

Tahoe Forest Hospital District

Truckee, California

COMBINED FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

June 30, 2016 and 2015



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Tahoe Forest Hospital District

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying combined financial statements of Tahoe Forest Hospital District, a California political subdivision (the District), which comprise the combined statements of net position as of June 30, 2016 and 2015; 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

The District's 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.

Auditors' 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 *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 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 auditors' 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 District'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 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 combined financial statements.

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

INDEPENDENT AUDITORS' REPORT

(Continued)

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial statements of the District as of June 30, 2016 and 2015, and the results in 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 Matter

Required Supplementary Information Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14 be presented to supplement the basic combined 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 combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combined financial statements, and other knowledge we obtained during our audit of the combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KCae Team, LLP

October 26, 2016
Chico, California

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary information)

Tahoe Forest Hospital District

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis is organized to present only the Tahoe Forest Hospital District (the District) as a financial whole, and does not include either Tahoe Forest Health System Foundation (TFHSF) or Incline Village Community Hospital Foundation (IVCHF). The combined financial statements then proceed to provide an increasingly detailed look at specific financial activities of all entities, inclusive of TFHSF and IVCHF. Readers should also review the accompanying notes to the combined financial statements to enhance their understanding of the District's financial performance as a whole.

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 (TFHD ONLY)

- Total assets increased \$13.6 million in 2016. Total cash and cash equivalents increased \$1.2 million in 2016. Net patient accounts receivable decreased \$1.6 million. Days net patient service revenue in net patient accounts receivable decreased to 45.6 days at June 30, 2016. Capital assets increased \$7.1 million. Assets Limited as to Use – Net increased by \$4.7 million.
- Deferred Outflow of Resources increased \$5.0 million.
- Total liabilities increased \$6.5 million, current liabilities increased \$4.5 million, and noncurrent liabilities increased \$2.0 million.
- The increase in net position for 2016 was \$12.1 million.

Tahoe Forest Hospital District
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (Continued)

FINANCIAL ANALYSIS OF THE DISTRICT

The District's net position increased \$2.1 million from a year ago to \$111.5 million. Table 1 provides a summary of the District's net position for 2016 and 2015.

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

June 30	2016	2015
Assets		
Current assets	\$ 41,906	\$ 39,532
Assets limited as to use - net	62,516	57,840
Capital assets - net	158,612	151,485
Other assets	294	842
Total Assets	263,328	249,699
Total Deferred Outflows of Resources	9,243	4,231
Liabilities		
Current liabilities	25,415	20,964
Noncurrent liabilities	135,631	133,571
Total Liabilities	161,046	154,535
Net Position		
Unrestricted	78,098	62,255
Net investment in capital assets	32,287	36,059
Restricted by donor for specific uses	1,140	1,081
Total Net Position	\$ 111,525	\$ 99,395

In 2016, the District's cash and investments position increased \$5.9 million.

Tahoe Forest Hospital District
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (Continued)

Table 2
SUMMARY OF CASH AND INVESTMENTS
 (In thousands)

June 30	2016	2015
Account		
Cash and cash equivalents and short-term investments	\$ 12,744	\$ 11,497
Board designated fund	55,889	40,731
Specific purpose fund	2,122	3,382
Workers' compensation fund	16	13
Unexpended capital bond fund	6,144	15,432
Total Available Cash and Investments	\$ 76,915	\$ 71,055

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 \$16.4 million. An increase in our cash position was primarily due to an increase in our net position, as well as a decrease in our patient accounts receivable. The unexpended capital bond fund shows a decrease of \$9.3 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 \$7.1 million to \$158.6 million at June 30, 2016. This increase resulted from \$21.2 million in capital additions offset by \$10.4 million in depreciation, and \$3.7 million of asset transfers from construction in progress. The capital additions include \$6.6 million in equipment, building and land improvements (of which \$3.7 million were transfers from construction in progress), and \$14.6 million in construction in progress. Major capital additions during the year included equipment for imaging and respiratory therapy, an upgrade to our lab system, a new human resources/payroll system, investment in our computer information systems network, software upgrades, construction for projects related to Measure C on the Tahoe Forest Hospital campus, a new chiller for our Incline Village facility, and construction projects related to our Incline Village facility.

Tahoe Forest Hospital District
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

DEBT ADMINISTRATION

The District has debt obligations as follows:

June 30	2016	2015
General Obligation Bond Series C (2012)	\$ 26,100,000	\$ 26,100,000
General Obligation Bond Series B (2010)	-	43,000,000
General Obligation Bond Series 2016	45,110,000	-
General Obligation Bond Premium	2,513,663	-
General Obligation Bond Series 2015	30,645,000	30,810,000
General Obligation Bond Premium	695,054	728,152
Revenue Bonds Series 2015	20,979,000	20,979,000
Variable Rate Demand Revenue Bonds Series 2002	9,230,000	9,555,000
Bank equipment leases	37,277	32,677
Municipal Lease	1,336,234	2,551,645
Totals	\$ 136,646,228	\$ 133,756,474

The District saw a increase in its debt obligations by \$2.9 million due to an advance refunding of the General Obligation Bonds Series B (2010) with the General Obligation Bonds Series 2016.

Tahoe Forest Hospital District
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

REVENUES, EXPENSES, AND NET POSITION

Table 3 shows the revenues, expenses, and net position for 2016 and 2015.

