Report of Independent Auditors and Combined Financial Statements

Tahoe Forest Hospital District

June 30, 2020 and 2019

MOSSADAMS

Table of Contents

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, 2020, 2019, and 2018. 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 2020

- The District's increase in net position was $33.1 million for 2020 as compared to $20.3 million for 2019.
- The District's income from operations for fiscal year 2020 was $7.3 million as compared to $8.5 million for 2019.
- Nonoperating revenues were $27.1 million in fiscal year 2020 as compared to $11.8 million for 2019.

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, 2020, and 2019.

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 statements of net position found on page 12. The District's net position changed by $33.1 million for 2020 as compared to $20.3 million for 2019, as presented in the following table (amounts are in thousands):

	As of June 30, 2020	As of June 30, 2019	As of June 30, 2018
Current assets	$ 116,387	$ 77,208	$ 61,802
Capital assets	180,088	178,934	167,112
Restricted and other assets	77,686	67,826	55,959
Total assets	374,161	323,968	284,873
Deferred outflows of resources	7,553	7,386	7,394
Current liabilities	61,250	39,226	27,739
Long-term liabilities	132,114	136,856	129,579
Total liabilities	193,364	176,082	157,318
Net investment in capital assets	56,082	49,845	43,982
Restricted - expendable	4,205	3,625	3,655
Restricted - nonexpendable	54	41	35
Unrestricted	128,009	101,761	87,277
Total net position	$ 188,350	$ 155,272	$ 134,949

Operating Results and Changes in the District's Net Position

During 2020, the District's net position increased by $33.1 million as compared to $20.3 million in 2019, 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 2020 and 2019: salaries, wages, and benefits $19.7 million, professional fees $7.9 million, and purchased services $4.7 million. The increase in salaries, wages, and benefits is due to increased staffing, merit increases, management incentive compensation bonuses, employee gain-sharing bonus program, and the continued employment of physicians that were previously contracted professionals. The decrease in professional fees is due to the employment of physicians that were previously contracted professionals. The increase in purchased services is due to contracting for coding, billing and collections services, as well as the preparation necessary for COVID-19.

	Fiscal years ended June 30,		
Operating revenues (thousands)	**2020**	**2019**	**2018**
Net patient service revenues	$ 205,979	$ 188,880	$ 148,737
Other operating revenues	12,447	11,105	9,962
Total operating revenues	218,427	199,986	158,700
Operating expenses (thousands)			
Salaries and wages	79,154	65,577	53,747
Employee benefits	38,864	32,733	27,763
Professional fees	19,907	27,823	24,857
Supplies	28,824	25,235	21,490
Purchased services	21,363	16,705	13,870
Depreciation and amortization	13,166	13,534	11,296
Other operating expenses	9,842	9,901	9,534
Total operating expenses	211,121	191,508	162,557
Income (loss) from operations	7,306	8,478	(3,857)
Nonoperating revenue (expenses) (thousands)			
Property tax revenue	7,985	7,549	7,037
Property tax revenue - general obligation bonds	5,220	5,220	3,869
Interest expense	(5,056)	(5,131)	(5,020)
Other nonoperating items	18,917	4,208	2,995
Total nonoperating revenues	27,065	11,845	8,880
Income before other revenue, expenses, gains, and losses	34,371	20,323	5,023
Capital contributions	-	-	407
Capital transfers	(1,293)	-	-
Increase in net position	$ 33,078	$ 20,323	$ 5,430

Operating Gains

Usually 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 from operations in 2020 was $7.3 million as compared to $8.5 million in 2019. However, in 2020 the District received $13.5 million in Provider Relief Fund grants related to COVID-19 that are classified as other nonoperating items, which significantly contributed to the District's increase in net position. Total nonoperating revenues in 2020 was $27.1 million as compared to $11.8 million in 2019.

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

- Net patient service revenues increased in 2020 by $17.1 million (9.1%) due to a combination of changes in volumes, changes in payor mix, a charge increase, and additional reimbursements related to prior periods. Inpatient census days decreased in 2020 to 5,547 from 5,802 in 2019. Adjusted patient days were down 9.0% in 2020 as compared to 2019. Inpatient charges decreased by $6.9 million to $88.1 million in 2020 from $95.0 million in 2019. Outpatient charges increased by $22.0 million to $290.6 million in 2020 from $263.4 million in 2019, and as a percentage of total charges, outpatient charges increased to 76.7% of the total in 2020 from 73.5% in 2019. In addition, contractual allowances, charity care, and bad debt decreased $1.8 million to $174.8 million in 2020 from $176.6 million in 2019. Prior period settlements decreased $5.1 million to $2.1 million in 2020 from $7.2 million in 2019.

