

Report of Independent Auditors and
Combined Financial Statements

Tahoe Forest Hospital District

June 30, 2025 and 2024

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Management's Discussion and Analysis

**Tahoe Forest Hospital District
Management's Discussion and Analysis
For the Years Ended June 30, 2025, 2024, and 2023**

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, 2025, 2024, and 2023. 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 2025

- The District's increase in net position was \$63.1 million for 2025 as compared to \$37.9 million for 2024.
- The District's income from operations for fiscal year 2025 was \$25.9 million as compared to \$14.5 million for 2024.
- Nonoperating revenues were \$38.3 million in fiscal year 2025 as compared to \$24.0 million for 2024.

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, 2025 and 2024.

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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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 \$63.1 million for 2025 as compared to \$37.9 million for 2024, as presented in the following table (amounts are in thousands):

	As of June 30,		
	2025	2024	2023
Current assets	\$ 159,802	\$ 159,058	\$ 121,019
Capital assets	201,828	200,341	198,955
Other noncurrent assets	<u>231,538</u>	<u>161,157</u>	<u>157,301</u>
 Total assets	 <u>593,168</u>	 <u>520,556</u>	 <u>477,275</u>
 Deferred outflows of resources	 <u>4,323</u>	 <u>4,593</u>	 <u>5,017</u>
 Current liabilities	 <u>79,212</u>	 <u>69,329</u>	 <u>59,509</u>
Long-term liabilities	<u>142,988</u>	<u>143,604</u>	<u>148,470</u>
 Total liabilities	 <u>222,200</u>	 <u>212,933</u>	 <u>207,979</u>
 Net investment in capital assets	 <u>103,242</u>	 <u>97,427</u>	 <u>90,458</u>
Restricted - expendable	<u>13,318</u>	<u>4,247</u>	<u>7,729</u>
Restricted - nonexpendable	<u>604</u>	<u>604</u>	<u>604</u>
Unrestricted	<u>258,128</u>	<u>209,939</u>	<u>175,522</u>
 Total net position	 <u>\$ 375,291</u>	 <u>\$ 312,216</u>	 <u>\$ 274,313</u>

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Operating Results and Changes in the District's Net Position

During 2025, the District's net position increased by \$63.1 million as compared to \$37.9 million in 2024, 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. Six areas of expenses created significant differences between 2025 and 2024: salaries, wages, and benefits increased by \$25.6 million, professional fees increased by \$1.5 million, supplies increased by \$8.6 million, purchased services increased by \$3.3 million, depreciation and amortization increased by \$1.3 million, and other operating expenses increased by \$2.1 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 related to physician compensation structure, benefit programs, and our revenue integrity program. The increase in supplies is primarily due to pharmaceuticals and medical supply costs, which is directly connected to the increase in volumes, inflation, and patient care plans. The increase in purchased services is primarily due to support for information technology, laboratory, authorizations, billing and coding, and interpreter services. The increase in depreciation and amortization is due to a \$6.6 million increase in depreciable assets. The increase in other operating expenses is due to increases in rent and utilities, as well as dues and subscriptions related to our cancer program.

	Fiscal years ended June 30,		
	2025	2024	2023
Operating revenues (thousands)			
Net patient service revenues	\$ 358,076	\$ 306,941	\$ 284,394
Other operating revenues	<u>24,595</u>	<u>21,988</u>	<u>16,289</u>
Total operating revenues	<u>382,671</u>	<u>328,929</u>	<u>300,683</u>
Operating expenses (thousands)			
Salaries and wages	147,238	133,867	122,564
Employee benefits	80,001	67,793	61,461
Professional fees	10,741	9,255	8,642
Supplies	55,265	46,679	42,662
Purchased services	27,732	24,394	24,713
Depreciation and amortization	21,756	20,445	19,757
Other operating expenses	<u>14,079</u>	<u>11,994</u>	<u>11,959</u>
Total operating expenses	<u>356,810</u>	<u>314,426</u>	<u>291,758</u>
Income from operations	<u>25,861</u>	<u>14,503</u>	<u>8,926</u>
Nonoperating revenue (expenses) (thousands)			
Property tax revenue	11,394	10,804	10,215
Property tax revenue - general obligation bonds	5,718	5,581	5,708
Interest expense	(5,444)	(5,636)	(5,804)
Other nonoperating revenues	<u>26,617</u>	<u>13,294</u>	<u>7,447</u>
Total nonoperating revenues	<u>38,285</u>	<u>24,043</u>	<u>17,566</u>
Income before other revenue, expenses, gains, and losses	64,146	38,546	26,492
Capital transfers	<u>(1,071)</u>	<u>(642)</u>	<u>(780)</u>
Increase in net position	<u>\$ 63,075</u>	<u>\$ 37,903</u>	<u>\$ 25,711</u>

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Operating Gains

Usually the primary component of the overall change in the District's net position is its income from operations, generally the difference between net patient service revenues and the expenses incurred to perform those services. Income from operations in 2025 was \$25.9 million as compared to \$14.5 million in 2024. Total nonoperating revenues in 2025 was \$38.3 million as compared to \$24.0 million in 2024.

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

- Net patient service revenues increased in 2025 by \$51.1 million (16.7%) 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 2025 to 4,696 from 4,795 in 2024. Adjusted patient days were up 8.3% in 2025 as compared to 2024. Inpatient charges increased by \$3.3 million to \$94.7 million in 2025 from \$91.4 million in 2024. Outpatient charges increased by \$91.7 million to \$644.8 million in 2025 from \$553.1 million in 2024, and as a percentage of total charges, outpatient charges increased to 87.2% of the total in 2025 from 85.8% in 2024. In addition, contractual allowances, charity care, and bad debt increased \$45.2 million to \$385.8 million in 2025 from \$340.6 million in 2024. Prior period settlements increased \$1.4 million to \$4.4 million in 2025 from \$3.0 million in 2024.
- An increase in other operating revenues of \$2.6 million (11.9%) in 2025.
- Operating expenses increased by \$42.4 million (13.5%) in 2025 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 related to physician compensation structure, benefit programs, and our revenue integrity program, increased pharmaceutical and medical supply costs, increased purchased services to support information technology, laboratory, authorizations, billing and coding, and interpreter services, increased other operating expenses due to increases in rent and utilities, as well as dues and subscriptions related to our cancer program, and increased depreciation and amortization due to a \$6.6 million increase in depreciable assets.
- Employee salaries, wages, and benefits were \$227.2 million in 2025 and \$201.7 million in 2024. The components of these costs are as follows:
 - ◆ Salaries and wages totaled \$147.2 million in 2025 and \$133.9 million in 2024. Staffing, as measured by paid FTEs, was 1,122 in 2025 and 1,112 in 2024. The employee gain-sharing program and management incentive compensation bonuses totaled \$12.6 million in 2025 and \$9.6 million in 2024.
 - ◆ Benefits totaled \$80.0 million in 2025 and \$67.8 million in 2024. The benefits associated with the employee gain-sharing program and management incentive compensation bonuses totaled \$1.7 million in 2025 and \$1.3 million in 2024.
 - ◆ Salaries, wages, and benefits per paid FTE were \$202,530 in 2025 and \$181,349 in 2024. If we were to remove the June 30, 2025 and 2024 gain-sharing program and management incentive compensation bonuses from salaries, wages, and benefits, then the amount per paid FTE was \$189,756 in 2025 and \$171,455 in 2024.

