Employee benefits	67,793,097	179,128	61,460,687	158,784
Professional fees	9,254,833	7,531	8,642,051	11,736
Supplies	46,678,700	522,018	42,661,991	500,069
Purchased services	24,393,942	9,972	24,712,518	71,941
Depreciation and amortization	20,444,798	119,029	19,757,056	94,421
Insurance	2,938,837	5,446	3,044,647	640
Other	9,055,024	417,561	8,914,447	654,202
Total operating expenses	314,425,859	2,267,988	291,757,544	2,397,779
Income (loss) from operations	14,502,992	(286,424)	8,925,548	(1,087,614)
Nonoperating revenues (expenses)				
Property tax revenue	10,803,913	-	10,215,129	-
Property tax revenue - general obligation bonds	5,581,281	-	5,707,806	-
Contributions, net	4,572,129	-	4,825,343	-
Investment income	3,410,928	-	1,628,402	-
Rental income	574,380	-	912,517	-
Interest expense	(5,635,909)	-	(5,803,942)	-
Net increase in the fair value of investments	4,118,668	-	365,148	-
Other nonoperating income (loss)	617,468	11,122	(284,236)	108
Total nonoperating revenues	24,042,858	11,122	17,566,167	108
Income (loss) before other revenue, expenses, gains, and losses	38,545,850	(275,302)	26,491,715	(1,087,506)
Capital transfers	(642,369)	642,369	(780,282)	780,282
Increase (decrease) in net position	37,903,481	367,067	25,711,433	(307,224)
Net position, beginning of year	274,313,016	1,275,112	248,601,583	1,582,336
Net position, end of year	\$ 312,216,497	\$ 1,642,179	\$ 274,313,016	\$ 1,275,112

See accompanying notes.

Tahoe Forest Hospital District
Combined Statements of Cash Flows
For the Years Ended June 30, 2024 and 2023

	2024		2023	
	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	\$ 314,820,531	\$ 1,767,373	\$ 276,142,936	\$ 1,466,029
Cash received from other sources	17,659,182	25,747	13,949,718	(19,611)
Medicare accelerated payments	-	-	(5,563,499)	-
Cash paid to suppliers for goods and services	(92,604,177)	(935,218)	(92,033,912)	(1,097,900)
Cash paid to employees for services	(198,472,885)	(1,176,528)	(180,326,964)	(1,040,228)
Net cash provided by (used in) operating activities	41,402,651	(318,626)	12,168,279	(691,710)
Cash flows from noncapital financing activities				
Property tax revenues	10,781,922	-	10,299,153	-
Noncapital grants and contributions, net of other expenses	5,680,928	-	5,205,332	-
Net cash provided by noncapital financing activities	16,462,850	-	15,504,485	-
Cash flows from capital and related financing activities				
Purchase of capital assets	(16,301,205)	(289,421)	(25,265,931)	(176,746)
Payments on general obligation and revenue bonds	(3,833,918)	-	(3,532,659)	-
Interest payments on general obligation and revenue bonds	(3,182,606)	-	(3,348,156)	-
Payments on long-term debt and capital leases	(1,502,655)	-	(2,441,841)	-
Interest payments on long-term debt and capital leases	(991,878)	-	(1,081,954)	-
Payments on lease liabilities	(1,630,739)	-	(1,587,767)	-
Interest payments on lease liabilities	(158,511)	-	(176,565)	-
Payments on subscription liabilities	(3,341,428)	-	(2,707,191)	-
Interest payments on subscription liabilities	(1,370,635)	-	(1,280,509)	-
Property tax revenue received for general obligation bonds	5,562,020	-	5,685,072	-
Capital transfer from Tahoe Forest Hospital District	-	642,369	-	780,282
Net cash (used in) provided by capital and related financing activities	(26,751,555)	352,948	(35,737,501)	603,536
Cash flows from investing activities				
Purchases of investments and assets limited as to use	(58,827,215)	-	(78,189,514)	-
Sales of investments and assets limited as to use	62,119,908	-	91,091,855	-
Interest received	3,410,928	-	1,628,402	-
Net cash received for rental activities	574,380	-	912,517	-
Purchases of investments in beneficial interest in trusts	-	-	(5,500)	-
Investment in Truckee Surgery Center, LLC	(642,369)	-	(780,282)	-
Net cash provided by investing activities	6,635,632	-	14,657,478	-
Net change in cash and cash equivalents	37,749,578	34,322	6,592,741	(88,174)
Cash and equivalents, beginning of year	32,011,691	145,124	25,418,950	233,298
Cash and equivalents, end of year	\$ 69,761,269	\$ 179,446	\$ 32,011,691	\$ 145,124

See accompanying notes.

Tahoe Forest Hospital District
Combined Statements of Cash Flows (Continued)
For the Years Ended June 30, 2024 and 2023

