*Report of Independent Auditors and Combined Financial Statements*

**Tahoe Forest Hospital District**

*June 30, 2019 and 2018*

MOSSADAMS

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# Management’s Discussion and Analysis

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

Our discussion and analysis of the District financial performance provides an overview of the District's financial activities for the years ended June 30, 2019, 2018, and 2017. Please read this in conjunction with the District's combined financial statements and accompanying notes, which begin on page 12. 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 2019**

- The District's increase in net position was $20.3 million for 2019 as compared to $5.4 million for 2018.
- The District's income (loss) from operations for fiscal year 2019 was $8.5 million as compared to ($3.9) million for 2018.
- Nonoperating revenues were $11.8 million in fiscal year 2019 as compared to $8.9 million for 2018.

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, 2019, and 2018.

**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.

### 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 statement of net position found on page 12. The District's net position changed by $20.3 million for 2019 as compared to $5.4 million for 2018, as presented in the following table (amounts are in thousands):

| | As of June 30, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Current assets | $ 77,208 | $ 61,802 | $ 52,817 |
| Capital assets | 178,934 | 167,112 | 165,456 |
| Restricted and other assets | 67,826 | 55,959 | 63,890 |
| Total assets | 323,968 | 284,873 | 282,163 |
| Deferred outflows of resources | 7,386 | 7,394 | 8,194 |
| Current liabilities | 39,226 | 27,739 | 28,224 |
| Long-term liabilities | 136,856 | 129,579 | 132,614 |
| Total liabilities | 176,082 | 157,318 | 160,838 |
| Net investment in capital assets | 49,845 | 43,982 | 40,931 |
| Restricted - expendable | 3,625 | 3,655 | 3,121 |
| Restricted - nonexpendable | 41 | 35 | 29 |
| Unrestricted | 101,761 | 87,277 | 85,438 |
| Total net position | $ 155,272 | $ 134,949 | $ 129,519 |

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

During 2019, the District's net position increased by $20.3 million as compared to $5.4 million in 2018, 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. Three areas of expenses created significant differences between 2019 and 2018: salaries, wages, and benefits $16.8 million, professional fees $3.0 million, and supplies $3.7 million. The increase in salaries, wages, and benefits is due to increased staffing, merit increases, management incentive compensation bonuses, and the employee gain-sharing bonus program (new starting in 2017). The increase in professional fees is due to the addition of several new physician providers. The increase in supplies is due to the cost of surgical implants, medical supplies, and pharmaceuticals primarily related to our cancer program.

| | Fiscal years ended June 30, | | |
|---|---|---|---|
| Operating revenues (thousands) | **2019** | **2018** | **2017** |
| Net patient service revenues | $ 188,880 | $ 148,737 | $ 148,296 |
| Other operating revenues | 11,105 | 9,962 | 8,965 |
| Total operating revenues | 199,986 | 158,700 | 157,262 |
| Operating expenses (thousands) | | | |
| Salaries and wages | 65,577 | 53,747 | 51,111 |
| Employee benefits | 32,733 | 27,763 | 24,925 |
| Professional fees | 27,823 | 24,857 | 22,864 |
| Supplies | 25,235 | 21,490 | 19,430 |
| Purchased services | 16,706 | 13,870 | 13,085 |
| Depreciation and amortization | 13,534 | 11,296 | 10,747 |
| Other operating expenses | 9,901 | 9,534 | 7,845 |
| Total operating expenses | 191,508 | 162,557 | 150,007 |
| Income (loss) from operations | 8,478 | (3,857) | 7,255 |
| Nonoperating revenue (expenses) (thousands) | | | |
| Property tax revenue | 7,549 | 7,037 | 7,315 |
| Property tax revenue - general obligation bonds | 5,220 | 3,869 | 5,561 |
| Interest expense | (5,131) | (5,020) | (3,980) |
| Other nonoperating items | 4,208 | 2,995 | 1,952 |
| Total nonoperating revenues | 11,845 | 8,880 | 10,848 |
| Income before other revenue, expenses, gains and losses | 20,323 | 5,023 | 18,103 |
| Capital contributions | - | 407 | 361 |
| Increase in net position | $ 20,323 | $ 5,430 | $ 18,464 |

### Operating Gains

The primary component of the overall change in the District's net position is its income (loss) from operations, generally the difference between net patient service revenues and the expenses incurred to perform those services. Income (loss) from operations in 2019 was $8.5 million as compared to ($3.9) million in 2018.

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

- Net patient service revenues increased in 2019 by $40.1 million (27.0%) due to a combination of changes in volumes, changes in payor mix, a charge increase, and additional reimbursements related to prior periods. Inpatient census days increased in 2019 to 5,802 from 4,356 in 2018. Adjusted patient days were up 13.87% in 2019 as compared to 2018. Inpatient charges increased by $22.0 million to $95.0 million in 2019 from $73.0 million in 2018. Outpatient charges increased by $67.7 million to $263.4 million in 2019 from $195.7 million in 2018, and as a percentage of total charges, outpatient charges increased to 73.5% of the total in 2019 from 72.8% in 2018. In addition, contractual allowances, charity care, and bad debt increased $50.8 million to $176.6 million in 2019 from $125.8 million in 2018. Prior period settlements increased $1.2 million to $7.2 million in 2019 from $6.0 million in 2018.

- An increase in other operating revenues of $1.1 million (11.5%) in 2019.

- Operating expenses increase of $29.0 million (17.8%) in 2019 is due to added services and providers, higher outpatient volumes, additional full time equivalents ("FTEs"), increased surgical implants, pharmaceuticals, and medical supply costs, post go-live recovery costs from a system conversion in 2018, and employee gain sharing program and management incentive compensation bonuses.

Employee salaries, wages, and benefits were $98.3 million in 2019 and $81.5 million in 2018. The components of these costs are as follows:

- Salaries and wages, totaled $65.6 million in 2019 and $53.7 million in 2018. Staffing, as measured by paid full-time equivalents ("FTEs"), was 788 in 2019 and 683 in 2018. The employee gain-sharing program and management incentive compensation bonuses totaled $5.4 million in 2019 and $1.7 million in 2018.

- Benefits totaled $32.7 million in 2019 and $27.8 million in 2018. The benefits associated with the employee gain-sharing program and management incentive compensation bonuses totaled $0.7 million in 2019 and $0.2 million in 2018.

- Salaries, wages, and benefits per paid FTE were $124,759 in 2019 and $119,340 in 2018. If we were to remove the 2019 and 2018 gain-sharing program and management incentive compensation bonuses from the salaries, wages, and benefits, then the amount per paid FTE was $116,995 in 2019 and $116,604 in 2018.

- Other changes were as follows:

  - There was an increase of $3.0 million (11.9%) in professional fees. This was primarily due to an increase in providers contracted under professional services agreements to provide care in our multi-specialty clinics.

  - There was a $3.7 million (17.4%) increase in supplies primarily due to an increase in pharmaceuticals, surgical implants, and medical supply costs, which is directly connected to the increase in volumes.