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

June 30	2016	2015
Operating Revenues		
Net patient services revenue	\$ 130,395	\$ 118,955
Other	8,026	6,984
Total Operating Revenues	138,421	125,939
Operating Expenses		
Salaries and wages	44,146	41,305
Employee benefits	24,632	22,499
Professional fees	19,352	20,649
Supplies	17,848	17,158
Purchased services	11,031	10,951
Depreciation	10,280	9,613
Insurance	566	598
Cost of bond issuance	228	400
Other operating expenses	5,789	6,744
Total Operating Expenses	133,872	129,917
Operating Income (Loss)	4,549	(3,978)
Nonoperating Revenues (Expenses)		
District tax revenue	5,462	5,481
District tax revenue - general obligation bonds	4,715	4,829
Loss recognized on joint venture	(281)	(136)
Interest income	399	317
Rental income - net	252	231
Donations	533	648
Gain (Loss) on sale of assets	10	-
Interest expense	(4,061)	(5,259)
Total Nonoperating Revenues (Expenses)	7,029	6,111
Income Before Other Revenues, Expenses, Gains and Losses	11,578	2,133
Capital contributions	551	-
Increase in Net Position	12,129	2,133
Net Position - Beginning of Year	99,396	97,263
Net Position - End of Year	\$ 111,525	\$ 99,396

Tahoe Forest Hospital District
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

NET PATIENT SERVICE REVENUE

For the year ended June 30, 2016, net patient service revenues increased by \$11.4 million or 9.6%. 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 \$13.5 million or 6.5%, which was comprised of a decrease in inpatient gross revenue by \$5.4 million and an increase in outpatient gross revenue of \$18.9 million. Inpatient gross revenues decreased primarily due to less inpatient days. Outpatient gross revenues increased due to increased volumes in our outpatient areas when compared to our previous year. Significant volume percentage increases were as follows: emergency department visits 6.9%, gastrointestinal procedures 9.0%, radiology exams 11.7%, CT/PET exams 10.4%, MRI exams 5.2%, oncology procedures 25.0%, radiation oncology procedures 26.3%, and physical therapy procedures 12.0%.

Contractual allowances as a percent of gross patient service revenues was 40.3%, compared to last year's 38.4%, reflecting a 1.9% increase from prior year. We anticipated an increase in the contractual allowance percentage based upon the payor mix, specifically an increase in gross revenues derived from Medi-Cal. (See DEDUCTIONS FROM REVENUE below).

Charity care increased when compared to prior year. Fiscal year 2016 was approximately 3.4% of gross patient service revenues, and fiscal year 2015 was approximately 3.1%. (See CHARITY CARE AND COMMUNITY BENEFIT below). In addition, provision for bad debts as a percent of gross patient service revenues showed a decrease of 1.6% compared to previous year. We attribute the decrease in our percentage of bad debt to more of our patient population obtaining some form of coverage either through commercial insurance exchange products, or through the expansion of Medi-Cal.

Tahoe Forest Hospital District
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

INPATIENT BUSINESS ACTIVITY

Total admissions decreased by 112 and total patient days decreased by 226 reflecting an increase in our average length of stay of .05 days. TFH became a critical access hospital effective July 1, 2007, reducing its acute care beds to 25, down from 35. IVCH is also a critical access hospital and has 4 acute care beds. Table 4 presents a summary of inpatient business activity.

Table 4
INPATIENT BUSINESS ACTIVITY

June 30	2016	2015
Acute		
Admissions	1,575	1,687
Length of stay	2.73	2.68
Average daily census	11.8	12.4
Occupancy percentage	40.60%	42.70%
Patient days	4,295	4,521
Total ICU days	608	556
Total medical/surgical days	2,849	3,025
Total obstetrics days	838	940
Total swing days	437	231
Nursery days	768	883
Deliveries	336	383
Skilled Nursing Units		
Patient days	11,650	12,086
Average daily census	32	33
Occupancy percentage	86.30%	89.50%

Tahoe Forest Hospital District
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

OUTPATIENT BUSINESS ACTIVITY

The District's outpatient revenue was 13.7% higher than the prior year. The increase is attributable to an increase in volumes related to emergency department visits, gastrointestinal procedures, radiology exams, CT and PET CT exams, MRI exams, oncology and radiation oncology procedures, and physical therapy procedures.

Table 5
OUTPATIENT BUSINESS ACTIVITY

June 30	2016	2015
Emergency department visits	17,481	16,351
Laboratory test	164,503	166,489
Home health visits	3,555	3,575
Radiology exams	12,428	11,124
Ultrasound exams	4,120	4,253
Cat scan exams (including PET CT)	4,528	4,100
MRI scan exams	1,934	1,838
Radiation oncology procedures	4,282	3,390
Surgery cases	1,050	1,058
Surgery minutes	96,572	92,514

DEDUCTIONS FROM REVENUE

Contractual allowance adjustments (expressed as a percentage of gross revenues) were 40.3% for fiscal year 2016 and 38.4% for fiscal year 2015. The District's payor mix for fiscal year 2016 was 34.5% Medicare, 18.1% Medi-Cal, 0.0% County, 3.4% Other, and 44.0% Insurance compared to fiscal year 2015 mix of 35.7% Medicare, 17.9% Medi-Cal, 0.1% County, 3.8% Other, and 42.5% 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.