- An increase in other operating revenues of $1.3 million (12.1%) in 2020.

- Operating expenses increase of $19.6 million (10.2%) in 2020 is due to added services and providers, additional full time equivalents ("FTEs") including employed physicians, employee gain sharing program, management incentive compensation bonuses, increased surgical implants, pharmaceuticals, and medical supply costs, and costs associated with contracting coding, billing and collections services. The District also had increased costs due to the impact of COVID-19.

Employee salaries, wages, and benefits were $118.0 million in 2020 and $98.3 million in 2019. The components of these costs are as follows:

- Salaries and wages, totaled $79.2 million in 2020 and $65.6 million in 2019. Staffing, as measured by paid FTEs, was 851 in 2020 and 788 in 2019. The employee gain-sharing program and management incentive compensation bonuses totaled $5.2 million in 2020 and $5.4 million in 2019.

- Benefits totaled $38.9 million in 2020 and $32.7 million in 2019. The benefits associated with the employee gain-sharing program and management incentive compensation bonuses totaled $0.7 million in 2020 and 2019.

- Salaries, wages, and benefits per paid FTE were $149,770 in 2020 and $124,759 in 2019. If we were to remove the 2020 and 2019 gain-sharing program and management incentive compensation bonuses from the salaries, wages, and benefits, then the amount per paid FTE was $142,210 in 2020 and $116,995 in 2019.

- Other changes were as follows:

  - There was a decrease of $7.9 million (28.4%) in professional fees. This was primarily due to employing physicians that were previously contracted under professional services agreements to provide care in our multi-specialty clinics.

  - There was a $3.6 million (14.2%) increase in supplies primarily due to increase in pharmaceuticals and medical supply costs, which is directly connected to the increase in volumes and COVID-19.

  - There was a $4.7 million (27.9%) increase in purchased services primarily due to repairs and maintenance to the hospital campuses and outlying buildings including snow removal, contracting coding, billing, and collections services, and costs associated with COVID-19.

  - There was a decrease of $.40 million (2.7%) in depreciation and amortization expense due mainly to equipment and software capital assets reaching the end of their estimated useful lives or being disposed of.

  - Other expense category changes (utilities, building and equipment rent, insurance, dues and subscriptions, travel and education, and other) increased $0.06 million (0.6%) primarily due to an increase in insurance costs.

Nonoperating Revenues and Expenses

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

The District's Cash Flows

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

Capital Assets

At the end of 2019, the District had $178.9 million in capital assets, net of depreciation, as detailed in the footnotes to the financial statements. At the end of 2020, the District had $180.1 million invested in capital assets, net of depreciation. In 2020, the District improved facilities and acquired new equipment for a total net investment of $1.3 million, net of disposals, as compared to $11.8 million in 2019.

Debt Borrowings

At the end of 2020, the District had $135.7 million in long-term debt borrowings outstanding including current maturities. At the end of 2019, the District had $140.5 million in long-term debt borrowings outstanding including current maturities.

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 2021 budget at its October 2020 meeting. The budget was delayed due to COVID-19. For fiscal year 2021, the District is budgeted to increase its net position by $12.8 million. The increase is due to the following assumptions:

- Net patient services revenue of $212.3 million.
  - Outpatient volumes, primarily in the multi-specialty clinics, are projected to increase 19.9%. This is due to the addition of several new providers in the area of family practice, as well as increased volumes for existing providers in the specialty areas of ear, nose, throat, neurology, endocrinology, and family practice.
  - 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.
- Other operating revenue of $12.4 million.
- Total operating expenses of $221.1 million.
  - Overall operating expenses will increase 4.8% due to an increase in salaries, wages, and benefits due to an increase in our overall FTE's, medical supplies, and pharmaceuticals related to patient volume and inflation, and purchased services related to repairs and maintenance of our facilities and technology infrastructure, as well as coding, billing, and collection services. In addition, our operating costs will increase due to COVID-19.
- Income from operations of $3.6 million.
- Nonoperating revenues of $9.2 million.

Payments from Federal and State Health Care Programs

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

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

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

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

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 2020, the District received $0.933 million in PRIME funds related to demonstration year ("DY") 15, $0.525 million related to DY 14, and is expected to receive an additional $0.425 million related to DY 15 and $0.068 related to DY 14 in 2021. In 2019, the District received $0.675 million related to DY 14, and $0.944 million related to DY 13.