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- Other changes were as follows:
 - ◆ There was an increase of \$1.5 million (16.1%) in professional fees. This was primarily due to consulting related to physician compensation structure, benefit programs, and our revenue integrity program.
 - ◆ There was a \$8.6 million (18.4%) increase in supplies pharmaceuticals and medical supply costs, which is directly connected to the increase in volumes, inflation, and patient care plans.
 - ◆ There was a \$3.3 million (13.7%) increase in purchased services primarily due to support for information technology, laboratory, authorizations, billing and coding, and interpreter services.
 - ◆ There was an increase of \$1.3 million (6.4%) in depreciation and amortization expense due mainly to a \$6.6 million increase in depreciable assets.
 - ◆ Other expense category changes (utilities, insurance, dues and subscriptions, travel and education, and other) increased \$2.1 million (17.4%) primarily due to an increase in rent and utilities, and dues and subscriptions related to our cancer program.

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 2024, the District had \$200.3 million in capital assets, net of depreciation, as detailed in the footnotes to the combined financial statements. At the end of 2025, the District had \$201.8 million invested in capital assets, net of depreciation. In 2025, the District improved facilities and acquired new equipment for a total net investment of \$17.1 million, net of disposals, as compared to \$15.3 million in 2024.

Debt Borrowings

At the end of 2024, the District had \$112.6 million in long-term debt borrowings outstanding including current maturities. At the end of 2025, the District had \$113.2 million in long-term debt borrowings outstanding including current maturities.

The District entered into a municipal lease with Bank of America in February 2025 for \$6,000,000, at 4.50%, payable over 84 months, maturing in February 2032. This financing will be utilized for the purchase of imaging equipment and software (CT scanner, X-Ray, Fluoroscopy, PACS system), surgical and anesthesia equipment, and laboratory equipment. There was no new debt financing in 2024.

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Statistical Analysis

	2025	2024	2023
Acute			
Admissions	1,470	1,555	1,504
Length of stay	3.19	3.08	3.24
Average daily census	12.87	13.10	13.34
Occupancy percentage	44%	45%	46%
Patient days	4,696	4,795	4,868
Total ICU days	929	999	1,012
Total medical/surgical days	2,490	2,508	2,499
Total obstetrics days	1,277	1,288	1,357
Total swing days	147	279	287
Nursery days	543	493	488
Deliveries	379	367	375
Skilled nursing units			
Patient days	10,960	10,948	9,422
Average daily census	30.03	29.91	25.81
Occupancy percentage	81%	81%	70%
Outpatient			
Emergency department visits	14,094	14,010	14,808
Surgical cases	2,543	2,186	1,998
Laboratory tests	178,851	169,857	169,697
Nuclear medicine	353	364	351
MRI	4,283	3,577	2,479
Ultrasounds	4,716	4,581	4,476
CAT scans	9,066	8,703	7,890
Diagnostic imaging & mammography	18,034	17,733	17,196
Medical oncology procedures	12,107	11,463	10,448
Radiation oncology procedures	5,625	5,175	5,862
PET CTs	606	485	418

Other Economic Factors: Summary Fiscal Year 2025 and Looking Forward to Fiscal Year 2026

We are pleased to report that we are completing our fiscal year (FY) 2025 in a very positive manner. FY 2025 reflected net patient service revenues in excess of \$358 million, which is over a 16% increase when compared to FY 2024. The growth is a result of both increased demand for services and disciplined internal performance. We would like to thank our community and the patients we serve for their ongoing trust and support.

FY 2026 reflects Tahoe Forest Health System's commitment to sound financial stewardship, ongoing investment in infrastructure and access, and a proactive approach to long-term sustainability. This year's plan is shaped by our strategic goals and a comprehensive ten-year financial forecast.

The FY 2026 budget also projects earnings before interest, depreciation, and amortization (EBIDA) of over \$27 million. This financial measure focuses on operating cash flow. It shows how much money is available to reinvest in services and operations before accounting for longer-term costs such as building depreciation or interest on debt. A strong EBIDA indicates that the organization has sufficient resources to reinvest in care, staff, and equipment. It also means we are well positioned to respond to emergencies or economic shocks without relying on short-term fixes. Most importantly, it reflects our ongoing commitment to long-term financial stability.

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In total, the organization is budgeting approximately \$346.7 million in operating expenses for FY 2026, which includes staffing, services, supplies, and clinical operations. Despite these rising costs, the system is projected to generate a \$27.6 million operating surplus. This preserves financial flexibility and provides room to address emerging needs.

Fiscal year 2026 represents the next phase in a multi-year effort to improve access, operational efficiency, and service coordination. Previous investments, including workflow redesign, technology upgrades, and scheduling improvements, are now producing measurable results across clinics and departments.

More than 87.0% of gross revenue now comes from outpatient care. This reflects the health system's strategic shift toward high-demand services delivered outside of the traditional hospital setting. The FY 2026 budget includes an estimated capital investment of \$5.6 million for equipment, \$5.0 million for IT/EMR and \$55.6 million for construction. These capital investments, focused on diagnostic imaging, surgical upgrades, digital infrastructure, seismic upgrades and other enhancements are aligned with our care model, growth initiatives, and commitment to sustained patient care.

Key priorities for FY 2026 include the expansion of outpatient primary and specialty services, as well as urgent care and community pharmacy. Additional investments include new diagnostic equipment such as X-ray and fluoroscopy which are at end of life. Modernization of internal systems will continue through upgraded communication tools and enhanced IT infrastructure, including cybersecurity safeguards that are essential for safe and reliable care.

While the FY 2026 budget reflects financial strength and operational momentum, we are entering this next phase with strategic caution. The broader health policy environment at both the state and federal levels is evolving in ways that require thoughtful, disciplined planning.

California's Office of Health Care Affordability (OHCA) has launched phased cost growth targets, aiming to limit annual health care spending increases to 3.5% by 2026 and 3.0% by 2029. These benchmarks apply to all providers, including rural hospitals, requiring proactive cost containment strategies and disciplined financial planning. Although OHCA's long-term goals support sustainability, the mechanism introduces new constraints that may reduce financial flexibility even as community demand continues to rise. At the federal level, Medicare and Medicaid reimbursement remains flat. Adjustments for inflation are limited, and supplemental payment programs are under increasing scrutiny.

With the passage of H.R.1 (the Big Beautiful Bill), of course we will be analyzing, forecasting and monitoring the impacts of this bill as data and information continue to be provided.

At the same time, labor and supply costs remain persistently high. Although national inflation is moderating, hospitals face a unique inflationary curve, driven by persistent clinical staffing shortages, pharmaceutical price volatility, and aging infrastructure. These realities require ongoing reprioritization of capital and operational investments.

These factors underscore the importance of fiscal discipline, prioritization, and flexibility. We are advancing carefully by investing in critical infrastructure and services while avoiding overextension. Our strategy is designed to preserve financial independence, protect our credit rating, and ensure that we can meet future needs in a more constrained regulatory and funding environment.