- There was a $2.8 million (20.4%) increase in purchased services primarily due to our annual fee related to our new electronic medical record, repairs and maintenance to the hospital campuses and outlying buildings including snow removal, contracting out our self-pay collections to a third party, and adding additional billing and follow-up resources.

- There was an increase of $2.2 million (19.8%) in depreciation and amortization expense due mainly to projects coming on line out of construction in progress offset by capital assets reaching the end of their estimated useful lives.

- Other expense category changes (utilities, building and equipment rent, insurance, dues and subscriptions, travel and education, and other) increased $0.04 million (3.8%) primarily due to an increase in insurance costs and building and equipment rents.

**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 2018, the District had $167.1 million in capital assets, net of depreciation, as detailed in the footnotes to the financial statements. At the end of 2019, the District had $178.9 million invested in capital assets, net of depreciation. In 2019, the District improved facilities and acquired new equipment for a total net investment of $11.8 million, net of disposals, as compared to $1.6 million in 2018.

**Debt Borrowings**

At the end of 2019, the District has $140.5 million in long-term debt borrowings outstanding including current maturities. At the end of 2018, the District had $131.1 million in long-term debt borrowings outstanding including current maturities. In March 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.

In October 2018, the District entered into a fixed rate municipal lease in the amount of $8 million for the purchase of various capital equipment. The debt is to be repaid over 5 years at an interest rate of 2.82%, with a final maturity of October 2023.

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

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

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

**Other Economic Factors**

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

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

The District's Board of Directors approved the fiscal year 2020 budget at its June 2019 meeting. For fiscal year 2020, the District is budgeted to increase its net position by $7.2 million. The increase is due to the following assumptions:

- Inpatient volumes are budgeted to be approximately 14.1% higher than 2019 volumes.
- Outpatient volumes, primarily in the multi-specialty clinics, are projected to increase 11.5%. This is due to the addition of several new providers in the areas of family practice, endocrinology, general surgery, pediatrics, orthopedics, and neurology.
- Loss from operations of $1.8 million.
- Nonoperating revenues of $9.0 million.
- The District will increase charges by 5%. As a result, the percentages of contractual allowance are budgeted to increase with an approximate 2.5% increase in net patient service revenue percentage.
- Overall operating costs will increase 6.1% due to an increase in salaries, wages, and benefits due to an increase in our overall FTE's, and purchased services related to repairs and maintenance of our facilities and technology infrastructure, as well as coding and billing services.

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

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

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

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

**Public Hospital Redesign and Incentives in Medi-Cal Program (PRIME)**

The Public Hospital Redesign and Incentives in Medi-Cal Program (“PRIME”) was created to build upon the foundational delivery system transformation work, expansion of coverage, and increased access to coordinated primary care achieved through the prior California Section 1115 Bridge to Reform demonstration. Activities supported by the PRIME program are designed to accelerate efforts by participating PRIME entities to change care delivery to maximize health care value and strengthen their ability to successfully perform under risk-based alternative payment models (“APMs”) in the long term, consistent with Centers for Medicare and Medicaid Services (“CMS”) and Medi-Cal 2020 goals. The PRIME program is intentionally designed to be ambitious in scope and time-limited. Using evidence-based, quality improvement methods, the initial work required the establishment of performance baselines followed by target setting and the implementation and ongoing evaluation of quality improvement interventions. Participating PRIME entities consist of two types of entities: Designated Public Hospital (“DPH”) systems and the District/Municipal Public Hospitals (“DMPH”). The District if focused on two projects: Million Hearts Initiative and Chronic Non-malignant Pain Management. The District is eligible to receive $7.9 million in total funding over a five-year period, from 2016 through 2021, and must meet infrastructure building metrics, pay-for-reporting project metrics, and pay-for-performance project metrics for each of the two projects. In 2019, the District received $0.675 million in PRIME funds related to demonstration year (DY) 14, $0.944 million related to DY 13, and is expected to receive an additional $1.025 million related to DY 14 in 2020. In 2018, the District received $0.755 million related to DY 13, and $1.494 million related to DY 12.

**Cautionary Note Regarding Forward-Looking Statements**

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

## Statistical Analysis

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| **Acute** | | | |
| Admissions | 1,765 | 1,839 | 1,802 |
| Length of stay | 3.28 | 2.37 | 2.68 |
| Average daily census | 15.89 | 11.93 | 13.23 |
| Occupancy percentage | 54% | 41% | 46% |
| Patient days | 5,802 | 4,356 | 4,829 |
| Total ICU days | 1,240 | 689 | 662 |
| Total medical/surgical days | 2,843 | 2,756 | 3,202 |
| Total obstetrics days | 1,292 | 911 | 965 |
| Total swing days | 427 | 389 | 390 |
| Nursery days | 483 | 763 | 933 |
| Deliveries | 359 | 305 | 398 |
| **Skilled nursing units** | | | |
| Patient days | 11,673 | 11,890 | 11,508 |
| Average daily census | 31.98 | 32.58 | 31.53 |
| Occupancy percentage | 86% | 88% | 85% |

# Report of Independent Auditors

To the Board of Directors
Tahoe Forest Hospital District

## Report on Combined Financial Statements

We have audited the accompanying combined financial statements of Tahoe Forest Hospital District (the "District"), and its discretely presented component unit, Truckee Surgery Center, LLC (the "TSC"), which comprise the combined statements of net position as of June 30, 2019 and 2018, and the related combined statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the combined financial statements.

### *Management's Responsibility for the Combined Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

***Opinion***

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the net position of the District and its discretely presented component unit, the TSC, as of June 30, 2019 and 2018, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

*Required Supplementary Information*

The Management's Discussion and Analysis on pages 1 through 8, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational economic, or historical context. This supplementary information is the responsibility of the District's management. We have applied certain limited procedures in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Moss Adams LLP