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

	2020	2019	2018
Acute			
Admissions	1,626	1,765	1,839
Length of stay	3.41	3.28	2.37
Average daily census	15.16	15.89	11.93
Occupancy percentage	52%	54%	41%
Patient days	5,547	5,802	4,356
Total ICU days	1,311	1,240	689
Total medical/surgical days	2,818	2,843	2,756
Total obstetrics days	1,087	1,292	911
Total swing days	331	427	389
Nursery days	450	483	763
Deliveries	304	359	305
Skilled nursing units			
Patient days	9,902	11,673	11,890
Average daily census	27.05	31.98	32.58
Occupancy percentage	73%	86%	88%

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, 2020 and 2019, 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, 2020 and 2019, 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
January 20, 2021

Combined Financial Statements
As of and for the Years Ended June 30, 2020 and 2019

Tahoe Forest Hospital District
Combined Statements of Net Position
June 30, 2020 and 2019

	2020		2019	
	Tahoe Forest Hospital District	Truckee Surgery Center, LLC	Tahoe Forest Hospital District	Truckee Surgery Center, LLC
ASSETS				
Current assets				
Cash and cash equivalents	$ 61,288,670	$ 62,117	$ 24,369,873	$ 99,492
Patient accounts receivable, net of allowances for doubtful accounts of $8,137,053 and $81,472 in 2020 and $15,213,979 and $25,980 in 2019	29,478,033	106,574	27,217,842	233,845
Other receivables	9,677,624	-	10,831,915	-
Assets limited as to use - required for current liabilities	8,135,165	-	8,780,452	-
Inventories	3,828,579	-	3,484,528	-
Prepaid expenses and deposits	2,478,503	20,228	2,523,870	-
Estimated amounts due from third-party payors	1,500,697	-	-	-
Total current assets	116,387,271	188,919	77,208,480	333,337
Assets limited as to use, net of current	75,049,108	-	64,951,392	-
Capital assets				
Nondepreciable	12,313,944	-	19,317,747	-
Depreciable, net of accumulated depreciation	167,774,449	797,483	159,616,415	680,445
	180,088,393	797,483	178,934,162	680,445
Other assets				
Beneficial interest in trusts	1,615,408	-	1,689,389	-
Other noncurrent receivables	868,329	20,256	733,064	20,256
Investment in Truckee Surgery Center, LLC	152,647	-	451,785	-
Total assets	374,161,156	1,006,658	323,968,272	1,034,038
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on defeasance, net	5,705,772	-	6,015,405	-
Accumulated decrease in fair value of hedging derivative	1,847,362	-	1,370,780	-
Total deferred outflows of resources	7,553,134	-	7,386,185	-
LIABILITIES				
Current liabilities				
Current maturities of long-term debt and capital lease obligations	5,385,925	-	4,991,679	-
Accounts payable and accrued expenses	8,110,734	29,399	8,732,321	267,692
Accrued payroll and related expense	19,619,489	24,612	16,869,030	7,246
Medicare accelerated payments	20,380,537	-	-	-
Estimated claims incurred but not reported	5,707,406	-	5,611,762	-
Estimated amounts due to third-party payors	-	-	546,821	-
Other accrued expenses	74,218	6,071	458,757	23,357
Accrued interest	1,971,636	-	2,015,231	-
Total current liabilities	61,249,945	60,082	39,225,601	298,295
Long-term debt and capital lease obligations, net of current portion	130,266,872	-	135,485,783	-
Derivative instrument liability	1,847,362	-	1,370,780	-
Total liabilities	193,364,179	60,082	176,082,164	298,295
NET POSITION				
Net investment in capital assets	56,081,597	-	49,845,195	-
Restricted - expendable	4,205,423	-	3,624,570	-
Restricted - nonexpendable	54,309	-	43,209	-
Unrestricted	128,008,782	946,576	101,759,319	735,743
Total net position	$ 188,350,111	$ 946,576	$ 155,272,293	$ 735,743

See accompanying notes.