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We continue to target A-minus or better investment-grade credit rating. Maintaining strong credit ensures that we can borrow at lower cost, respond quickly to future needs, and operate with a high degree of financial independence. Reaching this goal requires careful decision-making and a willingness to make trade-offs. Some initiatives may be delayed to protect financial reserves, while others may be prioritized because of their urgency or long-term impact.

In this context, caution is not a sign of hesitation. It is an expression of responsibility. The FY26 budget reflects confidence in our strategic direction, coupled with the foresight to remain nimble. Our approach balances investment in essential services with the adaptability required to succeed in an increasingly regulated and cost-constrained environment.

In closing, FY 2026 represents a strategic shift, from foundational investments to measurable results in both operational performance and financial resilience. We are growing with intention, guided by our mission and a deep commitment to the health of our organization and community. As we move forward, our focus remains clear: deliver exceptional care today while strengthening Tahoe Forest Health System for tomorrow.

The District's Board of Directors approved the FY 2026 budget at a board meeting in June 2025. For FY 2026, the District is budgeted to increase its net position by \$23.9 million. The increase is due to the following assumptions:

- Net patient services revenue of \$349.9 million.
 - ◆ Outpatient volumes are projected to increase in fiscal year 2026, primarily in the primary care and multi-specialty clinics due to the addition of new providers in the area of women's health, ENT, pulmonology, pediatrics and behavioral health. We also anticipate continued increases in mammography exams due to the addition of mammography at our Incline Village Community Hospital location in 2025.
 - ◆ 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 \$22.9 million.
- Total operating expenses of \$370.7 million.
 - ◆ Overall operating expenses will increase 4.6% due to the following:
 - Increase in salaries, wages, and benefits due to an increase in our overall FTEs, wage increases, and medical insurance costs.
 - Increase in professional fees related to continued process improvement work, new integrations and implementations within our EMR system and phone system.
 - Increase in medical supplies and pharmaceuticals related to patient volume and inflation.

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- Increase in purchased services related to the replacement of our phone system, repairs and maintenance, linen services, coding and billing services, interpreter services, and snow removal.
- Increase in other expenses related to utilities, insurance, rent and physician recruitment expenses.
- Increase in depreciation due to expected increases in capital assets.

- Income from operations of \$2.1 million.
- Nonoperating revenues of \$21.8 million.

Payments from Federal and State Health Care Programs

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

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

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

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, 2025 and 2024, 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, 2025 and 2024, 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.

Baker Tilly US, LLP

Rancho Cordova, California

November 24, 2025

Combined Financial Statements
as of and for the Years Ended June 30, 2025 and 2024

Tahoe Forest Hospital District
Combined Statements of Net Position
June 30, 2025 and 2024

	2025		2024	
	Tahoe Forest Hospital District	Truckee Surgery Center, LLC	Tahoe Forest Hospital District	Truckee Surgery Center, LLC
ASSETS				
Current assets				
Cash and cash equivalents	\$ 46,515,232	\$ 54,872	\$ 68,027,668	\$ 179,446
Patient accounts receivable, net of allowances for doubtful accounts of \$9,680,768 and \$119,038 in 2025 and \$8,571,259 and \$105,428 in 2024	60,522,334	329,880	51,525,666	482,863
Other receivables	28,594,818	5,094	21,174,431	5,094
Assets limited as to use - required for current liabilities	13,445,627	-	10,294,862	-
Inventories	7,423,294	-	5,566,886	-
Prepaid expenses and deposits	3,301,058	41,636	2,468,469	28,943
Total current assets	159,802,363	431,482	159,057,982	696,346
Assets limited as to use, net of current	173,947,281	-	115,098,840	-
Investments	15,312,607	-	3,345,730	-
Right-to-use assets, net of accumulated amortization	14,658,415	-	11,666,684	-
Subscription assets, net of accumulated amortization	23,641,774	-	27,116,972	-
Capital assets				
Nondepreciable	30,400,609	-	22,842,920	-
Depreciable, net of accumulated depreciation	171,427,153	1,158,276	177,498,091	1,086,035
	201,827,762	1,158,276	200,341,011	1,086,035
Other assets				
Beneficial interest in trusts	2,205,168	-	2,026,240	-
Other noncurrent receivables	1,772,334	20,256	1,902,743	20,256
Total assets	<u>\$ 593,167,704</u>	<u>\$ 1,610,014</u>	<u>\$ 520,556,202</u>	<u>\$ 1,802,637</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on defeasance, net	\$ 4,123,034	\$ -	\$ 4,438,430	\$ -
Accumulated decrease in fair value of hedging derivative	200,168	-	154,402	-
Total deferred outflows of resources	<u>\$ 4,323,202</u>	<u>\$ -</u>	<u>\$ 4,592,832</u>	<u>\$ -</u>
LIABILITIES				
Current liabilities				
Current maturities of long-term debt and lease obligations	\$ 5,767,351	\$ -	\$ 4,906,895	\$ -
Current maturities of lease liabilities	2,102,623	-	1,617,347	-
Current maturities of subscription liabilities	3,655,300	-	3,413,835	-
Accounts payable and accrued expenses	12,247,434	38,292	8,777,809	82,653
Accrued payroll and related expense	41,533,410	80,609	34,593,454	77,520
Estimated claims incurred but not reported	9,320,316	-	8,008,440	-
Estimated amounts due to third-party payors	2,965,266	-	6,244,959	-
Other accrued expenses	5,996	-	58,391	285
Accrued interest	1,614,031	-	1,708,137	-
Total current liabilities	<u>79,211,727</u>	<u>118,901</u>	<u>69,329,267</u>	<u>160,458</u>
Long-term debt and lease obligations, less current maturities	107,480,383	-	107,680,298	-
Lease liabilities, less current maturities	13,442,343	-	10,516,720	-
Subscription liabilities, less current maturities	21,865,368	-	25,251,850	-
Derivative instrument liability	200,168	-	154,402	-
Total liabilities	<u>\$ 222,199,989</u>	<u>\$ 118,901</u>	<u>\$ 212,932,537</u>	<u>\$ 160,458</u>
NET POSITION				
Net investment in capital assets	\$ 103,241,634	\$ -	\$ 97,426,692	\$ -
Restricted - expendable	13,317,716	-	4,246,752	-
Restricted - nonexpendable	603,984	-	603,984	-
Unrestricted	258,127,583	1,491,113	209,939,069	1,642,179
Total net position	<u>\$ 375,290,917</u>	<u>\$ 1,491,113</u>	<u>\$ 312,216,497</u>	<u>\$ 1,642,179</u>

See accompanying notes.