Rancho Cordova, California
October 25, 2019

## Combined Financial Statements
## As of and for the Years Ended June 30, 2019 and 2018

# Tahoe Forest Hospital District
## Combined Statements of Net Position
## June 30, 2019 and 2018

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Tahoe Forest Hospital District | Truckee Surgery Center, LLC | Tahoe Forest Hospital District | Truckee Surgery Center, LLC |
| **ASSETS** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | $ 24,369,873 | $ 99,492 | $ 18,757,750 | $ 35,935 |
| Patient accounts receivable, net of allowances for doubtful accounts of $15,213,979 and $25,980 in 2019 and $4,369,686 and $97,251 in 2018 | 27,217,842 | 233,845 | 24,724,297 | 216,187 |
| Other receivables | 10,831,915 | - | 6,819,895 | - |
| Assets limited as to use - required for current liabilities | 8,780,452 | - | 6,360,727 | - |
| Inventories | 3,484,528 | - | 3,125,793 | - |
| Prepaid expenses and deposits | 2,523,870 | - | 1,738,575 | 16,406 |
| Estimated amounts due from third-party payors | - | - | 275,458 | - |
| Total current assets | 77,208,480 | 333,337 | 61,802,495 | 268,528 |
| Assets limited as to use, net of current | 64,951,392 | - | 53,696,191 | - |
| Capital assets | | | | |
| Nondepreciable | 19,317,747 | - | 9,213,704 | - |
| Depreciable, net of accumulated depreciation | 159,616,415 | 680,445 | 157,898,599 | 725,710 |
| | 178,934,162 | 680,445 | 167,112,303 | 725,710 |
| Other assets | | | | |
| Beneficial interest in trusts | 1,689,389 | - | 1,628,771 | - |
| Other noncurrent receivables | 733,064 | 20,256 | 633,743 | 20,656 |
| Investment in Truckee Surgery Center, LLC | 451,785 | - | - | - |
| Total assets | 323,968,272 | 1,034,038 | 284,873,503 | 1,014,894 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Deferred loss on defeasance, net | 6,015,405 | - | 6,330,799 | - |
| Accumulated decrease in fair value of hedging derivative | 1,370,780 | - | 1,063,457 | - |
| Total deferred outflows of resources | 7,386,185 | - | 7,394,256 | - |
| **LIABILITIES** | | | | |
| Current liabilities | | | | |
| Current maturities of long-term debt and capital lease obligations | 4,991,679 | - | 2,554,645 | - |
| Accounts payable and accrued expenses | 8,732,321 | 267,692 | 6,433,823 | 150,596 |
| Accrued payroll and related expense | 16,869,030 | 7,246 | 11,552,844 | 26,737 |
| Estimated claims incurred but not reported | 5,611,762 | - | 4,383,018 | - |
| Estimated amounts due to third-party payors | 546,821 | - | - | - |
| Other accrued expenses | 458,757 | 23,357 | 779,208 | 26,159 |
| Accrued interest | 2,015,231 | - | 2,035,633 | - |
| Total current liabilities | 39,225,601 | 298,295 | 27,739,171 | 203,492 |
| Long-term debt and capital lease obligations, net of current portion | 135,485,783 | - | 128,515,422 | - |
| Derivative instrument liability | 1,370,780 | - | 1,063,457 | - |
| Total liabilities | 176,082,164 | 298,295 | 157,318,050 | 203,492 |
| **NET POSITION** | | | | |
| Net investment in capital assets | 49,845,195 | - | 43,983,410 | - |
| Restricted - expendable | 3,624,570 | - | 3,654,574 | - |
| Restricted - nonexpendable | 41,209 | - | 34,709 | - |
| Unrestricted | 101,761,319 | 735,743 | 87,277,016 | 811,402 |
| Total net position | $ 155,272,293 | $ 735,743 | $ 134,949,709 | $ 811,402 |



See accompanying notes.

# Tahoe Forest Hospital District
## Combined Statements of Revenues, Expenses, and Changes in Net Position
## For the Years Ended June 30, 2019 and 2018

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | 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 $14,998,281 and $36,868 in 2019 and $10,405,185 and $23,861 in 2018) | $ 188,879,762 | $ 1,352,632 | $ 148,736,770 | $ 1,445,458 |
| Other operating revenue | 11,105,999 | - | 9,963,176 | - |
| Total operating revenues | 199,985,761 | 1,352,632 | 158,699,946 | 1,445,458 |
| Operating expenses | | | | |
| Salaries and wages | 65,577,227 | 329,528 | 53,746,958 | 533,773 |
| Employee benefits | 32,732,830 | 132,154 | 27,762,618 | 118,479 |
| Professional fees | 27,823,168 | 12,578 | 24,856,521 | 17,327 |
| Supplies | 25,235,058 | 503,688 | 21,489,722 | 616,185 |
| Purchased services | 16,705,600 | - | 13,870,463 | - |
| Depreciation and amortization | 13,533,709 | 45,265 | 11,296,223 | 51,088 |
| Insurance | 907,767 | 5,822 | 1,130,450 | 18,204 |
| Other | 8,992,890 | 399,256 | 8,404,033 | 358,982 |
| Total operating expenses | 191,508,249 | 1,428,291 | 162,556,988 | 1,714,038 |
| Income (loss) from operations | 8,477,512 | (75,659) | (3,857,042) | (268,580) |
| Nonoperating revenues (expenses) | | | | |
| Property tax revenue | 7,548,681 | - | 7,037,222 | - |
| Property tax revenue - general obligation bonds | 5,220,233 | - | 3,869,465 | - |
| Contributions, net | 1,747,050 | - | 794,425 | - |
| Special event revenue | 741,976 | - | 732,741 | - |
| Interest income | 1,775,147 | - | 982,274 | - |
| Rental income | 423,064 | - | 416,171 | - |
| Interest expense | (5,131,000) | - | (5,020,361) | - |
| Loss on disposal of assets | (519,415) | - | - | - |
| Other | 39,336 | - | 67,938 | - |
| Total nonoperating revenues | 11,845,072 | - | 8,879,875 | - |
| Income (loss) before other revenue, expenses, gains and losses | 20,322,584 | (75,659) | 5,022,833 | (268,580) |
| Capital contributions | - | - | 407,154 | - |
| Increase (decrease) in net position | 20,322,584 | (75,659) | 5,429,987 | (268,580) |
| Net position, beginning of year | 134,949,709 | 811,402 | 129,519,722 | 1,079,982 |
| Net position, end of year | $ 155,272,293 | $ 735,743 | $ 134,949,709 | $ 811,402 |

See accompanying notes.

