MATSON & ISOM

TAHOE FOREST HOSPITAL DISTRICT

Truckee, California

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT

June 30, 2014 and 2013

TABLE OF CONTENTS

June 30, 2014 and 2013

Tahoe Forest Hospital District

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Tahoe Forest Hospital District
Truckee, California

We have audited the accompanying financial statements of Tahoe Forest Hospital District, a California political subdivision (the District), which comprise the statements of net position as of June 30, 2014 and 2013; the related statements of revenues, expenses, and changes in net position; and cash flows for the years then ended; and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the 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 District'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 financial statements.

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

Basis for Qualified Opinion

The financial statements do not include financial data for the District's legally separate component units, which should have been presented as discretely presented component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the primary government unless the District also issues financial statements for the financial reporting entity that includes the financial data for its component units. The District has not issued such reporting entity financial statements. Financial information for the component units is disclosed in note 13 to the financial statements.

INDEPENDENT AUDITORS' REPORT
Continued

Qualified Opinion

In our opinion, except for the effects of not discretely presenting component units as described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2014 and 2013, and the results of its operations, changes in net position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters - Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Matson and Isom

October 24, 2014
Chico, California

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of Management's Discussion and Analysis, financial statements, and notes to those statements. These statements are organized to present the Tahoe Forest Hospital District (the District) as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities. Readers should also review the accompanying notes to the financial statements to enhance their understanding of the District's financial performance.

The Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows provide an indication of the District's financial health. The Statements of Net Position include all of the District's assets, deferred outflows of resources, and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes and which are restricted as a result of bond covenants, donor restrictions, or other purposes. The Statements of Revenues, Expenses, and Changes in Net Position report all of the revenues, expenses, increases, and decreases in net position during the time period indicated that resulted from the District's operating and non-operating transactions and capital contributions during the year. The Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources such as investment income, repayment of bonds, and capital additions and improvements.

FINANCIAL HIGHLIGHTS

- Total assets decreased $1.1 million in 2014. Total cash and cash equivalents decreased $.03 million in 2014. Net patient accounts receivable decreased $1.7 million. Days net patient service revenue in net patient accounts receivable decreased to 72 days at June 30, 2014. Capital assets increased $6.8 million. Assets Limited as to Use – Net decreased by $5.0 million.

- Total liabilities decreased $1.2 million, current liabilities increased $1.1 million, and noncurrent liabilities decreased $2.3 million.

- The increase in net position for 2014 was $.02 million.

FINANCIAL ANALYSIS OF THE DISTRICT

The District's net position increased $.02 million from a year ago to $97.3 million. Table 1 provides a summary of the District's net position for 2014 and 2013.

Table 1
SUMMARY OF ASSETS, LIABILITIES, AND NET POSITION
(In thousands)
AS OF JUNE 30

Assets:	**2014**	**2013**
Current assets	$41,102	$43,766
Board-designated and restricted funds	67,471	72,446
Net capital assets	144,885	138,067
Other assets	1,166	1,437
Total Assets	**254,624**	**255,716**
Total Deferred Outflow of Resources:	**2,331**	**2,370**
Liabilities:		
Current liabilities	24,190	23,045
Noncurrent liabilities	135,501	137,797
Total Liabilities	**159,691**	**160,842**
Net Position:		
Unrestricted	59,776	57,162
Net investment in capital assets	36,733	39,440
Restricted by donor for specific uses	754	642
Total Net Position	**$97,263**	**$97,244**

In 2014, the District's cash and investments position decreased $.03 million.

Table 2
SUMMARY OF CASH AND INVESTMENTS
(In thousands)

Account:	**2014**	**2013**
Cash and cash equivalents and short-term investments	$10,316	$10,345
Board designated fund	40,636	33,552
Specific purpose fund	3,049	3,680
Workers' compensation fund	19	1
Unexpended capital bond fund	25,644	37,120
Total Available Cash and Investments	**$79,664**	**$84,698**

The District maintains sufficient cash balances to cover all short-term liabilities. All excess cash is transferred to the Board designated funds for future needs. Cash and cash equivalents and short-term investments combined with Board designated funds increased by a total of $7.1 million. An increase in our cash position was anticipated as we recovered from the system conversion done in 2013. The lag time in billing and collections has been reduced and collections have greatly improved. The Unexpended Capital Bond Fund shows a decrease of $11.5 million over the prior year due to the expenditure of project funds directly related to capital asset projects approved as part of the general obligation bonds (Measure C).

CAPITAL ASSETS - NET

Net capital assets increased $6.8 million to $144.9 million at June 30, 2014. This increase resulted from $17.4 million in capital additions offset by $8.7 million in depreciation, and $1.9 million of asset transfers from construction in progress. The capital additions include $4.3 million in equipment, building, and land improvements (of which $1.9 million were transfers from construction in progress), and $13.1 million in construction in progress. Major capital additions during the year included investment in surgical, imaging and lab equipment, continued investment in our computer information systems, and construction for projects related to Measure C on the Tahoe Forest Hospital campus.

DEBT ADMINISTRATION

The District has debt obligations as follows:

	2014	2013
General Obligation Bonds Series 2007	$98,495,000	$98,500,000
Revenue Bonds Series 2006	23,975,000	24,675,000
Variable Rate Demand Revenue Bonds Series 2002	9,865,000	10,155,000
Bank equipment leases	1,846	516,138
Municipal Lease	3,749,992	4,931,515
Total	**$136,086,838**	**$138,777,653**

The District saw a decrease in its debt obligations by $2.7 million due to principal payments on the 2006 and 2002 Revenue Bonds, equipment leases, and the Municipal Lease.

REVENUES, EXPENSES, AND NET POSITION

Table 3 shows the revenues, expenses, and net position for 2014 and 2013.

Table 3
SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(In thousands)
YEAR ENDED

Operating Revenues:	**2014**	**2013**
Net patient service revenue	$107,664	$101,567
Other	6,711	6,142
Total Operating Revenues	**114,375**	**107,709**
Operating Expenses:		
Salaries and wages	40,493	38,779
Employee benefits	20,765	19,944
Professional fees	18,674	17,850
Supplies	14,940	15,207
Purchased services	10,104	7,681
Depreciation	8,642	7,239
Insurance	711	636
Other operating expenses	5,938	6,134
Total Operating Expenses	**$120,267**	**$113,470**

OPERATING LOSS	**$(5,892)**	**$(5,761)**
Nonoperating Revenues (Expenses)		
District tax revenue	9,647	10,704
Loss recognized on joint venture	(192)	(31)
Interest income	280	330
Rental income-net	238	242
Donations	659	550
Gain (Loss) on sale of assets	1	(12)
Interest expense	(5,390)	(4,448)
Total Nonoperating Revenues (Expenses)	**5,243**	**7,335**
Income (Loss) Before Other Revenue, Expenses, Gains and Losses	(649)	1,574
Capital contributions	668	396
Impairment losses	-	(5,679)
Increase (Decrease) in Net Position	19	(3,709)
Net Position - Beginning of Year	97,244	100,953
Net Position - End of Year	**$97,263**	**$97,244**

NET PATIENT SERVICE REVENUES

For the year ended June 30, 2014, net patient service revenues increased by $6.1 million or 6%. This was primarily driven by outpatient revenue and revenue derived from the cancer program. Net patient service revenue is composed of gross patient service revenue, less contractual allowances, charity care, provision for bad debts, and prior period settlements.