	2020		2019	
	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 $20,644,665 and $52,647 in 2020 and $14,998,281 and $36,868 in 2019)	$ 205,978,890	$ 536,310	$ 188,879,762	$ 1,352,632
Other operating revenue	12,447,917	7,074	11,105,999	-
Total operating revenues	218,426,807	543,384	199,985,761	1,352,632
Operating expenses				
Salaries and wages	79,154,107	625,587	65,577,227	329,528
Employee benefits	38,864,380	66,230	32,732,830	132,154
Professional fees	19,907,408	64,722	27,823,168	12,578
Supplies	28,824,447	417,507	25,235,058	503,688
Purchased services	21,362,582	16,487	16,705,600	-
Depreciation and amortization	13,166,216	28,361	13,533,709	45,265
Insurance	1,629,877	22,784	907,767	5,822
Other	8,211,911	383,879	8,992,890	399,256
Total operating expenses	211,120,928	1,625,557	191,508,249	1,428,291
Income (loss) from operations	7,305,879	(1,082,173)	8,477,512	(75,659)
Nonoperating revenues (expenses)				
Property tax revenue	7,984,820	-	7,548,681	-
Property tax revenue - general obligation bonds	5,220,126	-	5,220,233	-
Contributions, net	3,432,875	-	1,747,050	-
Special event revenue	-	-	741,976	-
Interest income	1,805,664	-	1,775,147	-
Rental income	528,044	-	423,064	-
Interest expense	(5,056,442)	-	(5,131,000)	-
Loss on investment in Truckee Surgery Center, LLC	(299,138)	-	-	-
Gain (loss) on disposal of assets	7,546	-	(519,415)	-
Other nonoperating income	13,441,450	-	39,336	-
Total nonoperating revenues	27,064,945	-	11,845,072	-
Income (loss) before other revenue, expenses, gains, and losses	34,370,824	(1,082,173)	20,322,584	(75,659)
Capital transfers	(1,293,006)	1,293,006	-	-
Increase (decrease) in net position	33,077,818	210,833	20,322,584	(75,659)
Net position, beginning of year	155,272,293	735,743	134,949,709	811,402
Net position, end of year	$ 188,350,111	$ 946,576	$ 155,272,293	$ 735,743

Tahoe Forest Hospital District
Combined Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	2020		2019	
	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	$ 201,671,181	$ 663,581	$ 187,208,496	$ 1,334,974
Cash received from other sources	13,436,254	7,074	6,477,923	-
Medicare accelerated payments	20,380,537	-	-	-
Cash paid to suppliers for goods and services	(81,241,035)	(1,181,186)	(78,830,466)	(790,644)
Cash paid to employees for services	(115,307,649)	(674,451)	(91,864,448)	(480,773)
Net cash provided by operating activities	38,939,288	(1,184,982)	22,991,505	63,557
Cash flows from noncapital financing activities				
Property tax revenues	8,010,896	-	7,597,392	-
Noncapital grants and contributions, net of other expenses	16,966,306	-	2,489,026	-
Net cash provided by noncapital financing activities	24,977,202	-	10,086,418	-
Cash flows from capital and related financing activities				
Purchase of capital assets	(14,360,718)	(145,399)	(12,792,114)	-
Proceeds from sale of capital assets	73,828	-	106,800	-
Proceeds from issuance of general obligations bonds	25,855,018	-	-	-
Payments on general obligation bonds	(28,034,314)	-	(2,228,812)	-
Interest payments on general obligation bonds	(3,713,205)	-	(4,119,479)	-
Payments on long-term debt and capital leases	(2,223,914)	-	(1,100,233)	-
Interest payments on long-term debt and capital leases	(1,386,832)	-	(1,031,923)	-
Property tax revenue received for general obligation bonds	5,222,171	-	5,649,743	-
Capital transfer from Tahoe Forest Hospital District	-	1,293,006	-	-
Net cash used in capital and related financing activities	(18,567,966)	1,147,607	(15,516,018)	-
Cash flows from investing activities				
Purchases of investments related to assets limited as to use	(13,083,041)	-	(30,651,641)	-
Sales of investments related to assets limited as to use	3,630,612	-	16,976,715	-
Interest received	1,805,664	-	1,775,147	-
Net cash received for rental activities	528,044	-	423,064	-
Purchases of investments in beneficial interest in trusts	(18,000)	-	(21,282)	-
Investment in Truckee Surgery Center, LLC	(1,293,006)	-	(451,785)	-
Net cash used in investing activities	(8,429,727)	-	(11,949,782)	-
Net change in cash and cash equivalents	36,918,797	(37,375)	5,612,123	63,557
Cash and equivalents, beginning of year	24,369,873	99,492	18,757,750	35,935
Cash and equivalents, end of year	$ 61,288,670	$ 62,117	$ 24,369,873	$ 99,492