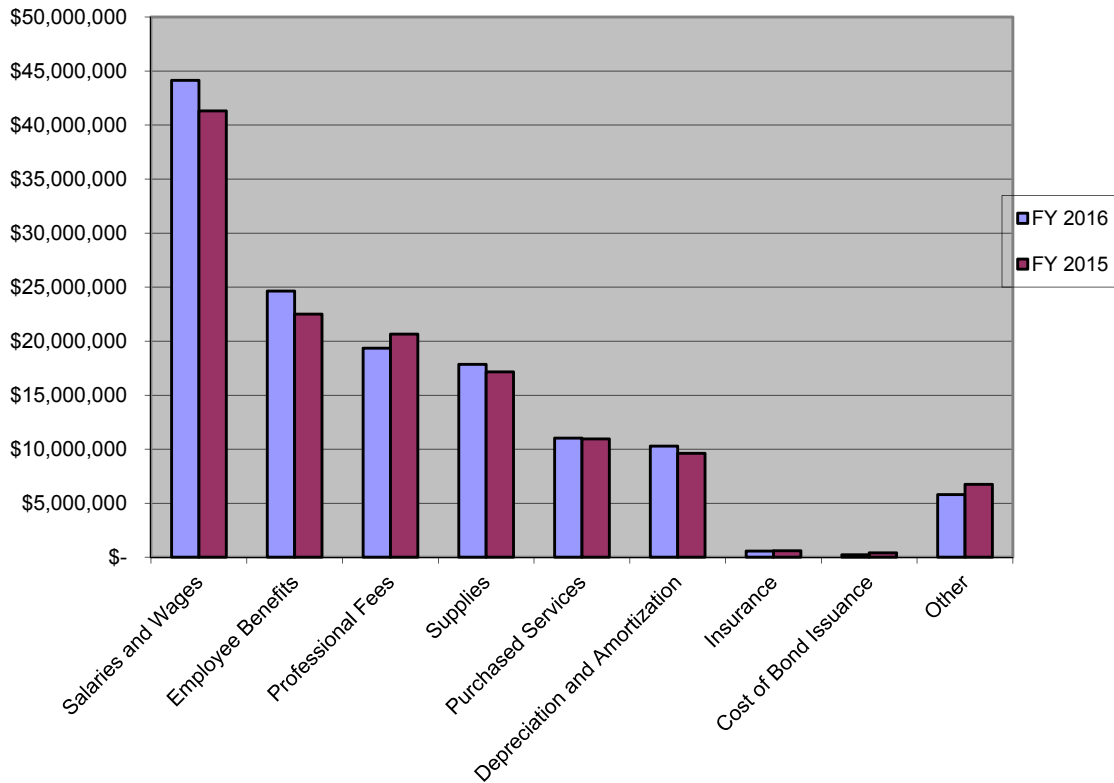
CHARITY CARE AND COMMUNITY BENEFIT

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 \$7.5 million in charity care for patient services during fiscal year 2016 and \$6.4 million for fiscal year 2015.

Tahoe Forest Hospital District
MANAGEMENT'S DISCUSSION AND ANALYSIS
 (Continued)

OPERATING EXPENSES

Total operating expenses were \$133.9 million for the year ended June 30, 2016, and \$129.9 million for the year ended June 30, 2015, as summarized in the graph. Total operating expenses increased \$4.0 million, or 3.1% from the prior year.



The District experienced an increase in the area of salaries and wages and employee benefits, for a combined increase of \$5.0 million, due to the result of wage increases as outlined in the employee bargaining unit agreements, which took effect July 1, 2013, and have a 3 year term. Wage increases varied by position but overall for FY 2016 the increase was approximately 5.8%. In addition, we experienced an 11 full-time equivalent (FTE) increase which was primarily in the areas of respiratory therapy services and environmental services. We previously outsourced our respiratory therapy services (a professional fee) but brought it in house effective July 1, 2015. We also added environmental services staff to accommodate the additional square footage that was created by the Measure C construction projects. The increases in wages and FTEs caused an increase to our retirement benefits as well. Professional fees decreased \$1.3 million primarily due to bringing our respiratory therapy services in house, therefore eliminating the therapy professional fees. Supplies saw an increase of \$0.7 million due to increased volume in our oncology program requiring more oncology pharmaceuticals. Purchased services had a minimal increase of \$0.08 million due to normal increases to our many maintenance and service agreements. Depreciation and amortization increased \$0.7 million due to depreciation on the general obligation bond (Measure C) capital projects. We also had depreciation associated with the continued investment in our information technology systems, and other large capital purchases in imaging and respiratory therapy. Other decreased \$1.0 million due to a decrease in equipment rent, utilities expense including phone, diesel, and electricity, and travel cost.

Tahoe Forest Hospital District

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

ECONOMIC FACTORS AFFECTING NEXT YEAR

FY 2015-16 was a year of change for Tahoe Forest Hospital District (TFHD) as a new Chief Executive Officer (CEO) joined the organization in December 2015. With a new CEO at the lead, 6 critical strategies were developed: 1) Complete makeover, and focus, on our physician services for better integration with our health system and community needs 2) Define and select the next electronic medical record system and the related business software that spans all services 3) Create the next phase campus/facility master plan that incorporates physician services, clinical services, overhead services and parking needs 4) Develop a comprehensive care coordination and patient navigation program for all in- and outpatients 5) Improve quality, patient satisfaction, finance and compliance 6) Develop and sustain strong community relations in the communities we serve. A balanced financial approach is considered key in the ability to accomplish all 6 critical strategies. With that said, the organization has approached its financial focus with a refreshed view. Our Board of Directors has adopted a new finance policy beginning in FY 2016-17 that reflects a commitment towards an "improved" level of financial performance. The organization is focused on trying to achieve in every possible fiscal year ratios that would demonstrate at least an A- level of performance or better as reviewed by an investment rating agency. We are dedicated to creating this financial stability for our organization in order to carry out our mission and vision, as well as our 6 critical strategies.

During FY 2016-17, our financial focus will be in two key areas: Revenue cycle improvement and expense reduction. Significant pressure on improving the revenue cycle has been caused by the implementation of the Affordable Care Act with the continuation of both the California and Nevada Insurance Exchanges, as well as the expansion of the California Medi-Cal program, and its transition to Medi-Cal managed care. TFHD continues to see a shift in its revenue sources, with more derived from patients having coverage through Medi-Cal or Medi-Cal managed care. These plans do not reimburse 100% of the cost of providing care to patients. It will be key for TFHD to strategize and balance our charges and reimbursement in order to continue to provide the spectrum of services our community has and deserves. We will continue to feel pressure from various insurance companies to renegotiate our payor contracts attempting to drive down our levels of reimbursement. Management will continue to push back to try to maintain successfully negotiated contracts with maximum reimbursement levels. It will be critical to help accomplish an improved level of financial performance.

Management will also continue to focus on expense reduction during FY 2016-17. We have engaged in a benchmarking project utilizing Office of Statewide Health Planning and Development (OSHPD) data, as well as other sources, to identify areas that are ripe for process redesign/improvement to create efficiencies and reduce costs.