Gross patient service revenues increased by $10.5 million or 5.9% due to increases in volumes in a few of our outpatient areas when compared to our previous year. Significant volume percentage increases were as follows: radiation oncology procedures 15.9%, PET/CT exams 1.6%, ultrasound exams 5.2%, MRI exams 8.6%, endoscopy procedures 26.8%, and physical therapy procedures 17.7%.

Contractual allowances as a percent of gross patient service revenues increased from prior year by 3.4%. This increase primarily comes from shifting in the gross revenue payor mix. A small amount of the increase is for additional reserves due to the lag time in billing and collections related to our information technology system conversions. (See DEDUCTIONS FROM REVENUE below).

Charity care remained the same when compared to prior year. Fiscal year 2014 was approximately 3.2% of gross patient service revenues, and fiscal year 2013 was approximately 3.2%. (See CHARITY CARE AND COMMUNITY BENEFIT below). In addition, provision for bad debts as a percent of gross patient service revenues showed a 2.9% decrease compared to previous year.

INPATIENT BUSINESS ACTIVITY

Total admissions decreased by 44 and total patient days decreased by 228 reflecting a decrease in our average length of stay of .06 days. TFH became a critical access hospital effective July 1, 2007, reducing its acute care beds to 25, down from 35. Table 4 presents a summary of inpatient business activity.

Table 4
INPATIENT BUSINESS ACTIVITY

Acute	**2014**	**2013**
Admissions	1,617	1,661
Length of stay	2.89	2.95
Average daily census	12.8	13.4
Occupancy percentage	44.2%	46.4%
Patient days	4,679	4,907
Total ICU days	914	983
Total medical/surgical days	2,845	3,040
Total obstetrics days	920	872
Total M/S swing days	283	252
Nursery days	877	797
Deliveries	366	365
Skilled Nursing Unit		
Patient days	12,133	11,723
Average daily census	33	32
Occupancy percentage	89.8%	86.8%

OUTPATIENT BUSINESS ACTIVITY

The District's outpatient revenue was 9.3% higher than the prior year. The increase is attributable to an increase in volumes related to radiation procedures, CT and MRI exams, endoscopy procedures, the Hospitalists program, and physical therapy procedures.

Table 5
OUTPATIENT BUSINESS ACTIVITY

	2014	**2013**
Emergency department visits	16,264	16,324
Laboratory tests	143,751	146,388
Home health visits	3,778	3,980
Radiology exams	10,600	10,542
Ultrasound exams	3,848	3,658
Cat scan exams (including PET CT)	3,951	3,889
MRI scan exams	1,851	1,705
Radiation oncology procedures	4,174	3,599
Surgery cases	1,093	1,132
Surgery minutes	99,961	86,167

DEDUCTIONS FROM REVENUE

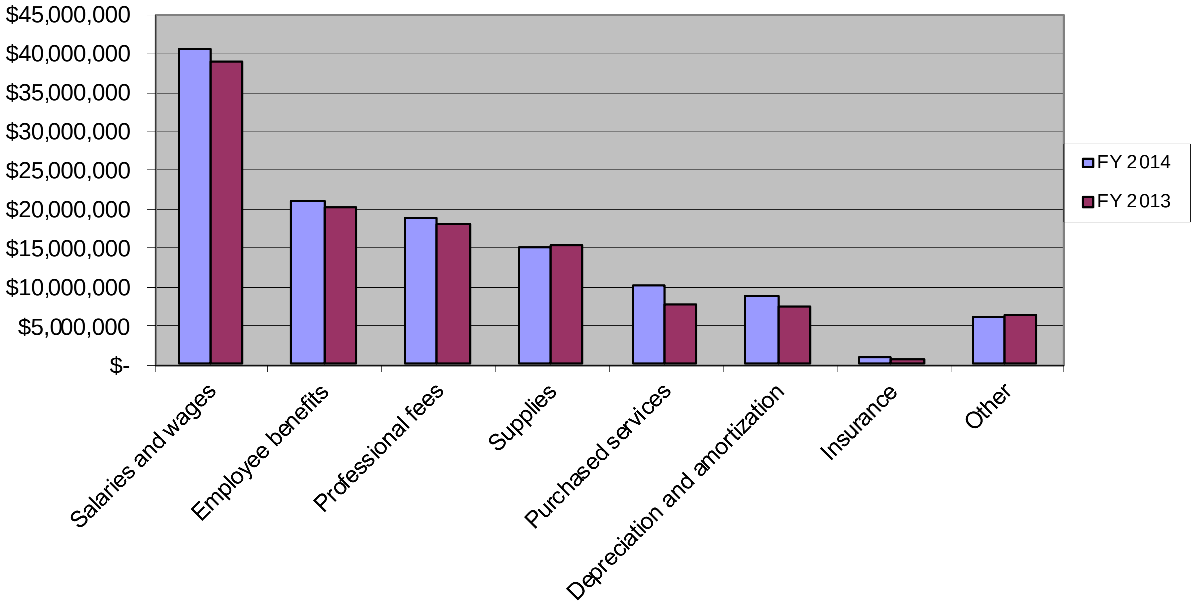
Contractual allowance adjustments (expressed as a percentage of gross revenues) were 38.6% for fiscal year 2014 and 35.2% for fiscal year 2013. The District's payor mix for fiscal year 2014 was 34.3% Medicare, 13.1% Medi-Cal, 1.3% County, 6.4% other, and 44.9% insurance compared to fiscal year 2013 mix of 33.0% Medicare, 12.1% Medi-Cal, 2.7% County, 7.4% other, and 44.8% insurance. The State programs, as well as some federal programs, continue to hold reimbursements to the District below actual increases (inflation) in costs. TFH became a critical access hospital effective July 1, 2007, which changed its Medicare reimbursement methodology to cost-based reimbursement.

CHARITY CARE AND COMMUNITY BENEFIT

The District provides care without charge or at amounts less than established rates to patients who meet certain criteria under its charity care policy. Charity allowances are based upon the customary charges for the services provided under this program. The District recorded $6.1 million in charity care for patient services during fiscal year 2014 and $5.6 million for fiscal year 2013.

OPERATING EXPENSES

Total operating expenses were $120.3 million for the year ended June 30, 2014, and $113.5 million for the year ended June 30, 2013, as summarized in the graph.



Total operating expenses increased $6.8 million, or 6% from the prior year.

The District experienced an increase in the area of salaries, wages and employee benefits, for a combined increase of $2.5 million, due to the result of wage increases as outlined in the employee bargaining unit agreements which took effect July 1, 2013. These agreements have a three-year term. In addition, we experienced an increase in our health insurance costs. Both of these increases were offset by a reduction in our workers' compensation costs and our retirement plan costs. Professional fees increased $0.8 million due to our contract with an anesthesiology group to provide exclusive anesthesia services, development of the Hospitalists program, and the addition of a general surgeon to the multi-specialty clinics. Purchased services increased $2.4 million due to the maintenance agreements for the linear accelerator, PET/CT scanner, the CT scanner at Incline Village, plant repair and maintenance, process improvement work related to the District's revenue cycle, services provided as part of the new wellness program, and for a survey readiness assessment. Depreciation and amortization increased $1.4 million due to a full year of depreciation on the general obligation bond (Measure C) capital projects such as the cancer center and skilled nursing facility. In addition, several buildings were renovated in preparation of moving staff to interim locations during the next phases of construction related to Measure C. We also had depreciation associated with the continued investment in our information technology systems, and other large capital purchases in surgery, lab and imaging.