Tahoe Forest Hospital District
Combined Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2025 and 2024

	2025		2024	
	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 \$9,065,362 and \$13,326 in 2025 and \$7,988,325 and \$34,550 in 2024)	\$ 358,076,163	\$ 1,493,862	\$ 306,941,252	\$ 1,981,564
Other operating revenue	<u>24,595,168</u>	-	<u>21,987,599</u>	-
Total operating revenues	<u>382,671,331</u>	<u>1,493,862</u>	<u>328,928,851</u>	<u>1,981,564</u>
Operating expenses				
Salaries and wages	147,237,940	1,069,012	133,866,628	1,007,303
Employee benefits	80,000,626	232,166	67,793,097	179,128
Professional fees	10,740,634	6,609	9,254,833	7,531
Supplies	55,264,629	629,135	46,678,700	522,018
Purchased services	27,731,568	28,995	24,393,942	9,972
Depreciation and amortization	21,756,313	157,612	20,444,798	119,029
Insurance	3,088,491	6,287	2,938,837	5,446
Other	<u>10,990,287</u>	<u>586,525</u>	<u>9,055,024</u>	<u>417,561</u>
Total operating expenses	<u>356,810,488</u>	<u>2,716,341</u>	<u>314,425,859</u>	<u>2,267,988</u>
Income (loss) from operations	<u>25,860,843</u>	<u>(1,222,479)</u>	<u>14,502,992</u>	<u>(286,424)</u>
Nonoperating revenues (expenses)				
Property tax revenue	11,394,480	-	10,803,913	-
Property tax revenue - general obligation bonds	5,718,313	-	5,581,281	-
Contributions, net	15,126,707	-	4,572,129	-
Investment income	5,037,412	-	3,410,928	-
Rental income	564,143	-	574,380	-
Interest expense	(5,444,174)	-	(5,635,909)	-
Net increase in the fair value of investments	5,991,362	-	4,118,668	-
Other nonoperating (loss) income	<u>(103,281)</u>	<u>28</u>	<u>617,468</u>	<u>11,122</u>
Total nonoperating revenues	<u>38,284,962</u>	<u>28</u>	<u>24,042,858</u>	<u>11,122</u>
Income (loss) before other revenue, expenses, gains, and losses	<u>64,145,805</u>	<u>(1,222,451)</u>	<u>38,545,850</u>	<u>(275,302)</u>
Capital transfers	<u>(1,071,385)</u>	<u>1,071,385</u>	<u>(642,369)</u>	<u>642,369</u>
Increase (decrease) in net position	<u>63,074,420</u>	<u>(151,066)</u>	<u>37,903,481</u>	<u>367,067</u>
Net position, beginning of year	<u>312,216,497</u>	<u>1,642,179</u>	<u>274,313,016</u>	<u>1,275,112</u>
Net position, end of year	<u>\$ 375,290,917</u>	<u>\$ 1,491,113</u>	<u>\$ 312,216,497</u>	<u>\$ 1,642,179</u>

See accompanying notes.

Tahoe Forest Hospital District
Combined Statements of Cash Flows
For the Years Ended June 30, 2025 and 2024

	2025	2024		
	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	\$ 345,799,802	\$ 1,646,845	\$ 314,820,531	\$ 1,767,373
Cash received from other sources	17,301,186	28	17,659,182	25,747
Cash paid to suppliers for goods and services	(107,087,376)	(1,314,890)	(92,604,177)	(935,218)
Cash paid to employees for services	(219,927,710)	(1,298,089)	(198,472,885)	(1,176,528)
Net cash provided by (used in) operating activities	<u>36,085,902</u>	<u>(966,106)</u>	<u>41,402,651</u>	<u>(318,626)</u>
Cash flows from noncapital financing activities				
Property tax revenues	11,405,940	-	10,781,922	-
Noncapital grants and contributions, net of other expenses	7,030,295	-	5,680,928	-
Net cash provided by noncapital financing activities	<u>18,436,235</u>	<u>-</u>	<u>16,462,850</u>	<u>-</u>
Cash flows from capital and related financing activities				
Purchase of capital assets	(17,406,523)	(229,853)	(16,301,205)	(289,421)
Proceeds from sale of capital assets	139,350	-	-	-
Payments on general obligation and revenue bonds	(4,131,955)	-	(3,833,918)	-
Interest payments on general obligation and revenue bonds	(3,078,431)	-	(3,182,606)	-
Proceeds from issuance of long-term debt	1,460,121	-	-	-
Payments on long-term debt and lease obligations	(1,019,886)	-	(1,502,655)	-
Interest payments on long-term debt and lease obligations	(993,987)	-	(991,878)	-
Payments on lease liabilities	(1,692,918)	-	(1,630,739)	-
Interest payments on lease liabilities	(240,743)	-	(158,511)	-
Payments on subscription liabilities	(3,533,624)	-	(3,341,428)	-
Interest payments on subscription liabilities	(1,225,119)	-	(1,370,635)	-
Property tax revenue received for general obligation bonds	5,708,226	-	5,562,020	-
Contributions received restricted for capital expenditures	7,800,000	-	-	-
Capital transfer from Tahoe Forest Hospital District	-	1,071,385	-	642,369
Net cash (used in) provided by capital and related financing activities	<u>(18,215,489)</u>	<u>841,532</u>	<u>(26,751,555)</u>	<u>352,948</u>
Cash flows from investing activities				
Purchases of investments and assets limited as to use	(114,653,639)	-	(60,560,816)	-
Sales of investments and assets limited as to use	52,304,385	-	62,119,908	-
Interest received	5,037,412	-	3,410,928	-
Net cash received for rental activities	564,143	-	574,380	-
Investment in Truckee Surgery Center, LLC	(1,071,385)	-	(642,369)	-
Net cash (used in) provided by investing activities	<u>(57,819,084)</u>	<u>-</u>	<u>4,902,031</u>	<u>-</u>
Net change in cash and cash equivalents				
Cash and equivalents, beginning of year	(21,512,436)	(124,574)	36,015,977	34,322
Cash and equivalents, end of year	<u>68,027,668</u>	<u>179,446</u>	<u>32,011,691</u>	<u>145,124</u>
	<u>\$ 46,515,232</u>	<u>\$ 54,872</u>	<u>\$ 68,027,668</u>	<u>\$ 179,446</u>

See accompanying notes.

Tahoe Forest Hospital District
Combined Statements of Cash Flows (Continued)
For the Years Ended June 30, 2025 and 2024