	2024		2023	
	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	\$ 14,502,992	\$ (286,424)	\$ 8,925,548	\$ (1,087,614)
Adjustments to reconcile income (loss) from operations to net cash from operating activities:				
Depreciation and amortization	20,444,798	119,029	19,757,056	94,421
Amortization of bond premiums/discounts and bond issuance costs	(187,618)	-	(187,617)	-
Provision for doubtful accounts	7,988,325	105,428	10,402,441	90,564
Change in assets and liabilities:				
Patient accounts receivable, net	(10,959,048)	(319,619)	(17,090,946)	65,300
Other receivables	(4,456,193)	14,625	(2,466,980)	(19,719)
Inventories	(291,242)	-	(806,379)	-
Prepaid expenses and deposits	1,125,194	(12,991)	(932,332)	148,444
Other noncurrent receivables	(1,797,778)	-	(539,035)	-
Deferred loss on defeasance, net	315,394	-	315,395	-
Accounts payable and accrued expenses	(1,110,554)	41,931	(2,324,789)	(6,255)
Accrued payroll and related expense	5,573,425	9,903	2,893,361	24,542
Medicare accelerated payments	-	-	(5,563,499)	-
Estimated claims incurred but not reported	(588,807)	-	1,343,544	-
Estimated amounts due from/to third-party payors	10,850,002	-	(1,562,731)	-
Other accrued expenses	(6,239)	9,492	5,242	(1,393)
Total adjustments	26,899,659	(32,202)	3,242,731	395,904
Net cash provided by (used in) operating activities	\$ 41,402,651	\$ (318,626)	\$ 12,168,279	\$ (691,710)
Supplemental disclosure of noncash investing and financing activities:				
Change in fair value of beneficial interest in trusts	\$ 151,038	\$ -	\$ 116,057	\$ -
Change in fair value of assets limited as to use and investments	\$ 4,118,668	\$ -	\$ 365,148	\$ -
Noncash acquisition of right-to-use assets	\$ 5,350,306	\$ -	\$ 650,348	\$ -
Noncash acquisition of subscription assets	\$ 301,486	\$ -	\$ 7,098,212	\$ -

See accompanying notes.

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 persons in future profit. Therefore, TIRHR, a for-profit, was formed in order that research programs that the Institute was pursuing, and that were identified as potentially suitable for private investment, could be transferred. The Truckee Surgery Center, LLC (the TSC), is organized and operated for the purpose of owning and lawfully operating the facility as a Medicare certified ambulatory surgery center that principally performs musculoskeletal surgery and related anesthesia services, all consistent with the purposes of the District of furthering the health care services of the surrounding communities and visitors to the area. TSC is included in the District's combined financial statements as a discretely presented component unit.

In October 2018, the District entered into a Membership Purchase Agreement with TSC to purchase an additional 48% membership interest in TSC for \$451,785, which resulted in the District owning a 99% membership interest in TSC. In fiscal years 2024 and 2023, the District advanced \$642,369 and \$780,282 respectively, to TSC.

In February 2024, the District filed a Certificate of Dissolution with the California Secretary of State for the Institute, which was received by the California Secretary of State in March 2024. Following this, a Notice of Correction was issued in March 2024, requesting a Nonprofit Certificate of Dissolution form and a letter from the California Attorney General confirming that the corporation has no known assets. The District subsequently submitted this request to the California Attorney General in April 2024. As of the date of dissolution, the Institute had no assets, no outstanding liabilities, and net assets were effectively reduced to zero.

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.

Tahoe Forest Hospital District

Notes to Combined Financial Statements

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

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

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 Pronouncements*, the District's proprietary fund accounting and financial reporting practices are based on all applicable GASB pronouncements, as well as codified pronouncements issued on or before November 30, 1989, and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts and the State Controller's Office prescribed reporting guidelines.

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

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

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

Tahoe Forest Hospital District

Notes to Combined Financial Statements

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

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

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

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

The TFHSF has also been named a beneficiary under the terms of the Tahoe Forest Cancer Center General, Patient and Family, and Sustainability Grantmaking Funds (the Funds) administered by the TTCF. Under the terms of the agreement, distributions from the Funds shall be in accordance with the spending policy established by the Board of Directors of TTCF. Distributions shall be made annually or, as the parties may, from time to time, agree. Distributions in excess of TTCF's spending policy may be made to the TFHSF in any year as determined by the Board of Directors of TTCF. The TFHSF may request, at any time, that TTCF disburse up to 100% of the Funds to the TFHSF. Such a request, however, is not binding on TTCF and may be accepted or rejected, in whole or in part, by TTCF at its sole and absolute discretion. At the establishment of the Funds, the TFHSF granted variance power to TTCF. That power gives TTCF the right to distribute the income and principal of the Funds to another not-for-profit organization of its choice if the TFHSF ceases to exist or if the governing board of TTCF votes that support of the TFHSF is no longer necessary or is inconsistent with the needs of TTCF. The TTCF Endowment and the Funds had a value of \$1,909,740 and \$1,770,934 as of June 30, 2024 and 2023, respectively, and is reported in the combined financial statements as beneficial interest in trusts.

Tahoe Forest Hospital District

Notes to Combined Financial Statements

The IVCHF entered into agreements with The Parasol Tahoe Community Foundation (Parasol) to establish endowment and improvement funds with Parasol (the Parasol Endowment). The purpose of the Parasol Endowment is to provide support to, or for the benefit of, the Foundation and its activities in pursuit of its mission to deliver optimal health care services in the communities served by Incline Village Community Hospital. The Parasol Endowment is protected from obsolescence in accordance with the provisions specified in the Articles of Incorporation and Bylaws creating Parasol. Should the purposes for which the Parasol Endowment was created become obsolete or incapable of fulfillment, it is Parasol's Board of Director's responsibility, after contacting and being advised by the Foundation, to revise the charitable intent of the remaining funds to use for a purpose similar to those set forth in the agreement. The Parasol Endowment had a value of \$116,500 and \$104,268 as of June 30, 2024 and 2023, respectively, and is reported in the combined financial statements as beneficial interest in trusts.

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

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 combined statements of revenues, expenses, and changes in net position.

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 2024 and 2023.