ECONOMIC FACTORS AFFECTING NEXT YEAR

Fiscal year 2013-14 was another challenging year for the health system. Much of the fiscal year, the health system managed to effectively control operating expenses and nimbly navigated through a terrible winter season to balance what could be characterized as one of the most challenging financial years in recent memory. The year was plagued by multiple challenges in market conditions. Notwithstanding the dismal winter season, our market began to realize the impact of first-year implementation of the Affordable Care Act with the start-up of both the California and Nevada Insurance Exchanges. This past year saw significant changes in the financing model for the California Medi-Cal program by assigning all Medi-Cal eligible patients into managed care plans. Statewide, Tahoe Forest and similar hospitals with Distinct Part Skilled Nursing Facilities (DP/NF) were challenged by the threat of retroactive reimbursement reductions and continue to be challenged in fiscal year 2014-15.

Operationally challenged by EMR issues, management was able to identify and deploy third-party resources that effectively managed the transition of the Version 19 EMR installation while also concurrently deploying additional targeted resources to stabilize health system revenue cycle processes. Information systems optimization will continue over the next two years as the health system evolves its strategy to shift away from a "best of bread" applications strategy to a more integrated enterprise IS architecture.

The Tahoe Forest Hospital Facilities Development Plan continues to be executed within the general board approved budgets for each project. In 2014-15, management is looking forward to occupying the emergency department and sterile processing expansions, the interim birthing area in the western addition, and initiating the final phase of the Measure C projects with the scheduled demolition of the 1952 building and beginning construction of the Women and Family Center.

The 2014-15 fiscal year is an aggressive year. Although management is projecting earnings from operations (EBIDA) of only around $2 million and a drop in days' cash on hand, management is projecting favorable cash flow from operations, philanthropic activities and property tax to exceed $8 million. The largest impact on cash is the exceptional number of capital projects that are scheduled to be staged during the fiscal year. The scope of projects includes the continuation of information system transitions, completion of the ICU remodel, installation of the replacement CT scanner and surgical lights and booms, and the funding of personal property for Measure C project occupancies. These projects alone exceed over $4.6 million in capital investment.

Combined with the phase-in of the second year of the Affordable Care Act and the predictable pressure on shifting payor reimbursements associated with the new large deductible commercial products, management will continue its efforts to reduce overall operating expense to maintain level operating margins.

Our assumptions for fiscal year 2014-15 have been carefully constructed to balance key investments with a conservative approach to the maintenance of our strong capital structure. To complement this approach, management will continue to take an aggressive and proactive position on managing controllable expenses in fiscal year 2014-15 to assure that we are able to balance our budget in this dynamic era of health reform. Balance sheet management and organization redesign will continue to be dominant themes as we lead our health system through these challenging times.

FINANCIAL SECTION

June 30	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 10,315,543	$ 10,344,645
Patient accounts receivable - net of allowance for uncollectible accounts of $19,740,807 in 2014 and $24,859,330 in 2013	21,124,945	22,807,619
Advances to related party	1,709,926	981,983
Other receivables	1,193,192	1,648,605
Assets limited as to use	1,878,250	1,907,125
Inventories	2,506,410	2,267,147
Prepaid expenses and deposits	1,568,323	1,066,115
Estimated third-party payor settlements	805,104	2,742,612
Total Current Assets	41,101,693	43,765,851
ASSETS LIMITED AS TO USE		
Assets limited as to use	69,348,918	74,353,498
Less: Amount required to meet current obligations	(1,878,250)	(1,907,125)
Assets Limited as to Use - Net	67,470,668	72,446,373
NONCURRENT ASSETS AND INVESTMENTS		
Investment in joint venture	496,395	728,349
Physician notes receivable	586,511	608,224
Other noncurrent assets	83,333	100,000
Capital assets - net	144,885,483	138,067,395
Total Assets	254,624,083	255,716,192
DEFERRED OUTFLOW OF RESOURCES		
Deferred loss on defeasance	620,616	659,404
Accumulated decrease in fair value of hedging derivative	1,710,011	1,710,354
Total Deferred Outflow of Resources	$ 2,330,627	$ 2,369,758

The accompanying notes are an integral part of these financial statements.

June 30	2014	2013
LIABILITIES		
CURRENT LIABILITIES		
Current maturities of long-term debt and capital lease obligations	$ 2,295,193	$ 2,690,814
Accounts payable	5,754,727	6,037,480
Patient balances payable	1,282,330	930,945
Accrued payroll and related expenses	8,302,901	7,668,236
Estimated claims incurred but not reported	2,895,012	3,139,995
Estimated third-party payor settlements	1,097,690	-
Accrued interest	2,561,726	2,577,226
Total Current Liabilities	24,189,579	23,044,696
NONCURRENT LIABILITIES		
Long-term debt and capital lease obligations - net of current maturities	133,791,645	136,086,839
Derivative instrument liability	1,710,011	1,710,354
Total Liabilities	159,691,235	160,841,889
NET POSITION		
Net investment in capital assets	36,733,130	39,440,311
Restricted	753,931	641,469
Unrestricted	59,776,414	57,162,281
Total Net Position	$ 97,263,475	$ 97,244,061

The accompanying notes are an integral part of these financial statements.

Years Ended June 30	2014	2013
OPERATING REVENUES		
Net patient service revenue - net of contractual allowances and provision for bad debts of $80,714,236 in 2014 and $76,338,828 in 2013	$ 107,664,272	$ 101,566,879
Other revenue	6,710,952	6,142,592
Total Operating Revenues	114,375,224	107,709,471
OPERATING EXPENSES		
Salaries and wages	40,492,967	38,778,617
Employee benefits	20,764,643	19,943,943
Professional fees	18,673,595	17,850,419
Supplies	14,939,799	15,206,878
Purchased services	10,104,398	7,680,764
Depreciation and amortization	8,642,417	7,239,280
Insurance	711,516	636,454
Other	5,938,373	6,133,885
Total Operating Expenses	120,267,708	113,470,240
Operating Loss	(5,892,484)	(5,760,769)
NONOPERATING REVENUES (EXPENSES)		
Property tax revenue	4,902,246	5,716,834
Property tax revenue - general obligation bonds	4,744,356	4,986,760
Loss recognized on joint venture	(191,666)	(30,517)
Interest income	280,574	330,077
Rental income - net	237,992	242,348
Donations	659,104	549,507
Gain (Loss) on disposal of assets	1,000	(11,867)
Interest expense	(5,390,206)	(4,448,220)
Total Nonoperating Revenues (Expenses)	5,243,400	7,334,922
Income Before Other Revenues, Expenses, Gains and Losses	(649,084)	1,574,153
Capital contributions	668,498	395,838
Impairment losses	-	(5,679,078)
Increase (Decrease) in Net Position	19,414	(3,709,087)
Net Position - Beginning of Year	97,244,061	100,953,148
Net Position - End of Year	$ 97,263,475	$ 97,244,061

The accompanying notes are an integral part of these financial statements.