	2025			2024		
	Tahoe Forest	Truckee	Tahoe Forest	Truckee	Tahoe Forest	Truckee
	Hospital District	Surgery Center, LLC	Hospital District	Surgery Center, LLC	Hospital District	Surgery Center, LLC
Reconciliation of income (loss) from operations to net cash from operating activities						
Income (loss) from operations	\$ 25,860,843	\$ (1,222,479)	\$ 14,502,992	\$ (286,424)		
Adjustments to reconcile income (loss) from operations to net cash from operating activities:						
Depreciation and amortization	21,756,313	157,612	20,444,798	119,029		
Amortization of bond premiums/discounts and bond issuance costs	(187,618)	-	(187,618)	-		
Provision for doubtful accounts	9,065,362	119,038	7,988,325	105,428		
Change in assets and liabilities:						
Patient accounts receivable, net	(18,062,030)	33,945	(10,959,048)	(319,619)		
Other receivables	(7,421,760)	-	(4,456,193)	14,625		
Inventories	(1,856,408)	-	(291,242)	-		
Prepaid expenses and deposits	(832,589)	(12,693)	1,125,194	(12,991)		
Other noncurrent receivables	(940,976)	-	(1,797,778)	-		
Deferred loss on defeasance, net	315,396	-	315,394	-		
Accounts payable and accrued expenses	3,469,625	(44,361)	(1,110,554)	41,931		
Accrued payroll and related expense	6,939,956	3,089	5,573,425	9,903		
Estimated claims incurred but not reported	1,311,876	-	(588,807)	-		
Estimated amounts due from/to third-party payors	(3,279,693)	-	10,850,002	-		
Other accrued expenses	(52,395)	(257)	(6,239)	9,492		
Total adjustments	10,225,059	256,373	26,899,659	(32,202)		
Net cash provided by (used in) operating activities	<u>\$ 36,085,902</u>	<u>\$ (966,106)</u>	<u>\$ 41,402,651</u>	<u>\$ (318,626)</u>		
Supplemental disclosure of noncash investing and financing activities:						
Change in fair value of beneficial interest in trusts	\$ 178,928	\$ -	\$ 151,038	\$ -		
Change in fair value of assets limited as to use and investments	\$ 5,991,362	\$ -	\$ 4,118,668	\$ -		
Non-cash contributions of investments	\$ 1,085,588	\$ -	\$ -	\$ -		
Assets limited as to use acquired by note payable	\$ 4,539,879	\$ -	\$ -	\$ -		
Noncash acquisition of right-to-use assets	\$ 5,103,817	\$ -	\$ 5,350,306	\$ -		
Noncash acquisition of subscription assets	\$ 388,607	\$ -	\$ 301,486	\$ -		

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, as the District owns a 99% membership interest in TSC. In fiscal years 2025 and 2024, the District advanced \$1,071,385 and \$642,369 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 and investments – Assets limited as to use and investments consist principally of short-term money market funds, certificates of deposit, and U.S. government and corporate fixed income securities, which are recorded at fair value, and LAIF, which is recorded at amortized cost. 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 \$2,075,764 and \$1,909,740 as of June 30, 2025 and 2024, 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 \$129,404 and \$116,500 as of June 30, 2025 and 2024, respectively, and is reported in the combined financial statements as beneficial interest in trusts.

The Foundations' interest in the TTGF 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 TTGF Endowment, the Fund, and the Parasol Endowment, investment results, and distributions from the TTGF 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 2025 and 2024.

Depreciation of capital assets and amortization of capital assets under lease obligations 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, 2025 and 2024, was \$575,359 and \$536,571, respectively. Amortization expense for each of the years ended June 30, 2025 and 2024, 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, 2025 and 2024, was \$78,500 and \$70,651, respectively. Amortization income for each of the years ended June 30, 2025 and 2024, was \$7,849; and is estimated to be \$7,849 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, 2025 and 2024, was \$916,510 and \$824,859, respectively. Amortization expense for each of the years ended June 30, 2025 and 2024, 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, 2025 and 2024, was \$1,735,248 and \$1,542,442, respectively. Amortization expense for each of the years ended June 30, 2025 and 2024, 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 long-term 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. For long-term sick leave, employees can earn up to 56 hours annually and is accumulated indefinitely. Employees are paid for accumulated PTO and long-term sick leave either upon termination or retirement. Accrued PTO and long-term sick leave liabilities included in accrued payroll and related expense as of June 30, 2025 and 2024, were \$14,673,311 and \$11,774,653, respectively.

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

	Balance as of July 1, 2024	Increases	Decreases	Balance as of June 30, 2025	Current Portion
Compensated absences	\$ 11,774,653	\$ 3,856,303	\$ 957,645	\$ 14,673,311	\$ 14,673,311
	Balance as of July 1, 2023	Increases	Decreases	Balance as of June 30, 2024	Current Portion
Compensated absences	\$ 10,844,670	\$ 2,213,032	\$ 1,283,049	\$ 11,774,653	\$ 11,774,653

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, 2024	Increases	Decreases	Balance as of June 30, 2025	Current Portion
Lease liabilities	\$ 12,134,067	\$ 5,103,817	\$ 1,692,918	\$ 15,544,966	\$ 2,102,623
	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

Subscription liabilities – The District entered into various agreements for IT subscriptions. These agreements range in terms up to year 2033. Total subscription payments were \$3,533,624 and \$3,341,428 for fiscal years 2025 and 2024, 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, 2025 and 2024. The District did not enter into any additional subscription agreements that have yet to commence as of June 30, 2025.

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, 2024	Increases	Decreases	Balance as of June 30, 2025	Current Portion
Subscription liabilities	\$ 28,665,685	\$ 388,607	\$ 3,533,624	\$ 25,520,668	\$ 3,655,300
	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

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.

Combined 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 \$3,655,415 and \$513,428 for the years ended June 30, 2025 and 2024, respectively. Using the District's Medicare cost to charge ratio, the estimated cost of these charges was \$1,590,164 and \$228,410 for the years ended June 30, 2025 and 2024, 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, 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, 2025 and 2024, were as follows:

	<u>2025</u>	<u>2024</u>
Retail pharmacy revenue	\$ 10,012,700	\$ 7,342,703
QIP revenue	5,044,159	3,345,657
HQAF revenue	3,280,729	3,060,804
Grant revenue	3,400	2,283,833
Childcare center revenue	2,332,286	2,220,868
Thrift store revenue	1,150,872	1,095,635
Other miscellaneous revenue	<u>2,771,022</u>	<u>2,638,099</u>
 Total other operating revenue	 <u>\$ 24,595,168</u>	 <u>\$ 21,987,599</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 4% and 5% of its financial support from property taxes for the years ended June 30, 2025 and 2024, respectively, 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

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 2024 combined financial statements to conform to the 2025 combined 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 adopted GASB 101 for the year beginning July 1, 2024. The adoption did not result in a material impact to the District's 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 adopted GASB 102 for the year beginning July 1, 2024. The adoption did not result in a material impact to the District's combined financial statements.

Tahoe Forest Hospital District Notes to 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 nonoperating 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, 2025, Tahoe Forest Hospital and Incline Village Community Hospital cost reports through June 30, 2020, and June 30, 2023, respectively, have been audited or otherwise final settled.

Medi-Cal: Prior to July 1, 2013, inpatient acute care services rendered to Medi-Cal program beneficiaries were reimbursed under a cost reimbursement methodology; however, the District is also subject to per discharge limits. The District was paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by Medi-Cal. Per discharge limits for the District have been determined by Medi-Cal through June 30, 2011.

Beginning on July 1, 2013, inpatient acute care services were rendered to Medi-Cal program beneficiaries under a diagnostic related group (DRG) methodology. Under this methodology, similar to Medicare, services are paid at prospectively determined rates per discharge according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient skilled nursing care services rendered to Medi-Cal program beneficiaries are reimbursed at prospectively determined per diem rates. Outpatient services rendered to Medi-Cal program beneficiaries are reimbursed based on prospectively determined fee schedules. At June 30, 2025, Tahoe Forest Hospital and Incline Village Community Hospital cost reports through June 30, 2023, have been audited or otherwise final settled.