	2020		2019	
	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	$ 7,305,879	$ (1,082,173)	$ 8,477,512	$ (75,659)
Adjustments to reconcile operating income (loss) to net cash from operating activities				
Depreciation and amortization	13,166,216	28,361	13,533,709	45,265
Amortization of bond premiums/discounts and bond issuance costs	(137,833)	-	(137,835)	-
Provision for doubtful accounts	20,644,665	52,647	14,998,184	36,868
Change in assets and liabilities:				
Patient receivables	(22,904,856)	74,624	(17,491,826)	(54,526)
Other receivables	1,125,296	-	(4,509,739)	-
Inventories	(344,051)	-	(358,735)	-
Unconditional promises to give, net	874	-	19,595	-
Prepaid expenses and deposits	45,367	(20,228)	(785,295)	16,406
Other noncurrent receivables	(135,265)	-	(99,321)	400
Accounts payable and accrued expenses	(621,587)	(238,293)	2,298,498	117,096
Accrued payroll and related expense	2,750,459	17,366	5,316,186	(19,491)
Medicare accelerated payments	20,380,537	-	-	-
Estimated amounts due from third-party payors	(1,500,697)	-	275,458	-
Estimated claims incurred but not reported	95,644	-	1,228,744	-
Estimated amounts due to third-party payors	(546,821)	-	546,821	-
Other accrued expenses	(384,539)	(17,286)	(320,451)	(2,802)
Total adjustments	31,633,409	(102,809)	14,513,993	139,216
Net cash provided by operating activities	$ 38,939,288	$ (1,184,982)	$ 22,991,505	$ 63,557
Supplemental disclosure of noncash investing and financing activities				
(Gain) loss on disposal of capital assets	$ (7,546)	$ -	$ 519,415	$ -
Change in fair value of beneficial interest in trusts	$ (91,981)	$ -	$ 39,336	$ -
Capital expenditures funded by notes payable	$ -	$ -	$ 12,950,000	$ -
Capital expenditure funded by capital lease obligations	$ 26,011	$ -	$ 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, which resulted in the District owning a 99% membership interest in TSC. In fiscal year 2020, the District advanced approximately $1,293,000 to TSC.

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

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

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

Use of estimates – The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amount of revenues and expenses during the reporting period. Major items requiring estimates and assumptions include net patient service revenue, allowance for contractual and doubtful accounts 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 $1,550,602 and $1,636,957 as of June 30, 2020 and 2019, 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 $64,806 and $52,432 as of June 30, 2020 and 2019, 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 2020 and 2019.

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, 2020 and 2019.

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, 2020 and 2019, was $381,419 and $342,631, respectively. Amortization expense for each of the years ended June 30, 2020 and 2019, was $38,788; and is estimated to be $33,025 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, 2020 and 2019, was $39,250 and $31,400, respectively. Amortization income for each of the years ended June 30, 2020 and 2019, 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, 2020 and 2019, was $458,255 and $366,604, respectively. Amortization expense for each of the years ended June 30, 2020 and 2019, 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, 2020 and 2019, was $771,220 and $578,415, respectively. Amortization expense for each of the years ended June 30, 2020 and 2019, was $192,805; and is estimated to be $192,805 for each of the next five years.

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

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

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, $15,292,435 and $13,478,925 for the years ended June 30, 2020 and 2019, respectively. Using the District's Medicare Cost to Charge Ratio, the estimated cost of these charges were $7,049,277 and $6,163,346 for the years ended June 30, 2020 and 2019, 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% of its financial support from property taxes for the years ended June 30, 2020 and 2019, exclusive of property taxes received to pay principal and interest payments of the general obligation bonds.

CARES Act grant and Medicare accelerated payments – On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by the novel coronavirus, a pandemic. Management is closely monitoring the evolution of this pandemic, including how it may affect operations and the general population. Management has not yet determined the full financial impact of these events. Centers for Medicare and Medicaid Services ("CMS") distributed $50 billion of the $100 billion in the form of grants to hospitals. The District received approximately $13,521,000 in grants, included as other nonoperating income in the combined statements of revenues, expenses, and changes in net position, and will have to submit reports documenting lost revenue and expenses incurred to support the grant funds, among other terms and conditions

Separately, CMS initiated an Accelerated Payment Program to hospitals. The accelerated payments represent advance payments for services to be provided and were based on a hospital's historical Medicare volume. In April 2020, the District received approximately $20,381,000 in accelerated payments, included in Medicare accelerated payments in the combined statements of net position. Medicare payments for services rendered will continue for the next 120 days. 120 days after receipt, CMS will recoup the accelerated payments from billing for services rendered until they are fully repaid. Any accelerated payments still open after one year from receipt will be charged interest at 10%. On October 8, 2020, CMS released an updated fact sheet relating to the repayment terms for certain Medicare accelerated payments, which may impact the classification of these payments in the combined statements of net position as of June 30, 2020.

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. In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* ("GASB 95"), which extended the effective date for GASB 84 to reporting periods beginning July 1, 2020. The District is currently assessing the impact of this standard on the District's combined financial statements.

In June 2017, the GASB issued GASB Statement No. 87, *Leases* ("GASB 87"), which is effective for financial statements for periods beginning after December 15, 2019. 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. GASB 95 extended the effective date for GASB 87 to reporting periods beginning July 1, 2021. 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 District adopted GASB 88 in the year ended June 30, 2020. The adoption did not result in a material impact to the District's combined financial statements.