Years Ended June 30	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	$ 112,733,529	$ 95,765,008
Payments to suppliers and contractors	(51,375,238)	(49,307,260)
Payments to and on behalf of employees	(60,867,928)	(59,038,656)
Other receipts and payments - net	6,603,799	5,613,627
Net Cash Provided (Used) by Operating Activities	7,094,162	(6,967,281)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property tax revenue received for operations	5,290,791	5,337,349
Donations	659,104	549,507
Net Cash Provided by Noncapital Financing Activities	5,949,895	5,886,856
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	668,498	395,838
Acquisition of property and equipment	(14,497,404)	(18,378,834)
Transfers (to) from board-designated assets	(7,211,504)	6,205,487
Proceeds from municipal lease	-	6,000,000
Proceeds from issuance of bonds	-	25,960,704
Change in assets held by trustee	12,216,084	(21,997,098)
Property tax revenue received for general obligation bonds	4,944,094	4,684,579
Principal paid on general obligation bonds	(5,000)	-
Interest payments on general obligation bonds	(4,678,774)	(4,153,059)
Principal paid on long-term debt and capital leases	(2,685,815)	(2,553,954)
Interest paid on long-term debt and capital leases	(1,727,737)	(1,806,031)
Net Cash Used by Capital and Related Financing Activities	(12,977,558)	(5,642,368)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	281,790	364,714
Net cash received for rental activities	310,264	316,693
Advances to related party	(727,943)	(550,812)
Cash received from joint venture	40,288	97,390
Net Cash Provided (Used) by Investing Activities	(95,601)	227,985
Net Decrease in Cash and Cash Equivalents	(29,102)	(6,494,808)
Cash and Cash Equivalents - Beginning of Year	10,344,645	16,839,453
Cash and Cash Equivalents - End of Year	$ 10,315,543	$ 10,344,645

The accompanying notes are an integral part of these financial statements.

Years Ended June 30	2014	2013
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating loss	$ (5,892,484)	$ (5,760,769)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation and amortization	8,642,417	7,239,280
Provision for bad debts	3,062,443	8,277,732
Changes in:		
Patient accounts receivable	(1,379,769)	(14,833,606)
Inventories	(239,263)	(1,511)
Prepaid expenses	(502,208)	(200,980)
Estimated third-party payor settlements	3,035,198	119,557
Accounts payable and accrued expenses	106,929	(2,130,111)
Patient balances payable	351,385	634,446
Other	(90,486)	(311,319)
Net Cash Provided (Used) by Operating Activities	$ 7,094,162	$ (6,967,281)
NONCASH INVESTING AND FINANCING ACTIVITIES		
ISSUANCE OF GENERAL OBLIGATION BONDS 2008, SERIES C		
Par amount of 2008, Series C bonds	$ -	$ 26,100,000
Payments for bond issuance costs	-	(139,296)
Net Proceeds	$ -	$ 25,960,704
CAPITALIZED INTEREST		
Interest payments on general obligation bonds	$ 4,678,774	$ 4,153,059
Interest capitalized	(1,039,593)	(1,970,278)
Net Interest Expense on General Obligation Bonds	$ 3,639,181	$ 2,182,781

The accompanying notes are an integral part of these financial statements.

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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 Presentation The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus in accordance with Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements.* The statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with GASB pronouncements: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations; 2) Accounting Principles Board (APB) Opinions; and 3) Accounting Research Bulletins (ARB) of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

The District also applies GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* These statements establish standards for reporting deferred outflows of resources, deferred inflows of resources, and net position for all state and local governments.

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units,* requires organizations that are "closely related to, or financially integrated with, the primary government" be reported as component units by the primary government. Tahoe Forest Health System Foundation and Incline Village Community Hospital Foundation (the Foundations) are component units of the District. The Foundations issue separate audited financial statements for their fiscal year ends. Accounting principles generally accepted in the United States of America require the financial data for the component units to be reported with the financial data of the District unless the District also issues financial statements for the financial reporting entity that includes the financial data of its component units. The District has not issued such reporting entity financial statements. Financial information for the Foundations is disclosed in note 13.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents The District considers cash on deposit and highly liquid investments, such as pooled investment funds, as "cash equivalents."

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The District participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF). As of June 30, 2014, the LAIF pool includes structured notes and asset-backed securities which total 1.86% of the total portfolio. These structured notes and asset-backed securities are subject to market risk as to change in interest rates. As of June 30, 2014, the fair value of LAIF was 100.03% of the carrying value and is deemed to not represent a material difference. There are no LAIF funds invested in derivatives as of June 30, 2014. LAIF has oversight by the Local Investment Advisory Board (LIAB), which consists of five members as designated by statute. The chairperson of the LIAB is the State Treasurer or a designated representative. The District is considered to be a voluntary participant in the LAIF investment pool.

Patient Accounts Receivable The District reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients, and others. The District provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions. The District bills third-party payors directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written-off as bad debts based on individual credit evaluation and specific circumstances of the account.

Advances to Related Party The District has agreed to make advances to the Tahoe Institute of Rural Health Research (the Institute), a nonprofit research organization, of up to $2,000,000 on an as-needed basis. Outstanding advances accrue interest at a rate of 5.00%. Interest income of $61,147 and $32,059 was recorded by the District for the years ended June 30, 2014 and 2013, respectively.

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

Assets Limited as to Use Assets limited as to use consist of assets held by trustees under indenture agreements and Board designated assets. Assets held by the trustees under indenture agreements are used by the trustees to make principal, interest, and insurance payments related to bonds; to maintain reserve funds as required by bond agreements; and to fund future approved capital acquisitions. Board designated assets have been set aside by the District's Board of Directors for property and equipment replacement and to satisfy future liabilities. The Board retains control over Board designated assets and may at its discretion subsequently use them for other purposes. Purchases and sales of underlying investments are reported net in the statements of cash flows.

Investment in Joint Venture In December 2010, the District purchased a 51% equity interest in the Truckee Surgery Center, LLC (the Center), an ambulatory surgery center. However, under the terms of the Center's operating agreement, the District is unable to unilaterally impose its will on the Center. Accordingly, the District accounts for its investment in the Center under the equity method. The District shares in the operating results of the Center and reports its share of the operating results in nonoperating income. The Center has not issued audited financial statements. Summarized financial information for the Center is disclosed in note 14.

Capital Assets Capital assets are recorded at cost or, in the case of donated items, at fair market value at the date of donation. Routine maintenance and repairs are charged to expense as incurred. The District's capitalization policy states that all items with a unit cost of $1,500 or more, and an estimated useful life of greater than two years, will be capitalized at the time of purchase. Expenditures which increase values, change capacities, or extend useful lives are also capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation expense in the financial statements. Useful lives are 2 to 40 years for land improvements, 5 to 40 years for buildings and improvements, and 5 to 20 years for equipment.

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 $1,040,000 and $1,970,000 for the years ended June 30, 2014 and 2013, respectively.

Deferred Loss on Defeasance The deferred loss on defeasance of the 1999 Series B bonds is amortized using the straight-line method over the life of the bonds. The original amount of the deferred loss on defeasance is $769,305. Accumulated amortization as of June 30, 2014 and 2013, was $148,689 and $109,901, respectively. Amortization expense for each of the years ended June 30, 2014 and 2013, amounted to $38,788, and is estimated to be $38,788 for each of the next five years.