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

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

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

Tahoe Forest Hospital District

Notes to Combined Financial Statements

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

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, 2024 and 2023, was \$536,571 and \$497,783, respectively. Amortization expense for each of the years ended June 30, 2024 and 2023, 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, 2024 and 2023, was \$70,651 and \$62,800, respectively. Amortization income for each of the years ended June 30, 2024 and 2023, was \$7,851; and is estimated to be \$7,851 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, 2024 and 2023 was \$824,859 and \$733,208, respectively. Amortization expense for each of the years ended June 30, 2024 and 2023 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, 2024 and 2023, was \$1,542,442 and \$1,349,636, respectively. Amortization expense for each of the years ended June 30, 2024 and 2023, was \$192,806; and is estimated to be \$192,806 for each of the next five years.

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

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

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

Tahoe Forest Hospital District

Notes to Combined Financial Statements

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, 2024 and 2023, were \$7,007,218 and \$6,658,981, respectively.

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

	Balance as of July 1, 2023	Increases	Decreases	Balance as of June 30, 2024	Current Portion
Compensated absences	\$ 6,658,981	\$ 1,482,545	\$ 1,134,308	\$ 7,007,218	\$ 7,007,218
	Balance as of July 1, 2022	Increases	Decreases	Balance as of June 30, 2023	Current Portion
Compensated absences	\$ 5,898,101	\$ 1,375,502	\$ 614,622	\$ 6,658,981	\$ 6,658,981

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

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

	Balance as of July 1, 2023	Increases	Decreases	Balance as of June 30, 2024	Current Portion
Lease liabilities	\$ 8,501,986	\$ 5,350,306	\$ 1,718,225	\$ 12,134,067	\$ 1,617,347
	Balance as of July 1, 2022	Increases	Decreases	Balance as of June 30, 2023	Current Portion
Lease liabilities	\$ 9,439,405	\$ 650,348	\$ 1,587,767	\$ 8,501,986	\$ 1,552,009

Subscription liabilities – The District entered into various agreements for IT subscriptions. These agreements range in terms up to year 2033. Total subscription payments were \$3,341,428 and \$2,707,191 for fiscal years 2024 and 2023, respectively. Variable payments based upon the use of the underlying IT asset are not included in the subscription liability because they are not fixed in substance — therefore, these payments are not included in subscription assets or subscription liabilities. There were no variable subscription expenses or payments in the fiscal years ended June 30, 2024 and 2023. The District did not enter into any additional subscription agreements that have yet to commence as of June 30, 2024.

Tahoe Forest Hospital District

Notes to Combined Financial Statements

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

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

	Balance as of July 1, 2023	Increases	Decreases	Balance as of June 30, 2024	Current Portion
Subscription liabilities	\$ 31,756,288	\$ 301,486	\$ 3,392,089	\$ 28,665,685	\$ 3,413,835
	Balance as of July 1, 2022	Increases	Decreases	Balance as of June 30, 2023	Current Portion
Subscription liabilities	\$ 27,365,267	\$ 7,098,212	\$ 2,707,191	\$ 31,756,288	\$ 3,274,127

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

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

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

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

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

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

Tahoe Forest Hospital District

Notes to Combined Financial Statements

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 \$513,428 and \$3,420,814 for the years ended June 30, 2024 and 2023, respectively. Using the District's Medicare cost to charge ratio, the estimated cost of these charges was \$228,410 and \$1,567,872 for the years ended June 30, 2024 and 2023, respectively.

Other operating revenue – Other operating revenue is recorded when the revenue is earned, when performance of services occurred, and receipt of cash is reasonably assured, and primarily includes retail pharmacy revenue, Public Hospital Redesign and Incentives in Medi-Cal Program (PRIME) and Quality Incentive Pool (QIP) revenue, Hospital Quality Assurance Fee (HQAF) revenue, grant revenue, childcare center revenue, and thrift store revenue. The composition of other operating revenue for the years ended June 30, 2024 and 2023, were as follows:

	<u>2024</u>	<u>2023</u>
Retail pharmacy revenue	\$ 7,342,703	\$ 5,613,937
PRIME/QIP revenue	3,345,657	2,449,513
HQAF revenue	3,060,804	2,943,028
Grant revenue	2,283,833	26,404
Childcare center revenue	2,220,868	1,752,580
Thrift store revenue	1,095,635	1,160,298
Other miscellaneous revenue	<u>2,638,099</u>	<u>2,343,160</u>
Total other operating revenue	<u>\$ 21,987,599</u>	<u>\$ 16,288,920</u>

Property tax revenues – Property taxes are levied by Nevada and Placer Counties on the District's behalf during the year, and are intended to help finance the District's activities during the same year. The amount of property tax received is dependent upon the assessed real property valuation, as determined by Nevada and Placer Counties Assessors. Nevada and Placer Counties have established certain dates to levy, lien, mail bills, and receive payments from property owners during the year. Property taxes are considered delinquent on the day following each payment due date. These funds are used to support the general maintenance and operation of the District, including charity care and uncompensated care programs, and to service the debt on the general obligation bonds. The District received approximately 5% of its financial support from property taxes for the years ended June 30, 2024 and 2023, exclusive of property taxes received to pay principal and interest payments of the general obligation bonds.

Tahoe Forest Hospital District

Notes to Combined Financial Statements

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. Centers for Medicare and Medicaid Services (CMS) distributed \$50 billion of the \$100 billion in the form of grants to hospitals.