The 2016-17 fiscal year is an aggressive year. Management is projecting net income of approximately \$4 million, and income from operations (EBITDA – excluding property tax revenues) of around \$8 million. We are anticipating a drop in cash reserves of approximately \$8 million with the day's cash on hand target at 171 days. The reduction in cash reserves is due to anticipated capital asset investments and capital projects in the amount of \$18.5 million. The scope of investments and projects include the continuation of information system transitions, funding for Measure C project completion, replacement of the nurse call system, property acquisitions, and significant projects for Incline Village Community Hospital. The IVCH projects include the replacement of the siding, enhancements to the HVAC system for the isolation room, second floor upgrades that will be funded by donor support, and replacing a portion of the roof.

Tahoe Forest Hospital District

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Management will continue to take an aggressive and proactive position to assure that we are able to balance our budget and progress towards an improved level of financial performance in what continues to be the era of health reform. As been said in the past, balance sheet management and organization redesign will continue to be dominant themes as we lead our health system through these challenging times.

FINANCIAL SECTION

Tahoe Forest Hospital District
COMBINED STATEMENTS OF NET POSITION

June 30	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 14,265,936	\$ 12,697,818
Patient accounts receivable - net of allowance for uncollectible accounts of \$15,768,022 in 2016 and \$16,903,061 in 2015	16,298,707	17,870,107
Advances to related party	2,825,594	2,112,114
Other receivables	2,569,281	1,793,346
Assets limited as to use	1,645,169	1,717,337
Inventories	2,671,610	2,317,563
Prepaid expenses and deposits	1,334,694	1,454,114
Unconditional promises to give - net	16,622	30,536
Beneficial interest in Community for Cancer Care Endowment	1,356,049	1,274,996
Estimated third-party payor settlements	1,213,619	1,024,506
Total Current Assets	44,197,281	42,292,437
Assets Limited as to Use		
Assets limited as to use	64,161,061	59,557,519
Less: Amount required to meet current obligations	(1,645,169)	(1,717,337)
Assets Limited as to Use - Net	62,515,892	57,840,182
Noncurrent Assets and Investments		
Investment in joint venture	43,372	324,395
Other receivables	250,488	265,956
Capital assets - net	158,612,541	151,485,005
Total Noncurrent Assets and Investments	158,906,401	152,075,356
Total Assets	265,619,574	252,207,975
Deferred Outflow of Resources		
Deferred loss on defeasance - net	6,961,589	2,456,847
Accumulated decrease in fair value of hedging derivative	2,281,527	1,774,439
Total Deferred Outflow of Resources	9,243,116	4,231,286
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 274,862,690	\$ 256,439,261

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

Tahoe Forest Hospital District
COMBINED STATEMENTS OF NET POSITION
(Continued)

June 30	2016	2015
LIABILITIES		
Current Liabilities		
Current maturities of long-term debt and capital lease obligations	\$ 3,296,637	\$ 1,960,073
Accounts payable	6,636,934	5,323,111
Patient balances payable	249,282	633,635
Accrued payroll and related expenses	10,051,224	8,167,980
Estimated claims incurred but not reported	3,180,009	2,536,741
Estimated third-party payor settlements	-	368,523
Other accrued expenses	458,570	533,448
Accrued interest	1,745,599	1,718,963
Total Current Liabilities	25,618,255	21,242,474
Noncurrent Liabilities		
Long-term debt and capital lease obligations - net of current maturities	133,349,591	131,796,401
Derivative instrument liability	2,281,527	1,774,439
Total Noncurrent Liabilities	135,631,118	133,570,840
TOTAL LIABILITIES	161,249,373	154,813,314
NET POSITION		
Net investment in capital assets	32,287,624	36,058,660
Temporarily restricted	2,906,839	3,179,415
Unrestricted	78,418,854	62,387,872
TOTAL NET POSITION	113,613,317	101,625,947
TOTAL LIABILITIES AND NET POSITION	\$ 274,862,690	\$ 256,439,261

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

Tahoe Forest Hospital District

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years Ended June 30	2016	2015
Operating Revenues		
Net patient service revenue - net of contractual allowances and provision for bad debts of \$89,971,946 in 2016 and \$87,883,743 in 2015	\$ 130,395,139	\$ 118,954,594
Other revenue	8,025,800	6,983,789
Total Operating Revenues	138,420,939	125,938,383
Operating Expenses		
Salaries and wages	44,145,552	41,305,001
Employee benefits	24,632,507	22,498,628
Professional fees	19,351,728	20,649,250
Supplies	17,847,824	17,158,123
Purchased services	11,031,203	10,950,904
Depreciation and amortization	10,280,138	9,612,792
Insurance	565,926	598,253
Other	6,779,726	7,417,269
Total Operating Expenses	134,634,604	130,190,220
Operating Income (Loss)	3,786,335	(4,251,837)
Nonoperating Revenues (Expenses)		
Property tax revenue	5,461,660	5,480,606
Property tax revenue - general obligation bonds	4,714,688	4,829,411
Loss recognized on joint venture	(280,874)	(136,300)
Contributions - net	383,751	760,529
Change in value of beneficial interest in Community for Cancer Care Endowment	70,106	3,688
Special event revenue	700,470	498,692
Interest income	399,205	317,042
Rental income - net	251,849	231,065
Gain on disposal of assets	10,000	-
Interest expense	(4,060,516)	(5,258,916)
Total Nonoperating Revenues (Expenses)	7,650,339	6,725,817
Income Before Other Revenues, Expenses, Gains and Losses	11,436,674	2,473,980
Capital contributions	550,696	-
Increase in Net Position	11,987,370	2,473,980
Net Position - Beginning of Year	101,625,947	99,151,967
Net Position - End of Year	\$ 113,613,317	\$ 101,625,947