Net Position The District's net position is classified into three components, as follows:

Net Investment in Capital Assets: Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any outstanding bonds, leases, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, plus assets held by the bond trustee for debt service payments and capital asset acquisitions.

Restricted Net Position: Consists of equity where constraints are placed on the use either by external groups such as creditors, grantors, contributors, laws or regulations of other governments, or laws through constitutional provisions or enabling legislation.

Unrestricted Net Position: Consists of the remaining equity that does not meet the definition of "restricted" or "net investment in capital assets."

Operating Revenues and Expenses The statements of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenue and expenses. Operating revenues result from exchange transactions associated with providing health care services. Nonexchange revenues, including property tax revenues, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating income. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Net Patient Service Revenue 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 and net of charity care. 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.

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. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charges excluded from revenue under the District's charity care policy were $6,074,298 and $5,663,679 for 2014 and 2013, respectively.

Contributions Contributions received may be designated by the donor for restricted purposes or may be without restriction as to their use. Contributions restricted by donors as to use or time period are recorded as restricted net position until used in the manner designated or upon expiration of the time period. When there are no legally imposed restrictions on contributions or on income earned from restricted contributions, they are recorded as nonoperating revenues.

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; medical malpractice; natural disasters; and employee health, dental, and accident benefits. 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 11.

Property Tax Revenues Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent if paid after December 10 and April 10. Property taxes are levied by Nevada and Placer County Assessors on the District's behalf. They are intended to support general maintenance and operations of the District, including charity care and uncompensated care programs, and to service the debt on the 2008 Series A, Series B, and Series C general obligation bonds. The amount of property tax received is dependent upon the assessed real property valuation, as determined by Nevada and Placer County Assessors. The District received approximately 8% and 9% of its financial support from property taxes in 2014 and 2013, respectively.

Reclassifications Various reclassifications have been made to the 2013 financial statements in order to reflect the presentation adopted with the 2014 financial statements.

Impact of Recently Issued Accounting Standards

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, with required implementation for the District during the 2014-15 fiscal year. The statement is intended to improve accounting and financial reporting for U.S. state and local government combinations and disposals of government operations. Management does not expect the implementation of this statement to have a material effect on the financial statements.

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 Tahoe Forest Hospital and Incline Village Community Hospital are each designated as a "critical access hospital" under the Medicare program. Accordingly, inpatient acute and outpatient services rendered to Medicare program beneficiaries are reimbursed under a cost reimbursement methodology pursuant to the facilities' designation as "critical access hospitals." Costs incurred are reimbursed at tentative rates with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The District's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the District. Incline Village Community Hospital Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2012, and final settlements have been received through that date. Tahoe Forest Hospital Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2012, and final settlements have been received through that date.

Medi-Cal Inpatient services rendered to Medi-Cal program beneficiaries were reimbursed under a cost reimbursement methodology through December 31, 2013. Beginning January 1, 2014, Medi-Cal began reimbursing based on diagnosis related groups. Reimbursement is at tentative rates with final settlement determined after submission of annual cost reports and audits thereof by the Medi-Cal fiscal intermediary. Medi-Cal cost reports have been audited by the Medi-Cal fiscal intermediary through June 30, 2012, and final settlements have been paid through that date. Outpatient services related to Medi-Cal beneficiaries are paid at prospectively determined rates per procedure.

Revenue from the Medicare and Medi-Cal programs accounted for approximately 34% and 14% of gross patient service revenue in 2014 and approximately 33% and 15% of gross patient revenue in 2013, respectively. Net patient service revenue is reported at estimated realizable amounts, 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. 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. Net patient service revenue increased by approximately $1,062,000 in 2014 and decreased by approximately $27,000 in 2013 due to changes in prior-year retroactive adjustments compared with amounts previously estimated. The District believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory actions.

Other Arrangements The District has entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The payments to the District under these agreements may be based on discounts from established charges.

3. CASH, DEPOSITS, AND INVESTMENTS

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

Deposits and investments at carrying value consisted of the following:

June 30	Maturities	Fair Value at 2014	Fair Value at 2013
CASH AND CASH EQUIVALENTS			
Deposits (1)		$ 10,522,702	$ 10,424,372
LAIF (2)	7.6 months average	41,207,274	34,123,202
Subtotal		51,729,976	44,547,574
ASSETS HELD BY TRUSTEES			
Cash		6,181,419	5,761,408
Money market funds		2,564,125	2,497,851
LAIF (2)	7.6 months average	18,288,562	30,990,931
Government bonds	22 years	900,379	900,379
Total Assets Held by Trustees		27,934,485	40,150,569
Total Cash, Deposits, and Investments		$ 79,664,461	$ 84,698,143

(1) ***Deposits*** The carrying amount of deposits includes checking accounts, savings accounts, and nonnegotiable certificates of deposit at financial institutions, if any.

(2) ***Investments That are Not Securities*** A "security" is a transferable financial instrument that evidences ownership or creditorship, whether in physical or book-entry form. Investments that are not securities do not have custodial credit risk because they do not involve a transferable financial instrument. The deposits in LAIF are pooled investment funds, which are not evidenced by securities. Thus, the District's LAIF investment is not categorized into custodial credit risk categories.

Deposits and investments are reflected on the accompanying statements of net position under the following captions:

June 30	2014	2013
Cash and cash equivalents	$ 10,315,543	$ 10,344,645
Assets limited as to use	69,348,918	74,353,498
Total Cash, Deposits, and Investments	$ 79,664,461	$ 84,698,143

Custodial Credit Risk – Deposits and Investments

Custodial credit risk is the risk that, in the event of a financial institution failure, the District's deposits might not be recovered. The District has collateralization agreements with the financial institutions, which mitigate custodial credit risk. Uninsured deposits collateralized with financial institutions amounted to $13,417,330 and $11,124,342 at June 30, 2014 and 2013, respectively. Deposits amounting to $250,000 in each qualifying financial institution are covered by federal depository insurance, and the remaining balances are subject to collateralization agreements.

Concentration of Credit Risk – Investments

California Government Code, 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.

California Government Code, 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 has a formal investment policy in place to maximize the return on invested cash while minimizing risk of capital loss. District 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, 2014.

4. ASSETS LIMITED AS TO USE

The composition of assets limited as to use is set forth in the following table:

June 30	2014	2013
BOARD DESIGNATED ASSETS		
Cash	$ 152,659	$ 235,378
LAIF	41,261,774	33,967,551
Subtotal	41,414,433	34,202,929
ASSETS HELD BY TRUSTEES		
Cash	6,181,419	5,761,408
Money market funds	2,564,125	2,497,851
LAIF	18,288,562	30,990,931
Government bonds	900,379	900,379
Subtotal	27,934,485	40,150,569
Total Assets Limited as to Use	$ 69,348,918	$ 74,353,498

5. PATIENT ACCOUNTS RECEIVABLE

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2014 and 2013, was as follows:

	2014	2013
Medicare	28%	24%
Medi-Cal	16%	16%
Patients	17%	29%
Commercial insurance and others	39%	31%
Total	100%	100%

6. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

June 30, 2014	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Land and improvements	$ 6,318,481	$ 52,016	$ -	$ 6,370,497
Buildings and improvements	130,865,525	955,867	-	131,821,392
Equipment	63,994,537	3,298,159	-	67,292,696
Subtotal	201,178,543	4,306,042	-	205,484,585
Less: Accumulated depreciation	(82,811,747)	(8,719,909)	-	(91,531,656)
Property held for future expansion	836,353	-	-	836,353
Construction in progress	18,864,246	13,124,629	1,892,674	30,096,201
Capital Assets - Net	$138,067,395	$ 8,710,762	$ 1,892,674	$144,885,483

June 30, 2013	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Land and improvements	$ 6,313,855	$ 4,626	$ -	$ 6,318,481
Buildings and improvements	79,515,830	51,349,695	-	130,865,525
Equipment	51,624,745	12,410,076	40,284	63,994,537
Subtotal	137,454,430	63,764,397	40,284	201,178,543
Less: Accumulated depreciation	(75,662,839)	(7,123,491)	25,417	(82,811,747)
Property held for future expansion	836,353	-	-	836,353
Construction in progress	63,254,575	16,680,096	61,070,425	18,864,246
Capital Assets - Net	$125,882,519	$ 73,321,002	$ 61,136,126	$138,067,395

7. PROCEEDS AND EXPENDITURES OF THE 2007 GENERAL OBLIGATION BOND

In September 2007, the voters of the District authorized the issuance of general obligation bonds in an aggregate amount not to exceed $98,500,000 to fund the construction and equipping of additions and improvements to the District's healthcare facilities and to refinance up to $3,500,000 of existing debt. In August 2008, the District issued $29,400,000 in bonds (Series A); in August 2010, the District issued another $43,000,000 in bonds (Series B); and in July 2012, the District issued the remaining $26,100,000 in bonds (Series C) totaling $98,500,000.

The District has utilized the bond funds for a variety of projects. A summary of these projects and the expenditures incurred are as follows:

	Expenditures				
Construction Project	**Prior**	**2013**	**2014**	**Total**	**Status**
Dietary #1	$ 240,579	$ 2,956,579	$ 1,285,917	$ 4,483,075	In Progress
Emergency Dept/Sterile Processing	2,201,852	4,067,447	5,563,534	11,832,833	In Progress
Infill/Medical Records	1,885,291	97,734	37,951	2,020,976	In Progress
S. Building/Interim	2,406,179	282,723	3,196,114	5,885,016	In Progress
TFH Master Plan	1,169,473	189,812	41,041	1,400,326	In Progress
Cancer Center Building	25,704,450	1,266,713	139,250	27,110,413	Completed
Cancer Center Equipment	2,250,552	50,543	-	2,301,095	Completed
Central Plant Upgrades	14,587,694	807,366	-	15,395,060	Completed
Fiber West Installation	950	-	-	950	Completed
IT Data Center Building	1,306,111	-	-	1,306,111	Completed
IT Data Center Equipment	9,109	-	-	9,109	Completed
IT/Administration Relocation	401,124	-	-	401,124	Completed
MPOE Fiber Installation	183,577	-	-	183,577	Completed
Nuclear Medicine Camera/Flouroscopy	2,242,176	-	-	2,242,176	Completed
Skilled Nursing Facility	4,571,851	696,432	-	5,268,283	Completed
Skilled Nursing Facility Flooring	199,774	-	-	199,774	Completed
Total	$ 59,360,742	$ 10,415,349	$ 10,263,807	$ 80,039,898	

8. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

Long-term debt and capital lease obligations consisted of the following:

June 30, 2014	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Series 2006 Revenue Bonds	$ 24,675,000	$ -	$ 700,000	$ 23,975,000	$ 735,000
Series 2002 Variable Rate Demand Revenue Bonds	10,155,000	-	290,000	9,865,000	310,000
Series A (2008) General Obligation Bonds	29,400,000	-	5,000	29,395,000	50,000
Series B (2010) General Obligation Bonds	43,000,000	-	-	43,000,000	-
Series C (2012) General Obligation Bonds	26,100,000	-	-	26,100,000	-
Lease agreement with Bank of America Public Capital payable in monthly installments of $103,637, including interest at 1.42% through July 2017. The lease is collateralized by equipment and any unspent lease proceeds.	4,931,515	-	1,181,523	3,749,992	1,198,347
Lease agreement with US Bank payable in monthly installments of $4,809, including interest at 4.62% through July 2014. The lease is collateralized by equipment.	56,291	-	56,291	-	-
Lease agreement with Bank of America payable in monthly installments of $38,350, including interest at 4.06% through May 2014. The lease is collateralized by equipment.	413,411	-	413,411	-	-
Lease agreement with US Bank payable in monthly installments of $773, including interest at 6.71% through June 2014. The lease is collateralized by equipment.	8,948	-	8,948	-	-
Lease agreement with Great America Leasing payable in monthly installments of $473, including interest at 2.60% through June 2014. The lease is collateralized by equipment.	5,581	-	5,581	-	-
Lease agreement with Graphic Savings Group payable in monthly installments of $1,631, including interest at 0.04% through June 2014. The lease is collateralized by equipment.	19,569	-	19,569	-	-
Lease agreement with Great America Leasing payable in monthly installments of $934, including interest at 0.01% through August 2014. The lease is collateralized by equipment.	12,338	-	10,492	1,846	1,846
Total Long-Term Debt and Capital Lease Obligations	$ 138,777,653	$ -	$ 2,690,815	$ 136,086,838	$ 2,295,193

June 30, 2013	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Series 2006 Revenue Bonds	$ 25,355,000	$ -	$ 680,000	$ 24,675,000	$ 700,000
Series 2002 Variable Rate Demand Revenue Bonds	10,430,000	-	275,000	10,155,000	290,000
Series A (2008) General Obligation Bonds	29,400,000	-	-	29,400,000	5,000
Series B (2010) General Obligation Bonds	43,000,000	-	-	43,000,000	-
Series C (2012) General Obligation Bonds	-	26,100,000	-	26,100,000	-
Lease agreement with Bank of America Public Capital payable in monthly installments of $103,637, including interest at 1.42% through July 2017. The lease is collateralized by equipment and any unspent lease proceeds.	-	6,000,000	1,068,485	4,931,515	1,181,523
Lease agreement with US Bank payable in monthly installments of $4,809, including interest at 4.62% through July 2014. The lease is collateralized by equipment.	110,047	-	53,756	56,291	56,291
Lease agreement with Bank of America payable in monthly installments of $38,350, including interest at 4.06% through May 2014. The lease is collateralized by equipment.	847,228	-	433,817	413,411	413,411
Lease agreement with US Bank payable in monthly installments of $773, including interest at 6.71% through June 2014. The lease is collateralized by equipment.	17,316	-	8,368	8,948	8,948
Lease agreement with Great America Leasing payable in monthly installments of $473, including interest at 2.60% through June 2014. The lease is collateralized by equipment.	10,991	-	5,410	5,581	5,581
Lease agreement with Graphic Savings Group payable in monthly installments of $1,631, including interest at 0.04% through June 2014. The lease is collateralized by equipment.	39,130	-	19,561	19,569	19,569
Lease agreement with Great America Leasing payable in monthly installments of $934, including interest at 0.01% through August 2014. The lease is collateralized by equipment.	21,895	-	9,557	12,338	10,491
Total Long-Term Debt and Capital Lease Obligations	$ 109,231,607	$ 32,100,000	$ 2,553,954	$ 138,777,653	$ 2,690,814