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

Tahoe Forest Hospital District
Notes to Combined Financial Statements

Net patient service revenue is comprised of the following for the years ended June 30, 2025 and 2024:

	2025	2024
Daily hospital service	\$ 41,858,427	\$ 40,240,837
Inpatient ancillary services	53,430,615	51,610,060
Outpatient services	<u>648,550,344</u>	<u>555,701,498</u>
 Gross patient service revenues	 743,839,386	 647,552,395
Less contractual allowances and provision for doubtful accounts	<u>(385,763,223)</u>	<u>(340,611,143)</u>
 Net patient service revenue at Tahoe Forest Hospital District	 <u>358,076,163</u>	 <u>306,941,252</u>
Net patient service revenue at Truckee Surgery Center, LLC	<u>1,493,862</u>	<u>1,981,564</u>
 Total net patient service revenue	 <u>\$ 359,570,025</u>	 <u>\$ 308,922,816</u>

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

	2025	2024
Commercial	42%	43%
Medicare	40%	40%
Medi-Cal	17%	16%
Others	1%	1%
 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 QIP. As a result of participating in the QIP, the District recorded a receivable of \$4,997,204 and \$3,999,040 at June 30, 2025 and 2024, 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, the District Hospital Directed Payment Program (DHDP), and the Rate Range Program (RR). The DHDP and RR are through intergovernmental transfers (IGT's), where funds are put up by the District to be matched by the federal government. As a result of these three programs, two of which are IGT programs, the District recorded a receivable of \$21,662,628 at June 30, 2025, for funds related to fiscal years 2025 and 2024, and a receivable of \$15,760,947 at June 30, 2024, for funds related to fiscal years 2024 and 2023, which is included in other receivables on the combined statements of net position.

Tahoe Forest Hospital District Notes to Combined Financial Statements

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

The District has deposits held by various financial institutions in the form of operating cash and cash equivalents. All of these funds are held in deposits, which are collateralized in accordance with the California Government Code (CGC), except for \$250,000 per account that is federally insured. At June 30, 2025 and 2024, the District's cash deposits had carrying amounts of \$46,515,232 and \$68,027,668, and bank balances of \$51,871,628 and \$76,818,988, 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.

As of June 30, 2025 and 2024, assets limited as to use and investments, at carrying value, consisted of the following:

	<u>2025</u>	<u>2024</u>
Assets limited as to use - required for current liabilities	\$ 13,445,627	\$ 10,294,862
Assets limited as to use, net of current	173,947,281	115,098,840
Investments	<u>15,312,607</u>	<u>3,345,730</u>
 Total	 <u>\$ 202,705,515</u>	 <u>\$ 128,739,432</u>

As of June 30, 2025 and 2024, assets limited as to use and investments, at carrying value, have been set aside as follows:

	<u>2025</u>	<u>2024</u>
Board designated assets	\$ 175,999,536	\$ 118,773,967
Assets held by trustees	11,393,372	6,619,735
Unrestricted investments	<u>15,312,607</u>	<u>3,345,730</u>
 Total	 <u>\$ 202,705,515</u>	 <u>\$ 128,739,432</u>

Tahoe Forest Hospital District
Notes to Combined Financial Statements

A summary of scheduled maturities by investment type at June 30, 2025 and 2024, were as follows:

Investment type	2025			
	Carrying Value	Investment Maturities (in years)		
		Less than 1	1 to 5	6 to 10+
Short-term money market	\$ 16,360,487	\$ 16,360,487	\$ -	\$ -
U.S. corporate fixed income securities	17,759,520	-	17,759,520	-
U.S. government fixed income securities	89,285,455	-	89,285,455	-
Local agency investment fund	74,999,681	74,999,681	-	-
Equity securities	4,300,372	4,300,372	-	-
Total	\$ 202,705,515	\$ 95,660,540	\$ 107,044,975	\$ -

Investment type	2024			
	Carrying Value	Investment Maturities (in years)		
		Less than 1	1 to 5	6 to 10+
Short-term money market	\$ 20,414,756	\$ 20,414,756	\$ -	\$ -
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	101,825	101,825	-	-
Total	\$ 128,739,432	\$ 31,720,925	\$ 97,018,507	\$ -

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

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

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

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

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

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

Tahoe Forest Hospital District

Notes to Combined Financial Statements

The District's policy maximizes the return on invested cash while minimizing risk of capital loss. The District's policy limits investments to one and one-half years, unless otherwise approved by the Board of Directors. The District was in compliance with their investment policies as of June 30, 2025.

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

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

Note 4 – Fair Value Measurement of Financial Instruments

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

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

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

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

Following is a description of the valuation methodologies and inputs used for instruments measured at fair value on a recurring basis and recognized in the accompanying combined statements of net position or for which the fair value is disclosed in the notes to the combined financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended June 30, 2025 and 2024.

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

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

Tahoe Forest Hospital District

Notes to Combined Financial Statements

Beneficial interest in trusts – As described in Note 1, the Foundations established the TTCF and Parasol Endowment and are the beneficiary of the Funds held at the TTCF. The fair value of the beneficial interest is estimated using the fair value of the assets held in trust reported by the trustees as of June 30, 2025 and 2024.

Hedging derivative – The fair value of the hedging derivative is valued using market to market valuations as of June 30, 2025 and 2024.

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	2025				Total
	Level 1	Level 2	Level 3		
Hedging derivative	\$ -	\$ (200,168)	\$ -	\$ (200,168)	
Short-term money market	16,360,487	-	-	-	16,360,487
U.S. corporate fixed income securities	-	17,759,520	-	-	17,759,520
U.S. government fixed income securities	-	89,285,455	-	-	89,285,455
Equity securities	4,300,372	-	-	-	4,300,372
Beneficial interest in trusts	-	-	2,205,168	-	2,205,168
Total by fair value level	\$ 20,660,859	\$ 106,844,807	\$ 2,205,168	\$ 129,710,834	
Local agency investment fund					74,999,681
Total				\$ 204,710,515	
Description	2024				Total
	Level 1	Level 2	Level 3		
Hedging derivative	\$ -	\$ (154,402)	\$ -	\$ (154,402)	
Short-term money market	20,414,756	-	-	-	20,414,756
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	\$ 20,516,581	\$ 96,864,105	\$ 2,026,240	\$ 119,406,926	
Local agency investment fund					11,204,344
Total				\$ 130,611,270	

The following table summarizes the changes in the District's Level 3 financial instruments for the years ended June 30, 2025 and 2024:

	2025	2024
Beginning balance	\$ 2,026,240	\$ 1,875,202
Change in value of beneficial interest in trusts	178,928	151,038
Ending balance	\$ 2,205,168	\$ 2,026,240

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, 2025 and 2024:

Description	Fair Value as of June 30, 2025	Valuation Technique	Unobservable Input	Range
Beneficial interest in trusts	\$ 2,205,168	Asset fair value from Trustee	Asset fair value from Trustee	Varies
<hr/>				
Description	Fair Value as of June 30, 2024	Valuation Technique	Unobservable Input	Range
Beneficial interest in trusts	\$ 2,026,240	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, 2025 and 2024:

	2025	2024
Medicare and Medicare managed care	\$ 32,913,935	\$ 23,134,533
Medi-Cal and Medi-Cal managed care	32,910,198	46,667,532
Other payors	61,081,030	51,855,814
Self-pay	<u>9,129,512</u>	<u>8,544,015</u>
 Gross patient accounts receivable	 136,034,675	 130,201,894
 Less allowances for contractual adjustments and bad debts	 (75,512,341)	 (78,676,228)
 Net patient accounts receivable at Tahoe Forest Hospital District	 60,522,334	 51,525,666
 Net patient accounts receivable at Truckee Surgery Center, LLC	 329,880	 482,863
 Total net patient accounts receivable	 <u>\$ 60,852,214</u>	 <u>\$ 52,008,529</u>

Concentration of net patient accounts receivable as of June 30, 2025 and 2024, were as follows:

	2025	2024
Commercial and other payors	71%	71%
Medicare	19%	17%
Medi-Cal	9%	11%
Self-pay	<u>1%</u>	<u>1%</u>
 Total	 <u>100%</u>	 <u>100%</u>

Tahoe Forest Hospital District

Notes to Combined Financial Statements

Note 6 – Capital Assets

The capital asset activity of the District for the years ended June 30, 2025 and 2024, were as follows:

2025				
	Balance June 30, 2024	Increases	Decreases	Transfers
Capital assets - nondepreciable				
Land	\$ 8,602,897	\$ -	\$ -	\$ -
Construction in progress, net	13,329,055	10,786,450	(51,116)	(3,177,645)
Property held for future expansion	910,968	-	-	-
	<u>22,842,920</u>	<u>10,786,450</u>	<u>(51,116)</u>	<u>(3,177,645)</u>
Capital assets - depreciable				
Land improvements	5,884,006	62,489	-	78,047
Building and improvements	268,609,621	1,895,762	(88,234)	3,099,598
Equipment and software	116,993,652	4,661,822	(129,618)	-
Capital assets at Truckee Surgery Center, LLC	1,932,817	229,853	-	-
	<u>393,420,096</u>	<u>6,849,926</u>	<u>(217,852)</u>	<u>3,177,645</u>
Less accumulated depreciation for				
Land improvements	3,789,031	117,833	-	-
Building and improvements	109,902,428	10,603,876	(129,618)	-
Equipment and software	100,297,729	5,058,713	-	-
Capital assets at Truckee Surgery Center, LLC	846,782	157,612	-	-
	<u>214,835,970</u>	<u>15,938,034</u>	<u>(129,618)</u>	<u>-</u>
Total capital assets - depreciable, net	<u>178,584,126</u>	<u>(9,088,108)</u>	<u>(88,234)</u>	<u>3,177,645</u>
Total capital assets, net	<u><u>\$ 201,427,046</u></u>	<u><u>\$ 1,698,342</u></u>	<u><u>\$ (139,350)</u></u>	<u><u>\$ -</u></u>
2024				
	Balance June 30, 2023	Increases	Decreases	Transfers
Capital assets - nondepreciable				
Land	\$ 8,579,997	\$ 22,900	\$ -	\$ -
Construction in progress, net	14,363,891	9,191,021	-	(10,225,857)
Property held for future expansion	910,968	-	-	-
	<u>23,854,856</u>	<u>9,213,921</u>	<u>-</u>	<u>(10,225,857)</u>
Capital assets - depreciable				
Land improvements	5,788,962	-	-	95,044
Building and improvements	257,301,909	2,131,959	(955,060)	10,130,813
Equipment and software	112,048,238	4,955,325	(9,911)	-
Capital assets at Truckee Surgery Center, LLC	1,643,396	289,421	-	-
	<u>376,782,505</u>	<u>7,376,705</u>	<u>(964,971)</u>	<u>10,225,857</u>
Less accumulated depreciation for				
Land improvements	3,675,962	113,069	-	-
Building and improvements	100,923,252	9,934,236	(955,060)	-
Equipment and software	95,439,384	4,868,256	(9,911)	-
Capital assets at Truckee Surgery Center, LLC	727,753	119,029	-	-
	<u>200,766,351</u>	<u>15,034,590</u>	<u>(964,971)</u>	<u>-</u>
Total capital assets - depreciable, net	<u>176,016,154</u>	<u>(7,657,885)</u>	<u>-</u>	<u>10,225,857</u>
Total capital assets, net	<u><u>\$ 199,871,010</u></u>	<u><u>\$ 1,556,036</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 201,427,046</u></u>

Tahoe Forest Hospital District

Notes to Combined Financial Statements

Note 7 – Long-Term Debt and Lease Obligations

A summary of long-term debt and lease obligations as of June 30, 2025 and 2024, were as follows:

2025						
	Date of Issue	Date of Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2025
General obligation bonds						
2016 GOB	March 2016	August 2040	2.00% - 5.00%	\$1,140,000 - \$3,625,000	\$ 45,110,000	\$ 38,030,000
2015 GOB	February 2015	August 2038	2.00% - 5.00%	\$865,000 - \$2,895,000	30,810,000	25,885,000
2019 GOB	September 2019	August 2042	3.00% - 5.00%	\$435,000 - \$2,270,000	24,710,000	22,915,000
Revenue bonds						
Series 2017	March 2017	July 2032	1.49%	\$566,551 - \$663,805	9,060,000	4,959,949
Series 2015	March 2015	July 2033	3.87%	\$1,125,406 - \$1,583,873	20,979,000	12,305,165
Notes payable						
11046 Donner Pass Road	January 2019	February 2026	4.00%	\$533,255 - \$773,730	4,950,000	533,255
Bank of America Leasing	February 2025	February 2032	4.50%	\$244,948 - \$948,082	6,000,000	5,755,052
Lease obligations						
US Bank Equipment Financing	September 2019	September 2024	8.30%	\$273 monthly	18,176	-
US Bank Equipment Financing	October 2019	October 2024	8.28%	\$117 monthly	7,835	-
					<u>\$ 141,645,011</u>	<u>\$ 110,383,421</u>
2024						
	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%	\$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	-
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	<u>239,669</u>	<u>-</u>
					<u>\$ 143,884,680</u>	<u>\$ 109,535,262</u>

Tahoe Forest Hospital District
Notes to Combined Financial Statements

The following tables summarize the District's long-term debt and lease obligation transactions for the years ended June 30, 2025 and 2024:

	2025				
	Balance June 30, 2024	Net Borrowings and Issuance Proceeds	Payments and Bond Premium/Discount Amortization During the Year	Balance June 30, 2025	Current Portion
2016 General obligation bond	\$ 39,170,000	\$ -	\$ (1,140,000)	\$ 38,030,000	\$ 1,260,000
2015 General obligation bond	26,750,000	-	(865,000)	25,885,000	975,000
2019 General obligation bond	23,350,000	-	(435,000)	22,915,000	495,000
General obligation bond premium/discount	3,051,931	-	(187,618)	2,864,313	-
Series 2017 Revenue bonds	5,526,500	-	(566,551)	4,959,949	577,883
Series 2015 Revenue bonds	13,430,569	-	(1,125,404)	12,305,165	1,168,959
11046 Donner Pass Road	1,306,985	-	(773,730)	533,255	533,255
Bank of America leasing	-	6,000,000	(244,948)	5,755,052	757,254
US Bank equipment financing	735	-	(735)	-	-
US Bank equipment financing	473	-	(473)	-	-
	<u>\$ 112,587,193</u>	<u>\$ 6,000,000</u>	<u>\$ (5,339,459)</u>	<u>\$ 113,247,734</u>	<u>\$ 5,767,351</u>