As a result of the COVID-19 pandemic, 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 continued to recoup the accelerated payments from billings for services rendered until they were fully repaid. The accelerated payments were fully repaid during the fiscal year ended June 30, 2023.

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

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

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

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

Reclassifications – Certain reclassifications have been made to the 2023 financial statements to conform to the 2024 financial statement presentation. These reclassifications had no effect on the changes in net position.

New accounting pronouncements – In June 2022, the GASB issued Statement No. 101, *Compensated Absences* (GASB 101). The objective of GASB 101 is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. GASB 101 is effective for fiscal years beginning after December 15, 2023. The District is currently assessing the impact of GASB 101 on the District's combined financial statements.

Tahoe Forest Hospital District

Notes to Combined Financial Statements

In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures* (GASB 102). The objective of GASB 102 is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. GASB 102 requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, GASB 102 requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact to have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. GASB 102 is effective for fiscal years beginning after June 15, 2024. The District is currently assessing the impact of GASB 102 on the District's combined financial statements.

In April 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements* (GASB 103). The objective of GASB 103 is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. The financial statement improvements resulting from GASB 103 include changes to management's discussion and analysis, presentation of major discretely presented component units, reporting extraordinary and special items as unusual or infrequent items, changes to the proprietary statement of revenues, expenses, and changes in fund net position, definitions of operating and non-operating revenues and expenses, and the presentation of budgetary comparison information. GASB 103 is effective for fiscal years beginning after June 15, 2025. The District is currently assessing the impact of GASB 103 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, 2024, Tahoe Forest Hospital and Incline Village Community Hospital cost reports through June 30, 2019, and June 30, 2022, respectively, have been audited or otherwise final settled.

Tahoe Forest Hospital District

Notes to Combined Financial Statements

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, 2024, Tahoe Forest Hospital and Incline Village Community Hospital cost reports through June 30, 2022, have been audited or otherwise final settled.

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

Net patient service revenue is comprised of the following for the years ended June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Daily hospital service	\$ 40,240,837	\$ 37,396,859
Inpatient ancillary services	51,610,060	45,085,271
Outpatient services	<u>555,701,498</u>	<u>482,205,164</u>
Gross patient service revenues	647,552,395	564,687,294
Less contractual allowances and provision for doubtful accounts	<u>(340,611,143)</u>	<u>(280,293,122)</u>
Net patient service revenue at Tahoe Forest Hospital District	<u>306,941,252</u>	<u>284,394,172</u>
Net patient service revenue at Truckee Surgery Center, LLC	<u>1,981,564</u>	<u>1,310,165</u>
Total net patient service revenue	<u><u>\$ 308,922,816</u></u>	<u><u>\$ 285,704,337</u></u>

Tahoe Forest Hospital District

Notes to Combined Financial Statements

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

	<u>2024</u>	<u>2023</u>
Commercial	43%	46%
Medicare	40%	38%
Medi-Cal	16%	14%
Others	1%	2%
	<u>100%</u>	<u>100%</u>
Total	<u>100%</u>	<u>100%</u>

Medicare and Medi-Cal revenue accounts for a large percentage of the District's gross patient revenues for each year. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Over five years, up to \$7.5 billion in combined federal and state funds will be available to participating entities from the Public Hospital Redesign and Incentives in Medi-Cal Program (PRIME), which is a successor program within the Medi-Cal waiver. As a result of participating in PRIME, the District recorded a receivable of \$3,999,040 and \$3,311,464 at June 30, 2024 and 2023, respectively, which is included in other receivables on the combined statements of net position. This program requires a qualitative assessment of certain metrics and is subject to future audits by CMS.

The District receives funds through the Assembly Bill 915 legislation through an intergovernmental transfer (IGT), where funds are put up by the District to be matched by the federal government. As a result of two of these IGT programs, the District recorded a receivable of \$15,760,947 at June 30, 2024, for funds related to fiscal years 2024 and 2023, and a receivable of \$10,871,879 at June 30, 2023, for funds related to fiscal years 2023 and 2022, which is included in other receivables on the combined statements of net position.

Note 3 – Cash and Cash Equivalents, Assets Limited as to Use, and Investments

The District has deposits held by various financial institutions in the form of operating cash and cash equivalents. All of these funds are held in deposits, which are collateralized in accordance with the California Government Code (CGC), except for \$250,000 per account that is federally insured. At June 30, 2024 and 2023, the District's cash deposits had carrying amounts of \$69,761,269 and \$32,011,691, and bank balances of \$74,837,696 and \$34,505,617, 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, the LAIF, and equity securities.

Tahoe Forest Hospital District

Notes to Combined Financial Statements

As of June 30, 2024 and 2023, assets limited as to use and investments, at carrying value, consisted of the following:

	<u>2024</u>	<u>2023</u>
Assets limited as to use - required for current liabilities	\$ 10,294,862	\$ 10,301,387
Assets limited as to use, net of current	115,098,840	109,616,744
Investments	<u>1,612,129</u>	<u>6,261,725</u>
Total	<u><u>\$ 127,005,831</u></u>	<u><u>\$ 126,179,856</u></u>

As of June 30, 2024 and 2023, assets limited as to use and investments, at carrying value, have been set aside as follows:

	<u>2024</u>	<u>2023</u>
Board designated assets	\$ 118,773,967	\$ 113,584,253
Assets held by trustees	6,619,735	6,333,878
Unrestricted investments	<u>1,612,129</u>	<u>6,261,725</u>
Total	<u><u>\$ 127,005,831</u></u>	<u><u>\$ 126,179,856</u></u>

A summary of scheduled maturities by investment type at June 30, 2024 and 2023, were as follows:

		<u>2024</u>			
		<u>Investment Maturities (in years)</u>			
	<u>Carrying Value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10+</u>	
Investment type					
Short-term money market	\$ 18,681,155	\$ 18,681,155	\$ -	\$ -	
U.S. corporate fixed income securities	21,720,653	-	21,720,653	-	
U.S. government fixed income securities	75,297,854	-	75,297,854	-	
Local agency investment fund	11,204,344	11,204,344	-	-	
Equity securities	<u>101,825</u>	<u>101,825</u>	<u>-</u>	<u>-</u>	
Total	<u><u>\$ 127,005,831</u></u>	<u><u>\$ 29,987,324</u></u>	<u><u>\$ 97,018,507</u></u>	<u><u>\$ -</u></u>	

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

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.