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* ("GASB 89"). GASB 89 establishes accounting requirements for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. GASB 95 extended the effective date for GASB 89 to reporting periods beginning July 1, 2021. The District is currently assessing the impact of this standard on the District's combined financial statements.

In May 2019, the GASB also issued GASB Statement No. 91, *Conduit Debt Obligation*, ("GASB 91"). GASB 91 provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. GASB 95 extended the effective date for GASB 91 to reporting periods beginning July 1, 2022. 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, 2020, Tahoe Forest Hospital and Incline Village Community Hospital cost reports through June 30, 2017 and June 30, 2018, respectively, have been audited or otherwise final settled.

Medi-Cal: Prior to July 1, 2013, inpatient acute care services rendered to Medi-Cal program beneficiaries were reimbursed under a cost reimbursement methodology; however, the District is also subject to per discharge limits. The District was paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by Medi-Cal. Per discharge limits for the District have been determined by Medi-Cal through June 30, 2011. Beginning on July 1, 2013, inpatient acute care services were rendered to Medi-Cal program beneficiaries under a diagnostic related group ("DRG") methodology. Under this methodology, similar to Medicare, services are paid at prospectively determined rates per discharge according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient skilled nursing care services rendered to Medi-Cal program beneficiaries are reimbursed at prospectively determined per diem rates. Outpatient services rendered to Medi-Cal program beneficiaries are reimbursed based on prospectively determined fee schedules. At June 30, 2020, cost reports through June 30, 2018 and June 30, 2017, respectively, 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, 2020 and 2019:

	2020	2019
Daily hospital service	$ 34,783,400	$ 35,823,810
Inpatient ancillary services	53,764,783	61,069,998
Outpatient services	292,274,930	268,634,835
Gross patient service revenues	380,823,113	365,528,643
Less contractual allowances and provision for doubtful accounts	(174,844,223)	(176,648,881)
Net patient service revenue at Tahoe Forest Hospital District	205,978,890	188,879,762
Net patient service revenue at Truckee Surgery Center, LLC	536,310	1,352,632
Total net patient service revenue	$ 206,515,200	$ 190,232,394

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

	2020	2019
Commercial	44%	43%
Medicare	38%	38%
Medi-Cal	15%	16%
Others	3%	3%
Total	100%	100%

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

Over five years, up to $7.5 billion in combined federal and state funds will be available to participating entities from the Public Hospital Redesign and Incentives in Medi-Cal Program ("PRIME"), which is a successor program within the Medi-Cal waiver. As a result of participating in PRIME, the District recorded a receivable of $308,793 and $512,500 at June 30, 2020 and 2019, 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 $7,818,657 at June 30, 2020, for funds related to fiscal years 2020 and 2019, and a receivable of $5,966,469 at June 30, 2019, for funds related to fiscal years 2019 and 2018.

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, 2020 and 2019, cash and cash equivalents and assets limited as to use, at carrying value, consisted of the following:

	2020	2019
Cash and cash equivalents	$ 61,288,670	$ 24,369,873
Assets limited as to use - required for current liabilities	8,135,165	8,780,452
Assets limited as to use, net of current	75,049,108	64,951,392
Total at Tahoe Forest Hospital District	144,472,943	98,101,717
Total Truckee Surgery Center, LLC	62,117	99,492
Total	$ 144,535,060	$ 98,201,209

As of June 30, 2020 and 2019, assets limited as to use, at carrying value, have been set aside as follows:

	2020	2019
Board designated assets	$ 75,547,390	$ 65,373,715
Assets held by trustees	7,636,883	8,358,129
Total	$ 83,184,273	$ 73,731,844

A summary of scheduled maturities by investment type at June 30, 2020 and 2019, were as follows:

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

	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	$ -	$ -

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. The District was in compliance with their investment policies as of June 30, 2020.

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, 2020 and 2019.

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, 2020 and 2019.

Hedging derivative – The fair value of the hedging derivative is valued using market to market valuations as of June 30, 2020 and 2019.