# Tahoe Forest Hospital District
## Combined Statements of Cash Flows
## For the Years Ended June 30, 2019 and 2018

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | 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 | $ 187,208,496 | $ 1,334,974 | $ 143,108,272 | $ 1,391,471 |
| Cash received from other sources | 6,163,973 | - | 13,226,360 | - |
| Cash paid to suppliers for goods and services | (78,830,466) | (790,644) | (69,923,325) | (865,778) |
| Cash paid to employees for services | (91,864,448) | (480,773) | (82,745,733) | (665,100) |
| Net cash provided by (used in) operating activities | 22,677,555 | 63,557 | 3,665,574 | (139,407) |
| Cash flows from noncapital financing activities | | | | |
| Property tax revenues | 7,597,392 | - | 7,087,664 | - |
| Noncapital grants and contributions, net of other expenses | 2,489,026 | - | 1,527,166 | - |
| Net cash provided by noncapital financing activities | 10,086,418 | - | 8,614,830 | - |
| Cash flows from capital and related financing activities | | | | |
| Purchase of capital assets | (12,792,114) | - | (12,952,597) | - |
| Proceeds from sale of capital assets | 106,800 | - | - | - |
| Payments on general obligation bonds | (2,366,647) | - | (1,660,176) | - |
| Interest payments on general obligation bonds | (4,119,479) | - | (4,485,584) | - |
| Payments on long-term debt and capital leases | (1,100,233) | - | (113,954) | - |
| Interest payments on long-term debt and capital leases | (1,031,923) | - | (467,894) | - |
| Capital contributions | - | - | 407,154 | - |
| Property tax revenue received for general obligation bonds | 5,649,743 | - | 3,460,115 | - |
| Net cash used in capital and related financing activities | (15,653,853) | - | (15,812,936) | - |
| Cash flows from investing activities | | | | |
| Purchases of investments related to assets limited as to use | (30,651,641) | - | (11,931,647) | - |
| Sales of investments related to assets limited as to use | 16,976,715 | - | 19,778,489 | - |
| Interest received | 1,775,147 | - | 982,274 | - |
| Net cash received for rental activities | 423,064 | - | 416,171 | - |
| Purchases of investments in beneficial interest in trusts | (21,282) | - | (11,471) | - |
| Net cash (used in) provided by investing activities | (11,497,997) | - | 9,233,816 | - |
| Net change in cash and cash equivalents | 5,612,123 | 63,557 | 5,701,284 | (139,407) |
| Cash and equivalents, beginning of year | 18,757,750 | 35,935 | 13,056,466 | 175,342 |
| Cash and equivalents, end of year | $ 24,369,873 | $ 99,492 | $ 18,757,750 | $ 35,935 |

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Tahoe Forest Hospital District | Truckee Surgery Center, LLC | Tahoe Forest Hospital District | Truckee Surgery Center, LLC |
| Reconciliation of income (loss) from operations to net cash from operating activities | | | | |
| Income (loss) from operations | $ 8,477,512 | $ (75,659) | $ (3,857,042) | $ (268,580) |
| Adjustments to reconcile operating income (loss) to net cash from operating activities | | | | |
| Depreciation and amortization | 13,533,709 | 45,265 | 11,296,223 | 51,088 |
| Provision for doubtful accounts | 14,998,184 | 36,868 | 10,404,881 | 23,861 |
| Change in assets and liabilities: | | | | |
| Patient receivables | (17,491,826) | (54,526) | (16,565,788) | (77,848) |
| Other receivables | (4,509,739) | - | 3,246,586 | - |
| Inventories | (358,735) | - | (126,233) | - |
| Unconditional promises to give, net | 19,595 | - | 6,058 | - |
| Prepaid expenses and deposits | (785,295) | 16,406 | (279,561) | 15,011 |
| Other noncurrent receivables | (99,321) | 400 | (370,000) | (400) |
| Investment in Truckee Surgery Center, LLC | (451,785) | - | - | - |
| Accounts payable and accrued expenses | 2,298,498 | 117,096 | 75,095 | 117,916 |
| Accrued payroll and related expense | 5,316,186 | (19,491) | (1,475,909) | (12,448) |
| Estimated amounts due from third-party payors | 275,458 | - | 912,091 | - |
| Patient balances payable | - | - | (379,986) | - |
| Estimated claims incurred but not reported | 1,228,744 | - | 609,752 | - |
| Estimated amounts due to third-party payors | 546,821 | - | - | - |
| Other accrued expenses | (320,451) | (2,802) | 169,407 | 11,993 |
| Total adjustments | 14,200,043 | 139,216 | 7,522,616 | 129,173 |
| Net cash provided by (used in) operating activities | $ 22,677,555 | $ 63,557 | $ 3,665,574 | $ (139,407) |
| Supplemental disclosure of noncash investing and financing activities | | | | |
| Loss on disposal of capital assets | $ 519,415 | $ - | $ - | $ - |
| Change in fair value of beneficial interest in trusts | $ 39,336 | $ - | $ 57,094 | $ - |
| Capital expenditures funded by notes payable | $ 12,950,000 | $ - | $ - | $ - |
| Capital expenditure funded by capital lease obligations | $ 239,669 | $ - | $ - | $ - |

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

In October 2018, the District entered into a Membership Purchase Agreement with TSC to purchase an additional 48% membership interest in TSC for $451,785.

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

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

**Accounting standards** – Pursuant to GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board ("FASB") and American Institute of Certified Public Accountants ("AICPA") Pronouncements*, the District's '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, Sections 1131, 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 receivables, amounts due to or from third-party payors, uninsured losses for medical malpractice liabilities, liabilities for worker's compensation claims, useful lives of capital assets, and valuation of financial instruments. Actual results could differ from those estimates.

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

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

**Patient accounts receivable** – 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 has been named a beneficiary under the terms of the Community for Cancer Care Endowment (the "Fund") administered by the Tahoe Truckee Community Foundation ("TTCF"). Under the terms of the agreement, distributions from the Fund shall be in accordance with the spending policy established by the Board of Directors of TTCF. Distributions shall be made annually or, as the parties may, from time to time, agree. Distributions in excess of TTCF's spending policy may be made to the Foundation in any year as determined by the Board of Directors of TTCF. The TFHSF may request, at any time, that TTCF disburse up to 100% of the Fund to the TFHSF. Such a request, however, is not binding on TTCF and may be accepted or rejected, in whole or in part, by TTCF at its sole and absolute discretion. At the establishment of the Fund, the TFHSF granted variance power to TTCF. That power gives TTCF the right to distribute the income and principal of the Fund to another not-for-profit organization of its choice if the TFHSF ceases to exist or if that governing board of TTCF votes that support of the Foundation is no longer necessary or inconsistent with the needs of TTCF. The Fund had a value of $1,636,957 and $1,587,161 as of June 30, 2019 and 2018, respectively, and is reported in the combined financial statements as beneficial interest in trusts.

The IVCHF entered into agreements with The Parasol Tahoe Community Foundation ("Parasol") to establish endowment and improvement funds with Parasol. The purpose of the endowment and improvement funds is to provide support to or for the benefit of the IVCHF and its activities in pursuit of its mission to deliver optimal health care services in the communities served by Incline Village Community Hospital. The IVCHF Endowment Fund (the "Endowment") is protected from obsolescence in accordance with the provisions specified in the Articles of Incorporation and Bylaws creating Parasol. Should the purposes for which the Endowment was created become obsolete or incapable of fulfillment, it is Parasol's Board of Director's responsibility, after contacting and being advised by the IVCHF, to revise the charitable intent of remaining funds to use for a purpose as similar to those set forth in the agreement. The Endowment had a value of $52,432 and $41,610 as of June 30, 2019 and 2018, respectively, and is reported in the combined financial statements as beneficial interest in trusts.

The Foundation's interest in the endowment assets is recorded in the accompanying 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 statements of revenues, expenses, and changes in net position. This change in fair value may include community or donor gifts to the Funds, investments results, and distributions from the Funds.

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

The District periodically evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Impairment losses on capital assets are measured using the method that best reflects the diminished service utility of the capital asset. There were no impairment losses in 2019 and 2018, respectively.

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

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

**Capitalized interest** – Interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The District's interest cost capitalized was approximately $0 for the years ended June 30, 2019 and 2018, respectively.