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

Tahoe Forest Hospital District
COMBINED STATEMENTS OF CASH FLOWS

Years Ended June 30	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from, and on behalf of, patients	\$ 131,024,550	\$ 120,612,168
Payments to suppliers and contractors	(53,506,955)	(56,145,837)
Payments to, and on behalf of, employees	(66,251,547)	(64,531,716)
Other receipts and payments - net	5,821,915	6,938,830
NET CASH PROVIDED BY OPERATING ACTIVITIES	17,087,963	6,873,445
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property tax revenue received for operations	6,155,384	5,428,875
Contributions received	397,665	824,892
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	6,553,049	6,253,767
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	550,696	-
Acquisition of capital assets	(16,383,799)	(15,422,249)
Transfers to board-designated assets	(15,218,742)	(415,291)
Change in assets held by trustee	10,828,527	7,292,692
Proceeds from sale of assets	(10,000)	-
Property tax revenue received for general obligation bonds	5,178,978	5,178,785
Principal paid on general obligation bonds	(380,000)	(50,000)
Interest payments on general obligation bonds	(3,936,221)	(4,677,674)
Principal paid on long-term debt and capital leases	(1,547,880)	(2,251,756)
Interest paid on long-term debt and capital leases	(1,148,145)	(1,689,942)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(22,066,586)	(12,035,435)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	357,786	307,347
Net cash received for rental activities	349,237	317,802
Advances to related party	(713,480)	(402,188)
Cash received from joint venture	149	35,700
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(6,308)	258,661
Net Increase in Cash and Cash Equivalents	1,568,118	1,350,438
Cash and Cash Equivalents - Beginning of Year	12,697,818	11,347,380
Cash and Cash Equivalents - End of Year	\$ 14,265,936	\$ 12,697,818

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

Tahoe Forest Hospital District
COMBINED STATEMENTS OF CASH FLOWS
(Continued)

Years Ended June 30	2016	2015
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 3,786,335	\$ (4,251,837)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	10,318,926	9,651,580
Provision for bad debts	(515,632)	3,321,782
Changes in:		
Patient accounts receivable	2,087,032	(66,944)
Inventories	(354,047)	188,847
Prepaid expenses and deposits	119,420	114,209
Estimated third-party payor settlements	(557,636)	(948,569)
Accounts payable and accrued expenses	3,840,335	(669,808)
Patient balances payable	(384,353)	(648,695)
Other	(1,252,417)	182,880
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 17,087,963	\$ 6,873,445
NONCASH INVESTING AND FINANCING ACTIVITIES		
Refunding of General Obligation Bonds 2008, Series B		
Proceeds from:		
Issuance of 2016 GO bonds	\$ 45,110,000	\$ -
Original issue premium	2,729,740	-
Underwriter's discount	(216,078)	-
Deposits into escrow fund:		
2008 GO bonds outstanding	(42,785,000)	-
Additional funds to service bonds	(4,627,331)	-
Cost of issuance	(211,331)	-
Net Cash Outflow	\$ -	\$ -
Refunding of General Obligation Bonds 2008, Series A		
Proceeds from:		
Issuance of 2015 GO bonds	\$ -	\$ 30,810,000
Original issue premium	-	1,040,802
Underwriter's discount	-	(312,650)
Deposits into escrow fund:		
2008 GO bonds outstanding	-	(29,345,000)
Additional funds to service bonds	-	(2,016,320)
Cost of issuance	-	(176,832)
Net Cash Outflow	\$ -	\$ -

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

Tahoe Forest Hospital District
COMBINED STATEMENTS OF CASH FLOWS
(Continued)

Years Ended June 30	2016	2015
NONCASH INVESTING AND FINANCING ACTIVITIES (Cont.)		
Refunding of 2006 Revenue Bonds		
Proceeds from:		
Issuance of 2015 revenue bonds	\$ -	\$ 20,979,000
Assets held by trustee for 2006 revenue bonds	-	3,047,066
Reserve GIC break premium	-	270,000
Deposits into escrow fund:		
2006 revenue bonds outstanding	-	(23,240,000)
Accrued interest	-	(571,625)
Call premium	-	(224,700)
Cost of issuance	-	(259,741)
Net Cash Outflow	\$ -	\$ -

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

Tahoe Forest Hospital District

NOTES TO THE COMBINED 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 includes the following component units which are included as blended component units of the District's combined financial statements: Incline Village Community Hospital Foundation (IVCHF) and Tahoe Forest Health System Foundation (TFHSF) collectively, "the Foundations".

All significant inter-entity accounts and transactions have been eliminated in the combined financial statements.

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.

Use of Estimates The preparation of combined 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 combined financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tahoe Forest Hospital District

NOTES TO THE COMBINED FINANCIAL STATEMENTS

(Continued)

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

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, 2016, the LAIF pool includes structured notes and asset-backed securities which total 2.81% 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, 2016, the fair value of LAIF was 100.06% 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, 2016. 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.

The Foundations maintain their cash at financial institutions. At times, the account balances at a financial institution may exceed the Federal Deposit Insurance Corporation (FDIC) insurance coverage limit; and, as a result, there is a concentration of credit risk related to amounts in excess of FDIC insurance coverage.

Contributions and Promises to Give Gifts of cash and other assets are reported at the time the gift is made. Unconditional promises to give are recognized as revenue or gains in the period the promise is made. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Unconditional promises to give that are expected to be collected beyond 12 months from the pledge date are recorded at their net present values. The amortization of the imputed discount is reported as contribution income.

Management provides for probable uncollectible amounts through a provision for uncollectible promises to give and an adjustment to a valuation allowance based on its assessment of the current status of individual promises. Promises that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance. As of June 30, 2016 and 2015, the valuation allowance was \$1,847 and \$3,392, respectively. Contribution income is presented net of the provision for uncollectible promises to give.

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.

Tahoe Forest Hospital District

NOTES TO THE COMBINED FINANCIAL STATEMENTS

(Continued)

Endowment and Improvement Funds IVCHF entered into agreements with The Parasol Tahoe Community Foundation (Parasol) to establish endowment and improvement funds with Parasol. These funds provide the opportunity for supporters of IVCHF to contribute directly to Parasol. While the agreements with Parasol state that the purpose of the funds is to support IVCHF and its mission, the agreements also grant to Parasol a variance power over the funds. In accordance with generally accepted accounting principles, IVCHF is precluded from recognizing the contributions to these funds, or its potential rights to the assets held by Parasol in these funds, in the combined financial statements. As Parasol makes payments to IVCHF from these funds, IVCHF recognizes such payments as contribution revenue. The Parasol endowment and investment funds totaled \$29,209 and \$26,728 at June 30, 2016 and 2015, respectively.