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:

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

	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

The following table summarizes the changes in the District's Level 3 financial instruments for the years ended June 30, 2020 and 2019:

	2020	2019
Beginning balance	$ 1,689,389	$ 1,628,771
Additional amounts invested in Fund	18,000	21,282
Change in value of beneficial interest in trusts	(91,981)	39,336
Ending balance	$ 1,615,408	$ 1,689,389

The table below presents information about significant unobservable inputs related to material categories of Level 3 financial instruments as of June 30, 2020:

Description	Fair Value as of June 30, 2020	Valuation Technique	Unobservable Input	Range
Beneficial interest in trusts	$ 1,615,408	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, 2020 and 2019:

	2020	2019
Medicare and Medicare managed care	$ 19,177,986	$ 17,448,736
Medi-Cal and Medi-Cal managed care	20,340,786	17,862,642
Other payors	27,446,809	30,669,661
Self-pay	10,424,355	16,222,969
Gross patient accounts receivable	77,389,936	82,204,008
Less allowances for contractual adjustments and bad debts	(47,911,903)	(54,986,166)
Net patient accounts receivable at Tahoe Forest Hospital District	29,478,033	27,217,842
Net patient accounts receivable at Truckee Surgery Center, LLC	106,574	233,845
Total net patient accounts receivable	$ 29,584,607	$ 27,451,687

Concentration of net patient accounts receivable as of June 30, 2020 and 2019, were as follows:

	2020	2019
Commercial and other payors	51%	56%
Medicare	27%	25%
Medi-Cal	14%	16%
Self-pay	8%	3%
Total	100%	100%

NOTE 6 – CAPITAL ASSETS

The capital asset activity of the District for the years ended June 30, 2020 and 2019, were as follows:

	2020				
	Balance June 30, 2019	Increases	Decreases	Transfers	Balance June 30, 2020
Capital assets - nondepreciable					
Land	$ 2,829,147	$ 383,850	$ -	$ -	$ 3,212,997
Construction in progress, net	15,643,342	6,064,574	-	(13,517,937)	8,189,979
Property held for future expansion	845,258	65,710	-	-	910,968
	19,317,747	6,514,134	-	(13,517,937)	12,313,944
Capital assets - depreciable					
Land improvements	5,432,813	-	-	183,271	5,616,084
Building and improvements	205,680,346	4,131,016	(66,282)	13,065,000	222,810,080
Equipment and software	93,608,168	3,741,579	-	269,666	97,619,413
Capital assets at Truckee Surgery Center, LLC	1,197,538	145,399	-	-	1,342,937
	305,918,865	8,017,994	(66,282)	13,517,937	327,388,514
Less accumulated depreciation for					
Land improvements	3,138,629	148,512	-	-	3,287,141
Building and improvements	67,450,298	8,061,122	-	-	75,511,420
Equipment and software	74,515,985	4,956,582	-	-	79,472,567
Capital assets at Truckee Surgery Center, LLC	517,093	28,361	-	-	545,454
	145,622,005	13,194,577	-	-	158,816,582
Total capital assets - depreciable, net	160,296,860	(5,176,583)	(66,282)	13,517,937	168,571,932
Total capital assets, net	$ 179,614,607	$ 1,337,551	$ (66,282)	$ -	$ 180,885,876

	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	5,626,039	433,052	(1,113,712)	487,434	5,432,813
Building and improvements	196,511,118	6,976,067	-	2,193,161	205,680,346
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	12,783,878	(2,099,894)	3,092,926	305,918,865
Less accumulated depreciation for					
Land improvements	2,981,948	156,681	-	-	3,138,629
Building and improvements	60,468,921	7,556,705	(575,328)	-	67,450,298
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	13,578,038	(1,473,679)	-	145,622,005
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

NOTE 7 – LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

A summary of long-term debt and capital lease obligations as of June 30, 2020 and 2019, were as follows:

	2020					
	Date of Issue	Date of Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2020
General obligation bonds						
2016 GOB	March 2016	August 2040	2.00% - 5.00%	$600,000 - $3,625,000	$ 45,110,000	$ 42,740,000
2015 GOB	February 2015	August 2038	2.00% - 5.00%	$370,000 - $2,895,000	30,810,000	29,280,000
Series C (2012) GOB	July 2012	August 2042	3.00% - 5.50%	$175,000 - $2,440,000	26,100,000	-
2019 GOB	September 2019	August 2042	3.00% - 5.00%	$290,000 - $2,270,000	24,710,000	24,710,000
Revenue bonds						
Series 2017	March 2017	July 2032	1.49%	$503,082 - $663,805	9,060,000	7,683,775
Series 2015	March 2015	July 2033	3.87%	$896,124 - $1,583,873	20,979,000	17,528,221
Notes payable						
11046 Donner Pass Road	January 2019	February 2026	4.00%	$205,668 - $533,255	4,950,000	4,110,645
Opus Bank Muni Lease	October 2018	November 2023	2.82%	$876,332 - $714,103	8,000,000	5,591,038
Capital lease obligations						
US Bank Equipment Financing	June 2016	June 2021	5.28%	$228 monthly	12,069	-
US Bank Equipment Financing	June 2014	June 2019	4.40%	$727 monthly	39,240	-
US Bank Equipment Financing	September 2019	September 2024	8.30%	$273 monthly	18,176	15,644
US Bank Equipment Financing	October 2019	October 2024	8.28%	$117 monthly	7,835	6,859
Westamerica Bank	March 2019	March 2024	4.05%	$10,868 - $50,336	239,669	184,215
					$ 170,035,989	$ 131,850,397