**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, 2019 and 2018, was $342,631 and $303,843, respectively. Amortization expense for each of the years ended June 30, 2019 and 2018, 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, 2019 and 2018, was $31,400 and $23,550, respectively. Amortization income for each of the years ended June 30, 2019 and 2018, was $7,850; and is estimated to be $7,850 for each of the next five years.

The deferred loss on defeasance of the Series A (2008) General Obligation Bonds is amortized using the effective-interest method over the life of the bonds. The original amount of deferred loss on defeasance is $2,016,320. Accumulated amortization as of June 30, 2019 and 2018, was $366,604 and $274,953, respectively. Amortization expense for each of the years ended June 30, 2019 and 2018, 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, 2019 and 2018, was $578,415 and $385,610, respectively. Amortization expense for each of the years ended June 30, 2019 and 2018, was $192,805; and is estimated to be $192,805 for each of the next five years.

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

**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.

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

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

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

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

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

**Statements of revenues, expenses, and changes in net position** – All revenues and expenses directly related to the delivery of health care services are included in operating revenues and operating expenses in the combined statement of revenues, expenses, and changes in net position. Nonoperating revenues and expenses consist of nonexchange revenues, including property tax revenues, gifts, bequests, and contributions received for purposes other than capital asset acquisition.

**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, $13,478,925 and $8,810,418 for the years ended June 30, 2019 and 2018, respectively. Using the District's Medicare Cost to Charge Ratio, the estimated cost of these charges was $6,163,346 and $4,449,931 for the years ended June 30, 2019 and 2018, respectively.

**Property tax revenues** – Property taxes are levied by Nevada and Placer Counties on the District's behalf during the year, and are intended to help finance the District's activities during the same year. The amount of property tax received is dependent upon the assessed real property valuation, as determined by Nevada and Placer Counties Assessors. Nevada and Placer Counties have established certain dates to levy, lien, mail bills, and receive payments from property owners during the year. Property taxes are considered delinquent on the day following each payment due date. These funds are used to support the general maintenance and operation of the District, including charity care and uncompensated care programs, and to service the debt on the general obligation bonds. The District received approximately 6% and 7% of its financial support from property taxes for the years ended June 30, 2019 and 2018, respectively, exclusive of property taxes received to pay principal and interest payments of the general obligation bonds.

**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.

**New accounting pronouncements** – In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities* ("GASB 84"). GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The adoption of GASB 84 is effective for the District beginning July 1, 2019. The District is currently assessing the impact of this standard on the District's combined financial statements.

In May 2017, the GASB issued GASB Statement No. 86, *Certain Debt Extinguishment Issues* ("GASB 86"), which provides guidance for transactions in which cash and other monetary assets acquired with only existing resources, that is, resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. Under this statement, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance. The District adopted GASB 86 in the current fiscal year. The adoption did not have a material impact on the District's combined financial statements.

In June 2017, the GASB issued GASB Statement No. 87, *Leases* ("GASB 87"). GASB 87 increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB 87 also establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The adoption of GASB 87 is effective for the District beginning July 1, 2020. The District is currently assessing the impact of this standard on the District's combined financial statements.

In April 2018, the GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* ("GASB 88"). Among other things, GASB 88 clarifies which liabilities governments should include in their note disclosures related to debt. GASB 88 requires that all debt disclosures present direct borrowings and direct placements of debt separately from other types of debt. GASB 88 further defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This statement further requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The adoption of GASB 88 is effective for the District beginning July 1, 2019. The District is currently assessing the impact of this standard on the District's combined financial statements.

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* ("GASB 89"). GASB 89 establishes accounting requirements for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The adoption of GASB 89 is effective for the District beginning July 1, 2020. The District is currently assessing the impact of this standard on the District's combined financial statements.

## NOTE 2 – NET PATIENT SERVICE REVENUE

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

*Medicare:* Payments for inpatient acute care services rendered to Medicare program beneficiaries are based on prospectively determined rates, which vary according to the patient diagnostic classification system. Outpatient services are generally paid under an outpatient classification system subject to certain limitations. Certain reimbursement areas are still subject to final settlement that are determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. At June 30, 2019, Tahoe Forest Hospital and Incline Village Community Hospital cost reports through June 30, 2017, 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, 2019, cost reports through June 30, 2017, have been audited or otherwise final settled. Medi-Cal I-IMO services are paid on a pre-determined rate and are not subject to cost reimbursement.

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

Net patient service revenue is comprised of the following for the years ended June 30, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Daily hospital service | $ 35,823,810 | $ 27,486,491 |
| Inpatient ancillary services | 61,069,998 | 47,073,026 |
| Outpatient services | 268,634,835 | 199,927,791 |
| Gross patient service revenues | 365,528,643 | 274,487,308 |
| Less contractual allowances and provision for doubtful accounts | (176,648,881) | (125,750,538) |
| Net patient service revenue at Tahoe Forest Hospital District | 188,879,762 | 148,736,770 |
| Net patient service revenue at Truckee Surgery Center, LLC | 1,352,632 | 1,445,458 |
| Total net patient service revenue | $ 190,232,394 | $ 150,182,228 |

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

| | 2019 | 2018 |
|---|---|---|
| Commercial | 43% | 42% |
| Medicare | 38% | 36% |
| Medi-Cal | 16% | 18% |
| Others | 3% | 4% |
| Total | 100% | 100% |

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

Over five years, up to $7.5 billion in combined federal and state funds will be available to participating entities from the Public Hospital Redesign and Incentives in Medi-Cal Program (“PRIME”), which is a successor program within the Medi-Cal waiver. As a result of participating in PRIME, the District recorded a receivable of $512,500 and $477,222 at June 30, 2019 and 2018, respectively. This program requires a qualitative assessment of certain metrics and is subject to future audits by CMS.

The District receives funds through the AB 915 legislation through an intergovernmental transfer (“IGT”), where funds are put up by the District to be matched by the federal government. As a result of two of these IGT programs, the District recorded a receivable of $5,966,469 at June 30, 2019, for funds related to fiscal years 2019 and 2018, and a receivable of $6,634,867 at June 30, 2018, for funds related to fiscal years 2018 and 2017.

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

The District has deposits invested in 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.