Tahoe Forest Hospital District

Notes to Combined Financial Statements

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.

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, 2024.

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 of 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.

Tahoe Forest Hospital District

Notes to Combined Financial Statements

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, 2024 and 2023.

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

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

Beneficial interest in trusts – As described in Note 1, the Foundations established the TTCF and Parasol Endowment and are the beneficiary of the Funds held at the TTCF. The fair value of the beneficial interest is estimated using the fair value of the assets held in trust reported by the trustees as of June 30, 2024 and 2023.

Hedging derivative – The fair value of the hedging derivative is valued using market to market valuations as of June 30, 2024 and 2023.

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:

Description	2024			
	Level 1	Level 2	Level 3	Total
Hedging derivative	\$ -	\$ (154,402)	\$ -	\$ (154,402)
Short-term money market	18,681,155	-	-	18,681,155
U.S. corporate fixed income securities	-	21,720,653	-	21,720,653
U.S. government fixed income securities	-	75,297,854	-	75,297,854
Equity securities	101,825	-	-	101,825
Beneficial interest in trusts	-	-	2,026,240	2,026,240
Total by fair value level	<u>\$ 18,782,980</u>	<u>\$ 96,864,105</u>	<u>\$ 2,026,240</u>	<u>\$ 117,673,325</u>
Local agency investment fund				<u>11,204,344</u>
Total				<u>\$ 128,877,669</u>

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

The following table summarizes the changes in the District's Level 3 financial instruments for the years ended June 30, 2024 and 2023:

	2024	2023
Beginning balance	\$ 1,875,202	\$ 1,753,645
Additional amounts invested in beneficial interest in trusts	-	5,500
Change in value of beneficial interest in trusts	<u>151,038</u>	<u>116,057</u>
Ending balance	<u>\$ 2,026,240</u>	<u>\$ 1,875,202</u>

Tahoe Forest Hospital District

Notes to Combined Financial Statements

The table below presents information about significant unobservable inputs related to material categories of Level 3 financial instruments as of June 30, 2024 and 2023:

<u>Description</u>	<u>Fair Value as of June 30, 2024</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range</u>
Beneficial interest in trusts	\$ 2,026,240	Asset fair value from Trustee	Asset fair value from Trustee	Varies

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

Note 5 – Patient Accounts Receivable

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

Patient accounts receivable is comprised of the following as of June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Medicare and Medicare managed care	\$ 23,134,533	\$ 20,140,559
Medi-Cal and Medi-Cal managed care	46,667,532	24,394,843
Other payors	51,855,814	42,347,190
Self-pay	8,544,015	12,800,662
Gross patient accounts receivable	130,201,894	99,683,254
Less allowances for contractual adjustments and bad debts	(78,676,228)	(51,128,311)
Net patient accounts receivable at Tahoe Forest Hospital District	51,525,666	48,554,943
Net patient accounts receivable at Truckee Surgery Center, LLC	482,863	268,672
Total net patient accounts receivable	<u>\$ 52,008,529</u>	<u>\$ 48,823,615</u>

Concentration of net patient accounts receivable as of June 30, 2024 and 2023, were as follows:

	<u>2024</u>	<u>2023</u>
Commercial and other payors	71%	72%
Medicare	17%	16%
Medi-Cal	11%	10%
Self-pay	1%	2%
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, 2024 and 2023, were as follows:

	2024				Balance June 30, 2024
	Balance June 30, 2023	Increases	Decreases	Transfers	
Capital assets - nondepreciable					
Land	\$ 8,579,997	\$ 22,900	\$ -	\$ -	\$ 8,602,897
Construction in progress, net	14,363,891	9,191,021	-	(10,225,857)	13,329,055
Property held for future expansion	910,968	-	-	-	910,968
	<u>23,854,856</u>	<u>9,213,921</u>	<u>-</u>	<u>(10,225,857)</u>	<u>22,842,920</u>
Capital assets - depreciable					
Land improvements	5,788,962	-	-	95,044	5,884,006
Building and improvements	257,301,909	2,131,959	(955,060)	10,130,813	268,609,621
Equipment and software	112,048,238	4,955,325	(9,911)	-	116,993,652
Capital assets at Truckee Surgery Center, LLC	1,643,396	289,421	-	-	1,932,817
	<u>376,782,505</u>	<u>7,376,705</u>	<u>(964,971)</u>	<u>10,225,857</u>	<u>393,420,096</u>
Less accumulated depreciation for					
Land improvements	3,675,962	113,069	-	-	3,789,031
Building and improvements	100,923,252	9,934,236	(955,060)	-	109,902,428
Equipment and software	95,439,384	4,868,256	(9,911)	-	100,297,729
Capital assets at Truckee Surgery Center, LLC	727,753	119,029	-	-	846,782
	<u>200,766,351</u>	<u>15,034,590</u>	<u>(964,971)</u>	<u>-</u>	<u>214,835,970</u>
Total capital assets - depreciable, net	<u>176,016,154</u>	<u>(7,657,885)</u>	<u>-</u>	<u>10,225,857</u>	<u>178,584,126</u>
Total capital assets, net	<u>\$ 199,871,010</u>	<u>\$ 1,556,036</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 201,427,046</u>
	2023				Balance June 30, 2023
	Balance June 30, 2022	Increases	Decreases	Transfers	
Capital assets - nondepreciable					
Land	\$ 8,579,997	\$ -	\$ -	\$ -	\$ 8,579,997
Construction in progress, net	18,624,634	17,915,946	-	(22,176,689)	14,363,891
Property held for future expansion	910,968	-	-	-	910,968
	<u>28,115,599</u>	<u>17,915,946</u>	<u>-</u>	<u>(22,176,689)</u>	<u>23,854,856</u>
Capital assets - depreciable					
Land improvements	5,730,707	-	-	58,255	5,788,962
Building and improvements	232,912,983	2,270,492	-	22,118,434	257,301,909
Equipment and software	107,059,965	5,079,493	(91,220)	-	112,048,238
Capital assets at Truckee Surgery Center, LLC	1,466,650	176,746	-	-	1,643,396
	<u>347,170,305</u>	<u>7,526,731</u>	<u>(91,220)</u>	<u>22,176,689</u>	<u>376,782,505</u>
Less accumulated depreciation for					
Land improvements	3,567,574	108,388	-	-	3,675,962
Building and improvements	91,932,983	8,990,269	-	-	100,923,252
Equipment and software	89,778,134	5,752,470	(91,220)	-	95,439,384
Capital assets at Truckee Surgery Center, LLC	633,332	94,421	-	-	727,753
	<u>185,912,023</u>	<u>14,945,548</u>	<u>(91,220)</u>	<u>-</u>	<u>200,766,351</u>
Total capital assets - depreciable, net	<u>161,258,282</u>	<u>(7,418,817)</u>	<u>-</u>	<u>22,176,689</u>	<u>176,016,154</u>
Total capital assets, net	<u>\$ 189,373,881</u>	<u>\$ 10,497,129</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 199,871,010</u>

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, 2024 and 2023, were as follows:

2024						
	Date of Issue	Date of Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2024
General obligation bonds						
2016 GOB	March 2016	August 2040	2.00% - 5.00%	\$1,040,000 - \$3,625,000	\$ 45,110,000	\$ 39,170,000
2015 GOB	February 2015	August 2038	2.00% - 5.00%	\$670,000 - \$2,895,000	30,810,000	26,750,000
2019 GOB	September 2019	August 2042	3.00% - 5.00%	\$340,000 - \$2,270,000	24,710,000	23,350,000
Revenue bonds						
Series 2017	March 2017	July 2032	1.49%	\$555,443 - \$663,805	9,060,000	5,526,500
Series 2015	March 2015	July 2033	3.87%	\$1,083,475 - \$1,583,873	20,979,000	13,430,569
Notes payable						
11046 Donner Pass Road	January 2019	February 2026	4.00%	\$743,441 - \$773,730	4,950,000	1,306,985
Opus Bank Muni Lease	October 2018	November 2023	2.82%	\$714,103 - \$1,671,641	8,000,000	-
Capital lease obligations						
US Bank Equipment Financing	September 2019	September 2024	8.30%	\$273 monthly	18,176	734
US Bank Equipment Financing	October 2019	October 2024	8.28%	\$117 monthly	7,835	474
Westamerica Bank	March 2019	March 2024	4.05%	\$39,111 - \$50,336	239,669	-
					<u>\$ 143,884,680</u>	<u>\$ 109,535,262</u>
2023						
	Date of Issue	Date of Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2023
General obligation bonds						
2016 GOB	March 2016	August 2040	2.00% - 5.00%	\$935,000 - \$3,625,000	\$ 45,110,000	\$ 40,210,000
2015 GOB	February 2015	August 2038	2.00% - 5.00%	\$670,000 - \$2,895,000	30,810,000	27,515,000
2019 GOB	September 2019	August 2042	3.00% - 5.00%	\$340,000 - \$2,270,000	24,710,000	23,740,000
Revenue bonds						
Series 2017	March 2017	July 2032	1.49%	\$544,552 - \$663,805	9,060,000	6,081,943
Series 2015	March 2015	July 2033	3.87%	\$1,073,107 - \$1,583,873	20,979,000	14,514,044
Notes payable						
11046 Donner Pass Road	January 2019	February 2026	4.00%	\$533,255 - \$773,730	4,950,000	2,050,426
Opus Bank Muni Lease	October 2018	November 2023	2.82%	\$714,103 - \$1,671,641	8,000,000	714,103
Capital lease obligations						
US Bank Equipment Financing	September 2019	September 2024	8.30%	\$273 monthly	18,176	4,936
US Bank Equipment Financing	October 2019	October 2024	8.28%	\$117 monthly	7,835	2,272
Westamerica Bank	March 2019	March 2024	4.05%	\$39,111 - \$50,336	239,669	39,111
					<u>\$ 143,884,680</u>	<u>\$ 114,871,835</u>

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, 2024 and 2023:

	2024				
	Balance June 30, 2023	Net Borrowings and Issuance Proceeds	Payments and Bond Premium/Discount Amortization During the Year	Balance June 30, 2024	Current Portion
2016 General obligation bond	\$ 40,210,000	\$ -	\$ (1,040,000)	\$ 39,170,000	\$ 1,140,000
2015 General obligation bond	27,515,000	-	(765,000)	26,750,000	865,000
2019 General obligation bond	23,740,000	-	(390,000)	23,350,000	435,000
General obligation bond premium/discount	3,239,549	-	(187,618)	3,051,931	-
Series 2017 Revenue bonds	6,081,943	-	(555,443)	5,526,500	566,551
Series 2015 Revenue bonds	14,514,044	-	(1,083,475)	13,430,569	1,125,406
11046 Donner Pass Road	2,050,426	-	(743,441)	1,306,985	773,730
Opus Bank Muni Lease	714,103	-	(714,103)	-	-
US Bank equipment financing	4,936	-	(4,201)	735	735
US Bank equipment financing	2,272	-	(1,799)	473	473
Westamerica Bank	39,111	-	(39,111)	-	-
	<u>\$ 118,111,384</u>	<u>\$ -</u>	<u>\$ (5,524,191)</u>	<u>\$ 112,587,193</u>	<u>\$ 4,906,895</u>

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

As of June 30, 2024, the District's long-term debt and capital lease obligation requirements to maturity, excluding unamortized bond premium and bond issuance costs of \$3,051,931, are as follows:

Years Ending June 30,	Long-Term Debt			Capital Lease Obligations		
	Principal	Interest	Total	Principal	Interest	Total
2025	\$ 4,905,687	\$ 3,585,558	\$ 8,491,245	\$ 1,208	\$ -	\$ 1,208
2026	5,010,097	3,376,546	8,386,643	-	-	-
2027	4,833,638	3,173,027	8,006,665	-	-	-
2028	5,217,416	2,965,417	8,182,833	-	-	-
2029	5,628,249	2,764,463	8,392,712	-	-	-
2030 - 2034	34,158,967	10,465,302	44,624,269	-	-	-
2035 - 2039	34,525,000	4,768,275	39,293,275	-	-	-
2040 - Thereafter	15,255,000	543,053	15,798,053	-	-	-
	<u>\$ 109,534,054</u>	<u>\$ 31,641,641</u>	<u>\$ 141,175,695</u>	<u>\$ 1,208</u>	<u>\$ -</u>	<u>\$ 1,208</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.

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.

Tahoe Forest Hospital District

Notes to Combined Financial Statements

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

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

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

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

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

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

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

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

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

Note 8 – Interest Rate Swap Agreement

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

Tahoe Forest Hospital District

Notes to Combined Financial Statements

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

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

As interest rates have declined since execution of the swap, the swap had negative fair values of \$154,402 and \$262,970 as of June 30, 2024 and 2023, 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 \$154,402 and \$262,970 at June 30, 2024 and 2023, 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, 2024, 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, 2024. To mitigate the potential for credit risk, if the counterparty's credit quality falls below AA/Aa, the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

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

Tahoe Forest Hospital District

Notes to Combined Financial Statements

Note 9 – Risk Management Programs

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

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

Workers' compensation benefits costs from reported and unreported claims were accrued based on estimates that incorporate the District's past experience, as well as other considerations, including the nature of each claim or incident and other relevant trend factors. While the ultimate amount of workers' compensation liability is dependent on future developments, management is of the opinion that the associated liabilities for claims pending and incurred but not reported, which is included in estimated claims incurred but not reported on the combined statements of net position, 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, 2024 and 2023.

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

The liability for unpaid claims is estimated using an industry average that is based on actual claims paid. The estimated liability for claims pending and incurred but not reported at June 30, 2024 and 2023, has been included in the accompanying combined statements of net position under estimated claims incurred but not reported.

Tahoe Forest Hospital District

Notes to Combined Financial Statements

The following is a summary of the changes in the workers' compensation and employee health insurance liabilities for the years ended June 30, 2024 and 2023:

2024			
	<u>Balance July 1, 2023</u>	<u>Increases</u>	<u>Decreases</u>
Workers' compensation	\$ 3,287,371	\$ 250,000	\$ (1,239,530)
Employee health	2,722,950	520,537	(303,951)
	<u>\$ 6,010,321</u>	<u>\$ 770,537</u>	<u>\$ (1,543,481)</u>
			<u>\$ 5,237,377</u>
2023			
	<u>Balance July 1, 2022</u>	<u>Increases</u>	<u>Decreases</u>
Workers' compensation	\$ 2,947,527	\$ 339,844	\$ -
Employee health	2,224,062	498,888	-
	<u>\$ 5,171,589</u>	<u>\$ 838,732</u>	<u>\$ -</u>
			<u>\$ 6,010,321</u>

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

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

Coverage under a claims-made policy could expose the District to a gap in coverage if the District were to terminate coverage with the Program. In order to mitigate this potential gap in coverage, the District has accrued an estimated premium to purchase an unlimited extended reporting amendment (tail coverage) in the amount of \$2,771,063 and \$2,586,926 for the years ended June 30, 2024 and 2023, respectively.