	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	June 2021	5.28%	$228 monthly	12,069	5,213
US Bank Equipment Financing	June 2014	June 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

The following tables summarize the District's long-term debt and capital lease transactions for the years ended June 30, 2020 and 2019:

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

	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

As of June 30, 2020, the District's long-term debt and capital lease obligation requirements to maturity, net of unamortized bond premium and bond issuance costs of $3,802,400, are as follows:

	Long-Term Debt			Capital Lease Obligations		
Years Ending June 30,	Principal	Interest	Total	Principal	Interest	Total
2021	$ 5,334,816	$ 4,349,247	$ 9,684,063	$ 51,109	$ 6,685	$ 57,794
2022	5,564,708	4,178,015	9,742,723	53,428	5,977	59,405
2023	5,918,638	3,978,442	9,897,080	55,861	3,544	59,405
2024	5,291,462	3,781,828	9,073,290	46,118	1,036	47,154
2025	4,905,688	3,585,558	8,491,246	202	14	216
2026 - 2030	26,120,092	14,824,813	40,944,905	-	-	-
2031 - 2035	34,743,275	9,309,865	44,053,140	-	-	-
2036 - Thereafter	43,765,000	3,921,405	47,686,405	-	-	-
	$ 131,643,679	$ 47,929,173	$ 179,572,852	$ 206,718	$ 17,256	$ 223,974

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

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

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

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

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

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

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

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

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

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

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

As interest rates have declined since execution of the swap, the swap had negative fair values of $1,847,362 and $1,370,780 as of June 30, 2020 and 2019, 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 $1,847,362 and $1,370,780 at June 30, 2020 and 2019, 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, 2020, 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, 2020. 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 not reported recognized in the accompanying combined financial statements is adequate to cover such claims. The liability has not been discounted. Management is aware of no potential workers' compensation liability the settlement of which, if any, would have a material adverse effect on the District's net position for the years ended June 30, 2020 and 2019.

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, 2020 and 2019, 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, 2020 and 2019:

	2020			
	Balance June 30, 2019	**Increases**	**Decreases**	**Balance June 30, 2020**
Workers' compensation	$ 2,396,860	$ -	$ (223,616)	$ 2,173,244
Employee health	2,042,670	128,699	-	2,171,369
	$ 4,439,530	$ 128,699	$ (223,616)	$ 4,344,613

	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

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

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

Coverage under a claims-made policy could expose the District to a gap in coverage if the District were to terminate coverage with the Program. In order to mitigate this potential gap in coverage, the District has accrued an estimated premium to purchase an unlimited extended reporting amendment (tail coverage) in the amount of $1,362,793 and $1,172,232 for the years ended June 30, 2020 and 2019, respectively.

NOTE 10 – RESTRICTED NET ASSETS

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

	2020	2019
Restricted - expendable net assets		
Cancer prevention	$ 586,583	$ 665,891
Cancer care	1,545,219	1,636,958
Hospice and other	2,073,621	1,321,721
	$ 4,205,423	$ 3,624,570
Restricted - nonexpendable net assets		
Investments in perpetuity, Parasol endowment	$ 54,309	$ 43,209
	$ 54,309	$ 43,209

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 $5,342,877 and $4,452,525 for the years ended June 30, 2020 and 2019, respectively. As of June 30, 2020 and 2019, the District has accrued $2,619,302 and $2,162,198, 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, 2020 and 2019, the District had recorded $8,189,979 and $15,643,342, 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, 2020, is $579,750.

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, 2020, 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, 2020 and 2019 were $2,957,980 and $2,682,686, respectively. Future minimum lease payments, by year and in the aggregate, for all operating leases consist of the following:

Years ending June 30,	
2021	$ 1,932,358
2022	816,099
2023	457,348
2024	459,684
2025	378,605
Thereafter	243,572
	$ 4,287,666

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.

Subsequent to June 30, 2020, the Department of Health and Human Services and the United Stated Congress released updated information and enacted legislation affecting health care providers that received Provider Relief Fund payments, which may impact the recognition of the payments and the available uses for the funds. Management believes that these changes will not have a material impact to the combined financial statements as of and for the year ended June 30, 2020.

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