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

As of June 30, 2019 and 2018, cash and cash equivalents and assets limited as to use, at carrying value, consisted of the following:

| | 2019 | 2018 |
|---|---|---|
| Cash and cash equivalents | $ 24,369,873 | $ 18,757,750 |
| Assets limited as to use - to meet current liabilities | 8,780,452 | 6,360,727 |
| Assets limited as to use, net of current | 64,951,392 | 53,696,191 |
| Total at Tahoe Forest Hospital District | 98,101,717 | 78,814,668 |
| Total Truckee Surgery Center, LLC | 99,492 | 35,935 |
| Total | $ 98,201,209 | $ 78,850,603 |

As of June 30, 2019 and 2018, assets limited as to use, at carrying value, have been set aside as follows:

| | 2019 | 2018 |
|---|---|---|
| Board designated assets | $ 65,373,715 | $ 55,048,794 |
| Assets held by trustees | 8,358,129 | 5,008,124 |
| Total | $ 73,731,844 | $ 60,056,918 |

A summary of scheduled maturities by investment type at June 30, 2019 and 2018, were as follows:

| | 2019 | | | |
|---|---|---|---|---|
| | | Investment Maturities (in years) | | |
| | **Carrying Value** | **Less than 1** | **1 to 5** | **6 to 10+** |
| Investment type | | | | |
| Cash and cash equivalents | $ 33,384,048 | $ 33,384,048 | $ - | $ - |
| Local agency investment fund | 64,817,161 | 64,817,161 | - | - |
| Total | $ 98,201,209 | $ 98,201,209 | $ - | $ - |

| | 2018 | | | |
|---|---|---|---|---|
| | | Investment Maturities (in years) | | |
| | **Carrying Value** | **Less than 1** | **1 to 5** | **6 to 10+** |
| Investment type | | | | |
| Cash and cash equivalents | $ 24,356,014 | $ 24,356,014 | $ - | $ - |
| Local agency investment fund | 54,494,589 | 54,494,589 | - | - |
| Total | $ 78,850,603 | $ 78,850,603 | $ - | $ - |

**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.

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. This District was in compliance with their investment policies as of June 30, 2019.

**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 counter party (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, 2019 and 2018.

**Beneficial interest in trusts** – As described in Note 1, the Foundations are the beneficiary of funds held at TTCF and Parasol. The fair value of the beneficial interest is estimated using the fair value of the assets held in trust reported by the trustees as of June 30, 2019 and 2018.

**Hedging derivative** – The fair value of the hedging derivative is valued using market to market valuations as of June 30, 2019 and 2018.

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:

| | 2019 | | | |
|---|---|---|---|---|
| **Description** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Hedging derivative | $ - | $ (1,370,780) | $ - | $ (1,370,780) |
| Beneficial interest in trusts | - | - | 1,689,389 | 1,689,389 |
| Total by fair value level | $ - | $ (1,370,780) | $ 1,689,389 | 318,609 |
| Cash and cash equivalents | | | | 33,384,048 |
| Total | | | | $ 33,702,657 |

| | 2018 | | | |
|---|---|---|---|---|
| **Description** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Hedging derivative | $ - | $ (1,063,457) | $ - | $ (1,063,457) |
| Beneficial interest in trusts | - | - | 1,628,771 | 1,628,771 |
| Total by fair value level | $ - | $ (1,063,457) | $ 1,628,771 | 565,314 |
| Cash and cash equivalents | | | | 24,356,014 |
| Total | | | | $ 24,921,328 |

The following table summarizes the changes in the District's Level 3 financial instruments for the years ended June 30, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Beginning balance | $ 1,628,771 | $ 1,560,206 |
| Purchases | 21,282 | 11,471 |
| Change in value of beneficial interest in trusts | 39,336 | 57,094 |
| Ending balance | $ 1,689,389 | $ 1,628,771 |

The table below presents information about significant unobservable inputs related to material categories of Level 3 financial instruments as of June 30, 2019:

| Description | Fair Value as of June 30, 2019 | Valuation Technique | Unobservable Input | Range |
|---|---|---|---|---|
| Beneficial interest in trusts | $ 1,689,389 | 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, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Medicare and Medicare managed care | $ 17,448,736 | $ 17,060,156 |
| Medi-Cal and Medi-Cal managed care | 17,862,642 | 15,576,761 |
| Other payors | 30,669,661 | 25,313,858 |
| Self-pay | 16,222,969 | 6,166,886 |
| Gross patient accounts receivable | 82,204,008 | 64,117,661 |
| Less allowances for contractual adjustments and bad debts | (54,986,166) | (39,393,364) |
| Net patient accounts receivable at Tahoe Forest Hospital District | 27,217,842 | 24,724,297 |
| Net patient accounts receivable at Truckee Surgery Center, LLC | 233,845 | 216,187 |
| Total net patient accounts receivable | $ 27,451,687 | $ 24,940,484 |

Concentration of net patient accounts receivable as of June 30, 2019 and 2018, were as follows:

| | 2019 | 2018 |
|---|---|---|
| Commercial and other payors | 56% | 53% |
| Medicare | 25% | 27% |
| Medi-Cal | 16% | 17% |
| Self-pay | 3% | 3% |
| Total | 100% | 100% |

## NOTE 6 – CAPITAL ASSETS

The capital asset activity of the District for the years ended June 30, 2019 and 2018, were as follows:

| | 2019 | | | | |
|---|---|---|---|---|---|
| | Balance June 30, 2018 | Increases | Decreases | Transfers | Balance June 30, 2019 |
| Capital assets - nondepreciable | | | | | |
| Land | $ 2,829,147 | $ - | $ - | $ - | $ 2,829,147 |
| Construction in progress, net | 5,543,536 | 13,192,732 | - | (3,092,926) | 15,643,342 |
| Property held for future expansion | 841,021 | 4,237 | - | - | 845,258 |
| | 9,213,704 | 13,196,969 | - | (3,092,926) | 19,317,747 |
| Capital assets - depreciable | | | | | |
| Land improvements | 3,914,004 | 433,052 | - | - | 4,347,056 |
| Building and improvements | 198,223,153 | 6,976,535 | (1,113,712) | 2,680,595 | 206,766,571 |
| Equipment and software | 88,807,260 | 5,374,759 | (986,182) | 412,331 | 93,608,168 |
| Capital assets at Truckee Surgery Center, LLC | 1,197,538 | - | - | - | 1,197,538 |
| | 292,141,955 | 12,784,346 | (2,099,894) | 3,092,926 | 305,919,333 |
| Less accumulated depreciation for | | | | | |
| Land improvements | 2,981,948 | 156,681 | - | - | 3,138,629 |
| Building and improvements | 60,468,921 | 7,557,173 | (575,328) | - | 67,450,766 |
| Equipment and software | 69,594,949 | 5,819,387 | (898,351) | - | 74,515,985 |
| Capital assets at Truckee Surgery Center, LLC | 471,828 | 45,265 | - | - | 517,093 |
| | 133,517,646 | 13,578,506 | (1,473,679) | - | 145,622,473 |
| Total capital assets - depreciable, net | 158,624,309 | (794,160) | (626,215) | 3,092,926 | 160,296,860 |
| Total capital assets, net | $ 167,838,013 | $ 12,402,809 | $ (626,215) | $ - | $ 179,614,607 |