Scheduled principal and interest repayments on long-term debt and payments on capital lease obligations are as follows:

	Long-Term Debt		Capital Lease Obligations	
	Principal Amount	**Interest Amount**	**Principal Amount**	**Interest Amount**
2015	$ 1,095,000	$ 6,187,683	$ 1,200,193	$ 45,324
2016	1,410,000	6,140,461	1,215,411	29,238
2017	1,575,000	6,080,046	1,232,718	10,932
2018	1,895,000	6,012,270	103,516	122
2019	2,130,000	5,929,281	-	-
2020-2024	14,740,000	27,956,435	-	-
2025-2029	23,300,000	23,684,310	-	-
2030-2034	31,695,000	17,413,599	-	-
2035-2039	38,100,000	9,268,375	-	-
2040-2043	16,395,000	1,488,550	-	-
Total	$ 132,335,000	$ 110,161,010	$ 3,751,838	$ 85,616

Following is a summary of equipment under capital leases:

June 30	2014	2013
Cost of equipment	$ 3,709,721	$ 10,469,247
Less: Accumulated depreciation	974,183	7,616,761
Capital Lease Equipment - Net	$ 2,735,538	$ 2,852,486

Following is a summary of bonded debt:

	Maturity	Annual Interest Rate	Amount Issued
REVENUE BONDS			
Series 2002 Variable Rate Demand Revenue Bonds	July 2033	3.54%	$ 12,000,000
Series 2006 Revenue Bonds - Serial Bonds	July 2007 to 2021	3.70% to 4.75%	10,335,000
Series 2006 Revenue Bonds - Term Bonds	July 2026 to 2036	5.00%	17,050,000
Total Revenue Bonds			39,385,000
GENERAL OBLIGATION BONDS			
Series A (2008) General Obligation Bonds - Serial Bonds	August 2013 to 2038	4.00% to 5.50%	27,140,000
Series A (2008) General Obligation Bonds - Term Bonds	August 2025	5.125%	2,260,000
Series B (2010) General Obligation Bonds - Serial Bonds	August 2015 to 2027	4.00% to 5.50%	9,290,000
Series B (2010) General Obligation Bonds - Term Bonds	August 2030 to 2040	4.75% to 5.50%	33,710,000
Series C (2012) General Obligation Bonds - Serial Bonds	August 2017 to 2035	3.00% to 5.50%	9,925,000
Series C (2012) General Obligation Bonds - Term Bonds	August 2034 to 2042	4.00%	16,175,000
Total General Obligation Bonds			98,500,000
Total			$ 137,885,000

Accrued interest is paid on January 1 and July 1 each year for the 2002 Variable Rate Demand Revenue Bonds (the Series 2002 Bonds) and the 2006 Revenue Bonds (the Series 2006 Bonds), and on February 1 and August 1 for the General Obligation Bonds (the G.O. Bonds).

Principal payments on the bonds are as follows:

	Annual Installments
REVENUE BONDS	
Series 2002 Variable Rate Demand Revenue Bonds	July 1 ranging from $200,000 to $805,000
Series 2006 Revenue Bonds	July 1 ranging from $135,000 to $2,780,000
GENERAL OBLIGATION BONDS	
Series A (2008) General Obligation Bonds	August 1 ranging from $5,000 to $3,060,000
Series B (2010) General Obligation Bonds	August 1 ranging from $215,000 to $3,965,000
Series C (2012) General Obligation Bonds	August 1 ranging from $135,000 to $2,440,000

Mandatory sinking fund deposits for each of the bonds are as follows:

		Due Annually	
	Required Deposits	**Commencing**	**Ending**
2002 Variable Rate Demand Revenue Bonds	$275,000 to $805,000	July 2006	July 2033
2006 Revenue Bonds - Term Bonds	$690,000 to $2,780,000	July 2022	July 2035
Series A (2008) General Obligation Bonds - Term Bonds	$655,000 to $750,000	August 2023	August 2024
Series B (2010) General Obligation Bonds - Term Bonds	$1,485,000 to $3,685,000	August 2028	August 2039
Series C (2012) General Obligation Bonds - Term Bonds	$1,175,000 to $2,265,000	August 2033	August 2041

The District issued the Series 2002 Bonds to finance the costs of constructing and equipping new health care facilities and remodeling certain existing facilities. The Series 2002 Bonds are secured by a pledge of gross revenues and by a direct-pay letter of credit issued by U.S. Bank National Association.

The District issued the Series 2006 Bonds to construct and equip the western addition expansion project, to renovate and equip portions of the existing facility, and to advance refund $11,790,000 of 1999 Series A Bonds outstanding. The Series 2006 Bonds are secured by a pledge of gross revenues.

In connection with the Series 2006 bond agreement, the District is required to make monthly deposits to the trustee for the term bond sinking fund payments, serial bond principal payments, insurance premiums becoming due and payable within the next 12 months, and for interest payments becoming due and payable within the next six months. The aggregate future monthly deposit required is $156,521 at June 30, 2014.

The G.O. Bonds were issued for the purpose of financing the expansion, improvement, acquisition, construction, equipping and renovation of health facilities of the District, refinancing $3,500,000 in outstanding debt, and to pay costs incident thereto.

All of the G.O. Bonds represent the general obligations of the District. The District has the power and is obligated to cause to be levied and collected by both Nevada and Placer Counties annual ad valorem taxes on all property within the District’s boundaries subject to taxation by the District for payment when due of the principal and interest on the bonds. However, the District is legally required to repay the G.O. Bonds if ad valorem taxes are insufficient.

The District is required to maintain a debt service coverage ratio of at least 1.75 to 1.00 and at least 60 days’ cash on hand. The District is also limited in the incurrence of future indebtedness and encumbrances.

9. INTEREST RATE SWAP AGREEMENT

Objective of the Interest Rate Swap 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%.

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

Fair Value Because interest rates have declined since execution of the swap, the swap had negative fair values of $1,710,011 and $1,710,354 as of June 30, 2014 and 2013, 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. These 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 $1,710,011 and $1,710,354 at June 30, 2014 and 2013, respectively, and a corresponding accumulated decrease in fair value of hedging derivative (deferred outflow of resources).

Credit Risk As of June 30, 2014, 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 A2/A/A as of June 30, 2014. 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 quality 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.

10. BENEFIT PROGRAMS

The District contributes to the Tahoe Forest Hospital District Employee Money Purchase Pension Plan, a defined contribution pension plan administered by the District. The money purchase pension plan covers employees who complete 1,000 hours of service in a calendar year. The District is required to make annual contributions to the money purchase pension 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 provides a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The deferred compensation plan allows employees to defer a portion of their current compensation until future years. The District matches participant 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 this deferred compensation plan are deposited into employee accounts in the money purchase pension plan.

Total employer contributions under the above benefit programs were $2,175,058 and $2,723,868 in 2014 and 2013, respectively.

11. RISK MANAGEMENT

Joint Powers Agreement

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 $890,902 and $887,362 at June 30, 2014 and 2013, respectively.