	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>

As of June 30, 2025, the District's long-term debt and lease obligation requirements to maturity, excluding unamortized bond premium and bond issuance costs of \$2,864,313, are as follows:

Years Ending June 30,	Long-Term Debt		
	Principal	Interest	Total
2026	\$ 5,767,351	\$ 3,376,546	\$ 9,143,897
2027	5,625,707	3,173,027	8,798,734
2028	6,045,902	2,965,417	9,011,319
2029	6,494,826	2,764,463	9,259,289
2030	6,962,630	2,545,359	9,507,989
2031 - 2035	35,722,005	9,309,865	45,031,870
2036 - 2040	33,770,000	3,696,240	37,466,240
2041 - Thereafter	<u>9,995,000</u>	<u>225,165</u>	<u>10,220,165</u>
	<u>\$ 110,383,421</u>	<u>\$ 28,056,083</u>	<u>\$ 138,439,504</u>

Tahoe Forest Hospital District Notes to Combined Financial Statements

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.

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.

Tahoe Forest Hospital District Notes to Combined Financial Statements

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%.

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 \$200,168 and \$154,402 as of June 30, 2025 and 2024, 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 \$200,168 and \$154,402 at June 30, 2025 and 2024, 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, 2025, 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, 2025. 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.

Tahoe Forest Hospital District Notes to Combined Financial Statements

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

Note 9 – Risk Management Programs

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

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, 2025 and 2024.

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, 2025 and 2024, 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, 2025 and 2024:

2025				
	Balance July 1, 2024	Increases	Decreases	Balance June 30, 2025
Workers' compensation	\$ 2,297,841	\$ 550,000	\$ (532,772)	\$ 2,315,069
Employee health	<u>2,939,536</u>	<u>1,414,264</u>	<u>(225,000)</u>	<u>4,128,800</u>
	<u><u>\$ 5,237,377</u></u>	<u><u>\$ 1,964,264</u></u>	<u><u>\$ (757,772)</u></u>	<u><u>\$ 6,443,869</u></u>

2024				
	Balance July 1, 2023	Increases	Decreases	Balance June 30, 2024
Workers' compensation	\$ 3,287,371	\$ 250,000	\$ (1,239,530)	\$ 2,297,841
Employee health	<u>2,722,950</u>	<u>520,537</u>	<u>(303,951)</u>	<u>2,939,536</u>
	<u><u>\$ 6,010,321</u></u>	<u><u>\$ 770,537</u></u>	<u><u>\$ (1,543,481)</u></u>	<u><u>\$ 5,237,377</u></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 \$2,876,447 and \$2,771,063 for the years ended June 30, 2025 and 2024, 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>2025</u>	<u>2024</u>
Restricted - expendable net assets		
Cancer prevention	\$ 1,959,715	\$ 868,364
Cancer care	1,556,389	1,390,365
Hospice and other	<u>9,801,612</u>	<u>1,988,023</u>
	<u><u>\$ 13,317,716</u></u>	<u><u>\$ 4,246,752</u></u>
Restricted - nonexpendable net assets		
Investments in perpetuity, TTGF Endowment	\$ 519,375	\$ 519,375
Investments in perpetuity, Parasol Endowment	<u>84,609</u>	<u>84,609</u>
	<u><u>\$ 603,984</u></u>	<u><u>\$ 603,984</u></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 \$9,884,045 and \$9,701,667 for the years ended June 30, 2025 and 2024, respectively. As of June 30, 2025 and 2024, the District has accrued \$3,560,697 and \$4,180,782, 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, 2025 and 2024, the District had recorded \$20,886,744 and \$13,329,055, 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, 2025, is \$27,518,655.

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, 2025, 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, 2025 and 2024. 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, 2025 and 2024. No termination penalties were incurred during the fiscal year.

	Balance as of July 1, 2024	Increases	Decreases	Balance as of June 30, 2025
Right-to-use assets	\$ 17,729,251	\$ 5,103,817	\$ -	\$ 22,833,068
Less accumulated amortization	<u>6,062,567</u>	<u>2,112,086</u>	<u>-</u>	<u>8,174,653</u>
Right to use assets, net	<u>\$ 11,666,684</u>	<u>\$ 2,991,731</u>	<u>\$ -</u>	<u>\$ 14,658,415</u>
	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	<u>4,351,654</u>	<u>1,710,913</u>	<u>-</u>	<u>6,062,567</u>
Right to use assets, net	<u>\$ 8,114,777</u>	<u>\$ 3,639,393</u>	<u>\$ 87,486</u>	<u>\$ 11,666,684</u>

For the years ended June 30, 2025 and 2024, the District recognized \$2,112,086 and \$1,710,913, 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, 2025, were as follows:

Years ending June 30,	Principal Payments	Interest Payments	Total
2026	\$ 2,102,623	\$ 443,750	\$ 2,546,373
2027	1,800,758	394,201	2,194,959
2028	1,406,144	358,586	1,764,730
2029	1,309,581	327,461	1,637,042
2030	1,381,592	296,076	1,677,668
Thereafter	<u>7,544,268</u>	<u>1,881,616</u>	<u>9,425,884</u>
	<u><u>\$ 15,544,966</u></u>	<u><u>\$ 3,701,690</u></u>	<u><u>\$ 19,246,656</u></u>

The District evaluated the right-to-use assets for impairment and determined there was no impairment for the years ended June 30, 2025 and 2024.

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, 2024	Increases	Decreases	Balance as of June 30, 2025
Subscription assets	\$ 36,998,914	\$ 388,607	\$ -	\$ 37,387,521
Less accumulated amortization	<u>9,881,942</u>	<u>3,863,805</u>	<u>-</u>	<u>13,745,747</u>
Subscription assets, net	<u><u>\$ 27,116,972</u></u>	<u><u>\$ (3,475,198)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 23,641,774</u></u>
	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	<u>6,063,618</u>	<u>3,818,324</u>	<u>-</u>	<u>9,881,942</u>
Subscription assets, net	<u><u>\$ 30,684,471</u></u>	<u><u>\$ (3,516,838)</u></u>	<u><u>\$ 50,661</u></u>	<u><u>\$ 27,116,972</u></u>

For the years ended June 30, 2025 and 2024, the District recognized \$3,863,805 and \$3,818,324, 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, 2025, were as follows:

Years ending June 30,	Principal Payments	Interest Payments	Total
2026	\$ 3,655,300	\$ 1,060,839	\$ 4,716,139
2027	3,435,562	894,955	4,330,517
2028	2,760,369	756,755	3,517,124
2029	2,743,498	633,508	3,377,006
2030	2,831,039	508,171	3,339,210
Thereafter	<u>10,094,900</u>	<u>749,413</u>	<u>10,844,313</u>
	<u><u>\$ 25,520,668</u></u>	<u><u>\$ 4,603,641</u></u>	<u><u>\$ 30,124,309</u></u>

The District evaluated the subscription assets for impairment and determined there was no impairment for the years ended June 30, 2025 and 2024.

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.

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