| | 2018 | | | | |
|---|---|---|---|---|---|
| | **Balance June 30, 2017** | **Increases** | **Decreases** | **Transfers** | **Balance June 30, 2018** |
| Capital assets - nondepreciable | | | | | |
| Land | $ 2,829,147 | $ - | $ - | $ - | $ 2,829,147 |
| Construction in progress, net | 41,653,418 | 8,933,576 | - | (45,043,458) | 5,543,536 |
| Property held for future expansion | 836,353 | 4,668 | - | - | 841,021 |
| | 45,318,918 | 8,938,244 | - | (45,043,458) | 9,213,704 |
| Capital assets - depreciable | | | | | |
| Land improvements | 3,867,334 | 46,670 | - | - | 3,914,004 |
| Building and improvements | 162,251,200 | 926,553 | - | 35,045,400 | 198,223,153 |
| Equipment and software | 75,768,073 | 3,041,129 | - | 9,998,058 | 88,807,260 |
| Capital assets at Truckee Surgery Center, LLC | 1,197,538 | - | - | - | 1,197,538 |
| | 243,084,145 | 4,014,352 | - | 45,043,458 | 292,141,955 |
| Less accumulated depreciation for | | | | | |
| Land improvements | 2,825,528 | 156,420 | - | - | 2,981,948 |
| Building and improvements | 54,459,700 | 6,009,221 | - | - | 60,468,921 |
| Equipment and software | 64,464,368 | 5,130,581 | - | - | 69,594,949 |
| Capital assets at Truckee Surgery Center, LLC | 420,740 | 51,088 | - | - | 471,828 |
| | 122,170,336 | 11,347,310 | - | - | 133,517,646 |
| Total capital assets - depreciable, net | 120,913,809 | (7,332,958) | - | 45,043,458 | 158,624,309 |
| Total capital assets, net | $ 166,232,727 | $ 1,605,286 | $ - | $ - | $ 167,838,013 |

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

A summary of long-term debt and capital lease obligations as of June 30, 2019 and 2018, were as follows:

| 2019 | Date of Issue | Date of Maturity | Interest Rates | Annual Principal Installments | Original Issue Amount | Outstanding at June 30, 2019 |
|---|---|---|---|---|---|---|
| General obligation bonds | | | | | | |
| 2016 GOB | March 2016 | August 2040 | 2.00% - 5.00% | $600,000 - $3,625,000 | $ 45,110,000 | $ 43,415,000 |
| 2015 GOB | February 2015 | August 2038 | 2.00% - 5.00% | $370,000 - $2,895,000 | 30,810,000 | 29,715,000 |
| Series C (2012) GOB | July 2012 | August 2042 | 3.00% - 5.50% | $175,000 - $2,440,000 | 26,100,000 | 25,790,000 |
| Revenue bonds | | | | | | |
| Series 2017 | March 2017 | July 2032 | 1.49% | $503,082 - $663,805 | 9,060,000 | 8,196,918 |
| Series 2015 | March 2015 | July 2033 | 3.87% | $896,124 - $1,583,873 | 20,979,000 | 18,459,025 |
| Notes payable | | | | | | |
| 11046 Donner Pass Road | January 2019 | February 2026 | 4.00% | $205,668 - $533,255 | 4,950,000 | 4,744,332 |
| Opus Bank Muni Lease | October 2018 | November 2023 | 2.82% | $876,332 - $714,103 | 8,000,000 | 7,127,231 |
| Capital lease obligations | | | | | | |
| US Bank Equipment Financing | June 2016 | July 2021 | 5.28% | $228 monthly | 12,069 | 5,213 |
| US Bank Equipment Financing | June 2014 | July 2019 | 4.40% | $727 monthly | 39,240 | 727 |
| Westamerica Bank | March 2019 | March 2024 | 4.05% | $10,868 - $50,336 | 239,669 | 228,801 |
| | | | | | $ 145,299,978 | $ 137,682,247 |

| 2018 | Date of Issue | Date of Maturity | Interest Rates | Annual Principal Installments | Original Issue Amount | Outstanding at June 30, 2018 |
|---|---|---|---|---|---|---|
| General obligation bonds | | | | | | |
| 2016 GOB | March 2016 | August 2040 | 2.00% - 5.00% | $530,000 - $3,625,000 | $ 45,110,000 | $ 44,015,000 |
| 2015 GOB | February 2015 | August 2038 | 2.00% - 5.00% | $165,000 - $2,895,000 | 30,810,000 | 30,085,000 |
| Series C (2012) GOB | July 2012 | August 2042 | 3.00% - 5.50% | $135,000 - $2,440,000 | 26,100,000 | 25,965,000 |
| Revenue bonds | | | | | | |
| Series 2017 | March 2017 | July 2032 | 1.49% | $360,000 - $663,805 | 9,060,000 | 8,700,000 |
| Series 2015 | March 2015 | July 2033 | 3.87% | $761,114 - $1,583,873 | 20,979,000 | 19,355,149 |
| Capital lease obligations | | | | | | |
| Bank of America Public Capital | July 2012 | July 2017 | 2.21% | $103,515 monthly | 6,000,000 | - |
| US Bank Equipment Financing | June 2016 | July 2021 | 5.28% | $228 monthly | 12,069 | 7,619 |
| US Bank Equipment Financing | June 2014 | July 2019 | 4.40% | $727 monthly | 39,240 | 9,249 |
| | | | | | $ 138,110,309 | $ 128,137,017 |

The following tables summarize the District's long-term debt and capital lease transactions for the years ended June 30, 2019 and 2018:

| | 2019 | | | | |
|---|---|---|---|---|---|
| | Balance June 30, 2018 | Net Borrowings | Payments During Year | Balance June 30, 2019 | Current Portion |
| 2016 General obligation bond | $ 44,015,000 | $ - | $ (600,000) | $ 43,415,000 | $ 675,000 |
| 2015 General obligation bond | 30,085,000 | - | (370,000) | 29,715,000 | 435,000 |
| Series C (2012) General obligation bond | 25,965,000 | - | (175,000) | 25,790,000 | 220,000 |
| General obligation bond premium/discount | 2,933,050 | - | (137,835) | 2,795,215 | - |
| Series 2017 Revenue bonds | 8,700,000 | - | (503,082) | 8,196,918 | 513,143 |
| Series 2015 Revenue bonds | 19,355,149 | - | (896,124) | 18,459,025 | 930,804 |
| 11046 Donner Pass Road | - | 4,950,000 | (205,668) | 4,744,332 | 633,688 |
| Opus Bank Muni Lease | - | 8,000,000 | (872,769) | 7,127,231 | 1,536,193 |
| US Bank equipment financing | 7,619 | - | (2,406) | 5,213 | 2,537 |
| US Bank equipment financing | 9,249 | - | (8,522) | 727 | 727 |
| Westamerica Bank | - | 239,669 | (10,868) | 228,801 | 44,587 |
| | $ 131,070,067 | $ 13,189,669 | $ (3,782,274) | $ 140,477,462 | $ 4,991,679 |