Employee Health Insurance

The District is self-insured to provide group medical, dental, and vision coverage. A third party administers these coverages for the District. The District funds its losses based on actual claims. A stop-loss insurance contract executed with an insurance carrier provides a specific stop-loss deductible per claim of $175,000 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, 2014 and 2013, has been included in the accompanying balance sheets under estimated claims incurred but not reported. Changes in the claims liability are as follows:

	2014	2013
Estimated claims incurred but not reported - beginning of year	$ 860,027	$ 1,030,171
Incurred claims and claims adjustment expense	7,611,788	6,225,754
Claim payments	(7,474,180)	(6,395,898)
Estimated Claims Incurred But Not Reported - End of Year	$ 997,635	$ 860,027

Workers' Compensation Insurance

The District is self-insured for workers' compensation losses. A third party administers this coverage for the District. The District funds its losses based on future claims projections developed by the third-party administrator. 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.

The liability for unpaid claims is estimated using development factors, including actual claims paid industry standards and actuarial factors. The estimated liability for claims pending and incurred but not reported at June 30, 2014 and 2013, has been included in the accompanying balance sheets under estimated claims incurred but not reported. Changes in the claims liability are as follows:

	2014	2013
Estimated claims incurred but not reported - beginning of year	$ 1,392,606	$ 1,438,552
Incurred claims and claims adjustment expense	237,675	561,814
Claim payments	(623,806)	(607,760)
Estimated Claims Incurred But Not Reported - End of Year	$ 1,006,475	$ 1,392,606

12. COMMITMENTS AND CONTINGENCIES

Construction Project Commitments

Construction project commitments as of June 30, 2014, were as follows:

Construction Project		**Remaining Construction Commitments**
Emergency Department/Sterile Processing Department	$	20,443
Interim Birthing at WA		89,042
Total	$	109,485

Operating Leases

The District leases certain facilities and equipment under non-cancelable operating leases. Total lease expense was $1,994,493 and $2,180,897 for 2014 and 2013, respectively. Future minimum payments under these non-cancelable operating lease agreements at June 30, 2014, are as follows:

Years Ending June 30		
2015	$	477,445
2016		131,429
2017		63,529
2018		16,077
2019		16,399
2020-2021		18,135
Total Minimum Payments	$	723,014

The District entered into a cancelable sublease agreement to sublease a specific facility during 2014. Under the terms of the agreement, the subtenant shall pay the District fixed monthly rent in the amount of $2,917 for the duration of the agreement. Sublease revenue realized by the District during 2014 was approximately $7,500 and was included in net rental income on the statement of revenues, expenses, and changes in net position.

Litigation

The District is involved in claims and other litigation arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the District's future financial position or results from operations.

Seismic Compliance

California Senate Bill 1953 (SB 1953) required hospital acute care buildings to meet more stringent seismic guidelines by 2008. In fiscal 2013, the District received approval of a time extension from the Office of Statewide Health Planning and Development for compliance with SB 1953 until January 1, 2015. The Board of Directors has approved a $98.5 million expansion plan, which includes expanding and enhancing the emergency room to ensure access to lifesaving care; maintaining critical medical services including pediatrics, maternity, long-term care for seniors and cancer care; and upgrading facilities that are outdated or do not meet state-mandated earthquake safety standards. This plan will enable the District to comply with SB 1953 seismic guidelines. The financing for this expansion plan has multiple parts, including $98.5 million of general obligation bonds to be repaid through ad valorem property taxes of the residents of the District (see note 8).

13. FOUNDATIONS

Tahoe Forest Health System Foundation

The Tahoe Forest Health System Foundation (TFHSF) is a legally separate nonprofit organization, exempt from federal tax, formed to assist in developing and increasing the facilities of the District. TFHSF's activities are governed by a separate board of directors. TFHSF's financial activity is not included in the District's financial statements. During the years ended June 30, 2014 and 2013, TFHSF distributed approximately $618,000 and $517,000, respectively, to the District. TFHSF has issued separate financial statements for the year ended June 30, 2014. A copy of TFHSF's financial statements can be obtained through the District.

A summary of TFHSF's financial information is as follows:

	2014	2013
Total assets	$ 1,934,025	$ 1,707,755
Total liabilities	241,192	135,584
Net Assets	$ 1,692,833	$ 1,572,171
Total Revenues	$ 1,648,746	$ 1,561,077
Total Expenses	$ 1,528,085	$ 1,188,646

Incline Village Community Hospital Foundation

The Incline Village Community Hospital Foundation (IVCHF) is a legally separate nonprofit organization, exempt from federal tax, formed to assist in developing and increasing the facilities of the District. IVCHF's activities are governed by a separate board of directors. IVCHF's financial activity is not included in the District's financial statements. During the years ended June 30, 2014 and 2013, IVCHF distributed approximately $691,000 and $428,000, respectively, to the District. IVCHF has issued separate financial statements for the year ended June 30, 2014. A copy of IVCHF's financial statements can be obtained through the District.

A summary of IVCHF's financial information is as follows:

	2014	2013
Total assets	$ 478,633	$ 709,201
Total liabilities	301,055	-
Net Assets	$ 177,578	$ 709,201
Total Revenues	$ 270,227	$ 486,322
Total Expenses	$ 801,850	$ 613,498

14. INVESTMENT IN JOINT VENTURE

The District owns 51% of Truckee Surgery Center, LLC (the Center). Summarized financial information for the Center as of June 30 was as follows:

	2014	2013
Total assets	$ 4,674,238	$ 4,818,428
Total liabilities	102,143	128,348
Total Equity	$ 4,572,095	$ 4,690,080
EQUITY POSITIONS		
Tahoe Forest Hospital District	$ 4,092,095	$ 4,324,049
Truckee Surgery Center, Inc.	480,000	366,031
Total	$ 4,572,095	$ 4,690,080
Net Loss	$ (126,605)	$ (59,837)

Reconciliation of the District's equity position according to the Center's records of the District's investment in joint venture as of June 30 was as follows:

	2014	2013
Tahoe Forest Hospital District equity position	$ 4,092,095	$ 4,324,049
Impairment reserve (see note 15)	(3,595,700)	(3,595,700)
Investment in Joint Venture	$ 496,395	$ 728,349

15. IMPAIRMENT LOSSES

During 2013, the District determined that assets with a carrying value of $6,617,336 were either partially or fully impaired; and, accordingly, an impairment loss was recognized. Impairment losses as of June 30, 2013, were comprised of the following:

Description	Carrying Value Prior to Write Off	Carrying Value June 30, 2013	Impairment Loss
Investment in gastroenterology practice	$ 970,380	$ -	$ 970,380
Investment in Truckee Surgery Center, LLC	4,324,049	728,349	3,595,700
Investment in orthopedic practice	134,958	-	134,958
Capitalized software and hardware	1,187,949	209,909	978,040
Total Impairment Losses	$ 6,617,336	$ 938,258	$ 5,679,078

The District had investments in gastroenterology and orthopedic practices. Operations of both practices were integrated into the Hospital, and no separate investment value remained. Therefore, an impairment loss for the full amount of the investment has been recognized.

The District has an investment in Truckee Surgery Center, LLC (see note 14). Due to current and projected income from operations, the District determined that the goodwill recognized on the purchase of the Center should be written off, and only the District's portion of the basis in the underlying assets of the investment should remain.

The District made investments in software and related hardware in prior years and determined in the current year that the software would not be used and should be written off. Hardware previously purchased that could be used was transferred out of construction in progress and placed into service.

The District recognized no impairment losses during the year ended June 30, 2014.