Beneficial Interest in Community for Cancer Care Endowment TFHSF is the named beneficiary under the terms of the Community for Cancer Care Endowment administered by the Tahoe Truckee Community Foundation. TFHSF's interest in the endowment assets are recorded in the combined statements of net position at fair value. The change in fair value attributable to the interests of TFHSF are recorded in the accompanying statements of revenues, expenses, and changes in net position. This net change in fair value may include community gifts to the fund, investment results, and distributions from the fund; but, it excludes direct transfers from TFHSF to the fund.

Advances to Related Party The District has agreed to make advances to TIRHR, LLC (the Institute), a research organization, of up to \$2,506,000 on an as-needed basis. Outstanding advances accrue interest at a rate of 5.00%. Interest income of \$123,986 and \$92,855 was recorded by the District for the years ended June 30, 2016 and 2015, 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 combined statements of cash flows.

Tahoe Forest Hospital District
NOTES TO THE COMBINED FINANCIAL STATEMENTS
(Continued)

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 13.

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 combined financial statements. Useful lives are 2 to 40 years for land improvements, 5 to 40 years for buildings and improvements, and 3 to 20 years for equipment and software.

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 \$1,103,000 and \$838,000 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015, was \$226,265 and \$187,477, respectively. Amortization expense for each of the years ended June 30, 2016 and 2015, amounted to \$38,788, and is estimated to be \$38,788 for each of the next five years.

The deferred gain on defeasance of the Series 2006 Revenue Bonds is amortized using the straight-line method over the life of the bonds. The original amount of the deferred gain on defeasance is \$141,300. Accumulated amortization as of June 30, 2016 and 2015, amounted to \$7,850, and \$-0-, respectively. Amortization income for each of the years ended June 30, 2016 and 2015, was \$7,850 and \$-0-, respectively; 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 the deferred loss on defeasance is \$2,016,320. Accumulated amortization as of June 30, 2016 and 2015, was \$91,651 and \$-0-, respectively. Amortization expense for each of the years ended June 30, 2016 and 2015, was \$91,651 and \$-0-, respectively, and is estimated to be approximately \$92,000 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 the deferred loss on defeasance is \$4,627,331. As of June 30, 2016, the District had not recorded any related amortization. Amortization expense is estimated to be approximately \$193,000 for each of the next five years.

Tahoe Forest Hospital District

NOTES TO THE COMBINED FINANCIAL STATEMENTS

(Continued)

Deferred Outflows of Resources In addition to assets, the combined statement of net position includes 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 derivative 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.

Recognition of Donor Restrictions Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net position, depending on the nature of the restriction. When a temporary restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net position is reclassified to unrestricted net position. When restrictions on contributions are satisfied in the same period as the receipt of the contribution, the District reports both the contribution received and the related expense in unrestricted net position.

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.

Temporarily Restricted Net Position: Subject to donor-imposed stipulations that may or will be met, either when a stipulated time restriction ends or purpose restriction is accomplished. When a restriction expires, temporarily restricted net position is reclassified to unrestricted net position.

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

Operating Revenues and Expenses The combined 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, gifts, bequests, 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.

Tahoe Forest Hospital District
NOTES TO THE COMBINED FINANCIAL STATEMENTS
(Continued)

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 \$7,497,198 and \$6,372,980 for 2016 and 2015, respectively.

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 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 4% of its financial support from general property taxes in 2016 and 2015, exclusive of property taxes received to pay principal and interest payments of the general obligation bonds.

Donated Services Certain individuals and organizations have contributed significant amounts of time without compensation to the activities of the District and the Foundations. The combined financial statements do not reflect the value of all of these contributed services because no reliable basis exists for determining a comparable dollar amount.

Income Taxes The Foundations are exempt from income taxes under Section 501(c)(3) of the *Internal Revenue Code*. The Foundations are not private foundations under Section 509(a)(2). The Foundations have not entered into any activities that would jeopardize their tax-exempt status. Income from certain activities not directly related to the Foundations' tax-exempt purpose is subject to taxation as unrelated business income. However, there have been no unrelated business activities identified; accordingly, no provision for income taxes is required.

The Foundations file exempt organization returns in the U.S. federal and California (TFHSF only) jurisdictions. The federal and California returns remain subject to examination by the taxing authorities generally for three and four years, respectively, from their filing date.

Tahoe Forest Hospital District
NOTES TO THE COMBINED FINANCIAL STATEMENTS
(Continued)

The Foundations account for income taxes in accordance with FASB ASC 740, *Income Taxes*, which clarifies the accounting for uncertainty in income taxes and how an uncertain tax position is recognized in financial statements. The Foundations analyze tax positions taken in previously filed returns and tax positions expected to be taken in future returns. Based on this analysis, a liability is recorded if uncertain tax benefits have been received. The Foundations' practice is to recognize interest and penalties, if any, related to uncertain tax positions in the tax expense. There were no uncertain tax positions identified or related interest and penalties recorded as of June 30, 2016 and 2015, and the Foundations do not expect this to change significantly over the next 12 months.

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, 2014, 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, 2014, 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 reimbursements based on diagnosis related groups. Reimbursements are at tentative rates with final settlements 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, 2014, and final settlements have been paid through that date. Outpatient services related to Medi-Cal beneficiaries are paid at prospectively determined rates per procedure.

Tahoe Forest Hospital District

NOTES TO THE COMBINED FINANCIAL STATEMENTS

(Continued)

Revenue from the Medicare and Medi-Cal programs accounted for approximately 34% and 18% of gross patient service revenue in 2016 and approximately 36% and 18% of gross patient revenue in 2015, 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 \$2,626,000 in 2016 and approximately \$81,000 in 2015 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.