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Balance June 30, 2017 | Net Borrowings | Payments During Year | Balance June 30, 2018 | Current Portion |
| 2016 General obligation bond | $ 44,545,000 | $ - | $ (530,000) | $ 44,015,000 | $ 600,000 |
| 2015 General obligation bond | 30,395,000 | - | (310,000) | 30,085,000 | 370,000 |
| Series C (2012) General obligation bond | 26,100,000 | - | (135,000) | 25,965,000 | 175,000 |
| General obligation bond premium/discount | 3,070,883 | - | (137,833) | 2,933,050 | - |
| Series 2017 Revenue bonds | 8,700,000 | - | - | 8,700,000 | 503,082 |
| Series 2015 Revenue bonds | 20,217,886 | - | (862,737) | 19,355,149 | 896,124 |
| Bank of America public capital | 103,516 | - | (103,516) | - | - |
| US Bank equipment financing | 9,903 | - | (2,284) | 7,619 | 2,284 |
| US Bank equipment financing | 17,404 | - | (8,155) | 9,249 | 8,155 |
| | $ 133,159,592 | $ - | $ (2,089,525) | $ 131,070,067 | $ 2,554,645 |

As of June 30, 2019, the District's long-term debt and capital lease obligation requirements to maturity are as follows:

| | Long-Term Debt | | | Capital Lease Obligations | | |
|---|---|---|---|---|---|---|
| Years Ending June 30, | Principal | Interest | Total | Principal | Interest | Total |
| 2020 | $ 4,943,828 | $ 4,698,770 | $ 9,642,598 | $ 47,851 | $ 8,664 | $ 56,515 |
| 2021 | 5,259,816 | 4,536,639 | 9,796,455 | 49,101 | 6,683 | 55,784 |
| 2022 | 5,584,708 | 4,356,872 | 9,941,580 | 48,342 | 4,690 | 53,032 |
| 2023 | 5,938,638 | 4,154,519 | 10,093,157 | 50,336 | 2,695 | 53,031 |
| 2024 | 5,316,462 | 3,954,624 | 9,271,086 | 39,111 | 663 | 39,774 |
| 2025 - 2029 | 25,091,833 | 16,773,606 | 41,865,439 | - | - | - |
| 2030 - 2034 | 34,777,221 | 11,454,693 | 46,231,914 | - | - | - |
| 2035 - Thereafter | 50,535,000 | 6,195,132 | 56,730,132 | - | - | - |
| | $ 137,447,506 | $ 56,124,855 | $ 193,572,361 | $ 234,741 | $ 23,395 | $ 258,136 |

**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.

## 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 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 London Interbank Offered Rate (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, the same interest rate based on the same driver. The swap was then found to still be effective with the new Series 2017 Revenue Bonds, and hedge accounting for the swap continued forward. At the date of defeasance, the value of the swap was approximately $1,400,000.

As interest rates have declined since execution of the swap, the swap had negative fair values of $1,370,780 and $1,063,457 as of June 30, 2019 and 2018, respectively. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the District's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using mathematical approximations of market values derived from proprietary models. The valuations are calculated on a mid-market basis and do not include bid/offer spread that would be reflected in an actual price quotation. It should be assumed that the actual price quotations for unwinding the transactions would be different. In connection with the fair value determination of the interest rate swap, the District has recorded a derivative instrument liability in the amount of $1,370,780 and $1,063,457 at June 30, 2019 and 2018, 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, 2019, 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, 2019. To mitigate the potential for credit risk, if the counterparty's credit quality falls below AA/Aa, the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

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

## NOTE 9 – INSURANCE PLANS

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 no reported recognized in the accompanying combined financial statements is adequate to cover such claims. The liability has not been discounted. Management is aware of no potential workers' compensation liability the settlement of which, if any, would have a material adverse effect on the District's net position for the years ended June 30, 2019 and 2018.

**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 $225,000 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, 2019 and 2018, has been included in the accompanying combined statements of net position under estimated claims incurred but not reported.

The following is a summary of the changes in the workers' compensation and employee health insurance liabilities for the years ended June 30, 2019 and 2018:

| | 2019 | | | |
|---|---|---|---|---|
| | **Balance June 30, 2018** | **Increases** | **Decreases** | **Balance June 30, 2019** |
| Workers' compensation | $ 1,886,163 | $ 510,697 | $ - | $ 2,396,860 |
| Employee health | 1,312,436 | 730,234 | - | 2,042,670 |
| | $ 3,198,599 | $ 1,240,931 | $ - | $ 4,439,530 |

| | 2018 | | | |
|---|---|---|---|---|
| | **Balance June 30, 2017** | **Increases** | **Decreases** | **Balance June 30, 2018** |
| Workers' compensation | $ 1,703,225 | $ 182,938 | $ - | $ 1,886,163 |
| Employee health | 1,211,751 | 100,685 | - | 1,312,436 |
| | $ 2,914,976 | $ 283,623 | $ - | $ 3,198,599 |

**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 and estimated premium to purchase an unlimited extended reporting amendment (tail coverage) in the amount of $1,172,232 and $1,184,419 for the years ended June 30, 2019 and 2018, respectively.

## NOTE 10 – RESTRICTED NET ASSETS

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

| | 2019 | 2018 |
|---|---|---|
| Restricted - expendable net assets | | |
| Cancer prevention | $ 665,891 | $ 823,471 |
| Cancer care | 1,636,958 | 1,591,155 |
| Hospice and other | 1,321,721 | 1,239,948 |
| | $ 3,624,570 | $ 3,654,574 |
| Restricted - nonexpendable net assets | | |
| Investments in perpetuity, the income from which is expendable to support; | | |
| Parasol endowment | $ 41,209 | $ 34,709 |
| | $ 41,209 | $ 34,709 |

## 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 $4,452,525 and $3,900,305 for the years ended June 30, 2019 and 2018, respectively. As of June 30, 2019 and 2018, the District has accrued $2,162,198 and $1,823,661, 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, 2019 and 2018, the District had recorded $15,643,342 and $5,543,536, 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, 2019, is approximately $2,250,000.

**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 Hospital 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, 2019, does not expect to incur a significant liability.

**Operating leases** – The District leases various equipment and facilities under operating leases expiring at various dates. Total building and equipment rent expense for the years ended June 30, 2019 and 2018 were $2,682,686 and $2,614,423, respectively. Future minimum lease payments, by year and in the aggregate, for all operating leases consist of the following:

| Years ending June 30, | |
|---|---|
| 2020 | $ 1,875,797 |
| 2021 | 1,062,636 |
| 2022 | 492,006 |
| 2023 | 173,391 |
| 2024 | 174,460 |
| Thereafter | 404,943 |
| | $ 4,183,233 |

**NOTE 13 – SUBSEQUENT EVENTS**

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

In September 2019, the District issued $24,710,000 of Tahoe Forest Hospital District (Placer and Nevada Counties, California), 2019 General Obligation Refunding Bonds to refund the Series C (2012) General Obligation Bonds. The Series C 2012 General Obligation Bonds were redeemed in full in September 2019. The 2019 General Obligation Refunding Bonds mature August 2042.

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