Tahoe Forest Hospital District

Notes to Combined Financial Statements

Note 10 – Restricted Net Assets

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

	<u>2024</u>	<u>2023</u>
Restricted - expendable net assets		
Cancer prevention	\$ 868,364	\$ 742,893
Cancer care	1,390,365	1,251,559
Hospice and other	<u>1,988,023</u>	<u>5,735,044</u>
	<u>\$ 4,246,752</u>	<u>\$ 7,729,496</u>
Restricted - nonexpendable net assets		
Investments in perpetuity, TTCF Endowment	\$ 519,375	\$ 519,375
Investments in perpetuity, Parasol Endowment	<u>84,609</u>	<u>84,609</u>
	<u>\$ 603,984</u>	<u>\$ 603,984</u>

Note 11 – Employees' Retirement Plans

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

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

Total employer contributions under the above retirement plans were \$9,085,660 and \$7,882,348 for the years ended June 30, 2024 and 2023, respectively. As of June 30, 2024 and 2023, the District has accrued \$3,564,775 and \$4,138,765, 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, 2024 and 2023, the District had recorded \$13,329,055 and \$14,363,891, 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, 2024, is \$4,469,117.

Tahoe Forest Hospital District

Notes to Combined Financial Statements

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

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

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

Arbitrage – The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years. During the current year, the District performed calculations of excess investment earnings on various bonds and financings and, at June 30, 2024, does not expect to incur a significant liability.

Tahoe Forest Hospital District

Notes to Combined Financial Statements

Note 13 – Right-to-Use Assets and Lease Liabilities

The District is a lessee for noncancellable leases of office space and equipment with lease terms through 2035. There are no residual value guarantees included in the measurement of the District's lease liabilities nor recognized as an expense for the years ended June 30, 2024 and 2023. The District does not have any commitments that were incurred at the commencement of the leases. The District is subject to variable equipment usage payments that are expensed when incurred. There were no amounts recognized as variable lease payments as lease expense on the combined statements of revenues, expenses, and changes in net position for the years ended June 30, 2024 and 2023. No termination penalties were incurred during the fiscal year.

	Balance as of July 1, 2023	Increases	Decreases	Balance as of June 30, 2024
Right-to-use assets	\$ 12,466,431	\$ 5,350,306	\$ 87,486	\$ 17,729,251
Less accumulated amortization	4,351,654	1,710,913	-	6,062,567
Right to use assets, net	<u>\$ 8,114,777</u>	<u>\$ 3,639,393</u>	<u>\$ 87,486</u>	<u>\$ 11,666,684</u>
	Balance as of July 1, 2022	Increases	Decreases	Balance as of June 30, 2023
Right-to-use assets	\$ 11,816,083	\$ 650,348	\$ -	\$ 12,466,431
Less accumulated amortization	2,664,154	1,687,500	-	4,351,654
Right to use assets, net	<u>\$ 9,151,929</u>	<u>\$ (1,037,152)</u>	<u>\$ -</u>	<u>\$ 8,114,777</u>

For the years ended June 30, 2024 and 2023, the District recognized \$1,710,913 and \$1,687,500, respectively, in amortization expense included in depreciation and amortization expense on the combined statements of revenues, expenses, and changes in net position.

The future principal and interest lease payments as of June 30, 2024, were as follows:

<u>Years ending June 30,</u>	Principal Payments	Interest Payments	Total
2025	\$ 1,617,347	\$ 377,966	\$ 1,995,313
2026	1,541,369	345,265	1,886,634
2027	1,293,426	311,617	1,605,043
2028	879,453	286,457	1,165,910
2029	758,978	266,083	1,025,061
Thereafter	6,043,494	2,046,073	8,089,567
	<u>\$ 12,134,067</u>	<u>\$ 3,633,461</u>	<u>\$ 15,767,528</u>

The District evaluated the right-to-use assets for impairment and determined there was no impairment for the years ended June 30, 2024 and 2023.

Tahoe Forest Hospital District

Notes to Combined Financial Statements

Note 14 – Subscription-Based Information Technology Arrangements

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

	Balance as of July 1, 2023	Increases	Decreases	Balance as of June 30, 2024
Subscription assets	\$ 36,748,089	\$ 301,486	\$ 50,661	\$ 36,998,914
Less accumulated amortization	6,063,618	3,818,324	-	9,881,942
Subscription assets, net	<u>\$ 30,684,471</u>	<u>\$ (3,516,838)</u>	<u>\$ 50,661</u>	<u>\$ 27,116,972</u>
	Balance as of July 1, 2022	Increases	Decreases	Balance as of June 30, 2023
Subscription assets	\$ 29,649,877	\$ 7,098,212	\$ -	\$ 36,748,089
Less accumulated amortization	2,845,189	3,218,429	-	6,063,618
Subscription assets, net	<u>\$ 26,804,688</u>	<u>\$ 3,879,783</u>	<u>\$ -</u>	<u>\$ 30,684,471</u>

For the years ended June 30, 2024 and 2023, the District recognized \$3,818,324 and \$3,218,429, respectively, in amortization expense included in depreciation and amortization expense on the combined statements of revenues, expenses, and changes in net position.

The future subscription payments as of June 30, 2024, were as follows:

Years ending June 30,	Principal Payments	Interest Payments	Total
2025	\$ 3,413,835	\$ 1,211,719	\$ 4,625,554
2026	3,552,843	1,057,836	4,610,679
2027	3,422,042	894,883	4,316,925
2028	2,760,369	756,755	3,517,124
2029	2,743,498	633,508	3,377,006
Thereafter	12,773,098	1,257,584	14,030,682
	<u>\$ 28,665,685</u>	<u>\$ 5,812,285</u>	<u>\$ 34,477,970</u>

The District evaluated the subscription assets for impairment and determined there was no impairment for the years ended June 30, 2024 and 2023.

Tahoe Forest Hospital District

Notes to Combined Financial Statements

Note 15 – Subsequent Events

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