Tahoe Forest Hospital District
NOTES TO THE COMBINED FINANCIAL STATEMENTS
(Continued)

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	2016	Fair Value at 2015
Cash and Cash Equivalents			
Deposits (1)		\$ 14,848,771	\$ 13,222,739
LAIF (2)	5.5 months average	56,465,631	41,304,803
Subtotal		71,314,402	54,527,542
Assets Held by Trustees			
Cash		5,072,923	4,367,189
Money market funds		-	29,820
LAIF (2)	5.5 months average	2,039,672	13,330,786
Total Assets Held by Trustees		7,112,595	17,727,795
Total Cash, Deposits, and Investments		\$ 78,426,997	\$ 72,255,337

- (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 combined statements of net position under the following captions:

June 30	2016	2015
Cash and cash equivalents	\$ 14,265,936	\$ 12,697,818
Assets limited as to use	64,161,061	59,557,519
Total Cash, Deposits, and Investments	\$ 78,426,997	\$ 72,255,337

Tahoe Forest Hospital District
NOTES TO THE COMBINED FINANCIAL STATEMENTS
(Continued)

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 \$16,875,783 and \$12,197,422 at June 30, 2016 and 2015, 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.

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by general accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; and level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of June 30, 2016 and 2015:

- LAIF of \$58,505,303 and \$54,635,589, respectively, are valued using quoted prices for similar instruments in active market and quoted prices for identical or similar instruments in markets that are not active (level 2 inputs).

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, 2016.

Tahoe Forest Hospital District
NOTES TO THE COMBINED FINANCIAL STATEMENTS
(Continued)

4. ASSETS LIMITED AS TO USE

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

June 30	2016	2015
Board Designated Assets		
Cash	\$ 123,161	\$ 252,729
LAIF	56,925,305	41,576,995
Subtotal	57,048,466	41,829,724
Assets Held by Trustees		
Cash	5,072,923	4,367,189
Money market funds	-	29,820
LAIF	2,039,672	13,330,786
Subtotal	7,112,595	17,727,795
Total Assets Limited as to Use	\$ 64,161,061	\$ 59,557,519

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 was as follows:

June 30	2016	2015
Medicare	28%	27%
Medi-Cal	16%	17%
Patients	16%	18%
Commercial insurance and others	40%	38%
Totals	100%	100%

Tahoe Forest Hospital District

NOTES TO THE COMBINED FINANCIAL STATEMENTS

(Continued)

6. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

June 30, 2016	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Land and improvements	\$ 6,570,196	\$ 48,723	\$ -	\$ 6,618,919
Buildings and improvements	151,187,663	4,056,819	-	155,244,482
Equipment and software	72,169,290	2,542,350	-	74,711,640
Subtotal	229,927,149	6,647,892	-	236,575,041
Less: Accumulated depreciation	(101,231,185)	(10,377,527)	-	(111,608,712)
Property held for future expansion	836,353	-	-	836,353
Construction in progress	21,952,688	14,596,895	(3,739,724)	32,809,859
Capital Assets - Net	\$ 151,485,005	\$ 10,867,260	\$ (3,739,724)	\$ 158,612,541

June 30, 2015	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Land and improvements	\$ 6,370,497	\$ 199,699	\$ -	\$ 6,570,196
Buildings and improvements	131,821,392	19,366,271	-	151,187,663
Equipment and software	67,292,696	4,876,594	-	72,169,290
Subtotal	205,484,585	24,442,564	-	229,927,149
Less: Accumulated depreciation	(91,531,656)	(9,699,529)	-	(101,231,185)
Property held for future expansion	836,353	-	-	836,353
Construction in progress	30,096,201	11,116,370	(19,259,883)	21,952,688
Capital Assets - Net	\$ 144,885,483	\$ 25,859,405	\$ (19,259,883)	\$ 151,485,005

Tahoe Forest Hospital District

NOTES TO THE COMBINED FINANCIAL STATEMENTS

(Continued)

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. In March 2015, the District issued the 2015 general obligation refunding bonds in the amount of \$30,810,000 in order to advance refund all of the 2008 Series A bonds and pay for costs of issuing the bonds. In April 2016, the District issued the 2016 general obligation refunding bonds in the amount of \$45,110,000 in order to advance refund all of the 2008 Series B bonds and pay for costs of issuing the bonds.

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

Construction Project	Expenditures			
	Prior	2015	2016	Total
Dietary #1	\$ 4,483,075	\$ 654,354	\$ 87,702	\$ 5,225,131
S. Building/Interim Birthing/Dietary/Respiratory Therapy	5,885,016	5,220,513	11,124,194	22,229,723
TFH Master Plan	1,400,326	242	-	1,400,568
Infill/Medical Records	2,020,975	1,656	1,570	2,024,201
Cancer Center Building	27,110,413	8,413	(100,000)	27,018,826
Cancer Center Equipment	2,301,095	-	-	2,301,095
Central Plant Upgrades	15,395,060	30,089	750	15,425,899
Emergency Dept/Sterile Processing	11,832,833	2,142,957	306,810	14,282,600
Fiber West Installation	950	-	-	950
IT Data Center Building	1,306,111	-	-	1,306,111
IT Data Center Equipment	9,109	-	-	9,109
IT/Administration Relocation	401,124	-	-	401,124
MPOE Fiber Installation	183,577	-	-	183,577
Nuclear Medicine Camera/Flouroscopy	2,242,176	-	-	2,242,176
Skilled Nursing Facility	5,268,283	-	-	5,268,283
Skilled Nursing Facility Flooring	199,775	-	-	199,775
Totals	\$ 80,039,898	\$ 8,058,224	\$ 11,421,026	\$ 99,519,148

Tahoe Forest Hospital District

NOTES TO THE COMBINED FINANCIAL STATEMENTS

(Continued)

8. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

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

June 30, 2016	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
2016 General Obligation Bonds	\$ -	\$ 45,110,000	\$ -	\$ 45,110,000	\$ 565,000
2015 General Obligation Bonds	30,810,000	-	165,000	30,645,000	250,000
General Obligation Bonds Premium/Discount	728,152	2,513,663	33,098	3,208,717	137,834
Series 2015 Revenue Bonds	20,979,000	-	-	20,979,000	761,114
Series 2002 Variable Rate Demand Revenue Bonds	9,555,000	-	325,000	9,230,000	340,000
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.	2,551,645	-	1,215,411	1,336,234	1,232,718
Lease agreement with US Bank Equipment Financing payable in monthly installments of \$229, including interest at 5.28% through July 2021. The lease was collateralized by equipment.	-	12,069	-	12,069	2,166
Lease agreement with US Bank Equipment Financing payable in monthly installments of \$758, including interest at 4.40% through July 2020. The lease is collateralized by equipment.	32,677	-	7,469	25,208	7,805
Total Long-Term Debt and Capital Lease Obligations	\$ 133,756,474	\$ 47,635,732	\$ 44,745,978	\$ 136,646,228	\$ 3,296,637

Tahoe Forest Hospital District

NOTES TO THE COMBINED FINANCIAL STATEMENTS

(Continued)

June 30, 2015	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
2015 General Obligation Bonds	\$ -	\$ 30,810,000	\$ -	\$ 30,810,000	\$ -
General Obligation Bonds Premium/Discount	-	728,152	-	728,152	33,098
Series 2015 Revenue Bonds	-	20,979,000	-	20,979,000	-
Series 2006 Revenue Bonds	23,975,000	-	23,975,000	-	-
Series 2002 Variable Rate Demand Revenue Bonds	9,865,000	-	310,000	9,555,000	325,000
Series A (2008) General Obligation Bonds	29,395,000	-	29,395,000	-	-
Series B (2010) General Obligation Bonds	43,000,000	-	-	43,000,000	215,000
Series C (2012) General Obligation Bonds	26,100,000	-	-	26,100,000	165,000
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.	3,749,992	-	1,198,347	2,551,645	1,215,411
Lease agreement with Great America Leasing payable in monthly installments of \$934, included interest at 0.01% through August 2014. The lease was collateralized by equipment.	1,846	-	1,846	-	-
Lease agreement with US Bank Equipment Financing payable in monthly installments of \$758, including interest at 4.40% through July 2020. The lease is collateralized by equipment.	-	39,240	6,563	32,677	6,564
Total Long-Term Debt and Capital Lease Obligations	\$ 136,086,838	\$ 52,556,392	\$ 54,886,756	\$ 133,756,474	\$ 1,960,073

Tahoe Forest Hospital District

NOTES TO THE COMBINED FINANCIAL STATEMENTS

(Continued)

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

Years Ending June 30	Long-Term Debt		Capital Lease Obligations	
	Principal Amount	Interest Amount	Principal Amount	Interest Amount
2017	\$ 1,916,114	\$ 4,935,842	\$ 1,242,688	\$ 12,471
2018	2,197,737	4,800,646	113,955	1,193
2019	2,421,124	4,718,833	10,929	582
2020	2,660,804	4,628,234	3,264	217
2021	2,921,827	4,521,629	2,675	77
2022 to 2026	19,070,190	20,421,710	-	-
2027 to 2031	27,764,423	15,383,108	-	-
2032 to 2036	35,066,781	9,277,331	-	-
2037 to 2041	33,340,000	3,171,226	-	-
2042 to 2045	4,705,000	113,283	-	-
Totals	\$ 132,064,000	\$ 71,971,842	\$ 1,373,511	\$ 14,540

Following is a summary of equipment under capital leases:

June 30	2016	2015
Cost of equipment	\$ 4,987,813	\$ 4,526,546
Less: Accumulated depreciation	2,150,283	1,509,788
Capital Lease Equipment - Net	\$ 2,837,530	\$ 3,016,758

Tahoe Forest Hospital District
NOTES TO THE COMBINED FINANCIAL STATEMENTS
(Continued)

Following is a summary of bonded debt:

June 30, 2016	Maturity	Annual Interest Rate	Amount Issued
Revenue Bonds			
Series 2002 Variable Rate Demand Revenue Bonds	July 2033	3.54%	\$ 12,000,000
Series 2015 Revenue Bonds - Term Bonds	July 2016 to 2033	3.87%	20,979,000
Total Revenue Bonds			32,979,000
General Obligation Bonds			
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
2015 General Obligation Bonds - Serial Bonds	August 2015 to 2035	2.00% to 5.00%	22,700,000
2015 General Obligation Bonds - Term Bonds	August 2038	3.50%	8,110,000
2016 General Obligation Bonds - Serial Bonds	August 2016 to 2040	2.00% to 5.00%	45,110,000
Total General Obligation Bonds			102,020,000
Total			\$ 134,999,000

Accrued interest is paid on January 1 and July 1 each year for the Series 2002 Variable Rate Demand Revenue Bonds and the Series 2015 Revenue Bonds. Accrued interest is paid on February 1 and August 1 for the General Obligation Bonds (the G.O. Bonds).

Principal payments on the bonds are as follows:

June 30, 2016	Annual Installments
Revenue Bonds	
Series 2002 Variable Rate Demand Revenue Bonds	July 1 ranging from \$200,000 to \$805,000
Series 2015 Revenue Bonds	July 1 ranging from \$761,114 to \$1,583,873
General Obligation Bonds	
Series C (2012) General Obligation Bonds	August 1 ranging from \$135,000 to \$2,440,000
2015 General Obligation Bonds	August 1 ranging from \$165,000 to \$2,895,000
2016 General Obligation Bonds	August 1 ranging from \$530,000 to \$3,625,000

Tahoe Forest Hospital District
NOTES TO THE COMBINED FINANCIAL STATEMENTS
(Continued)

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

June 30, 2016	Required Deposits	Commencing	Due Annually Ending
Series 2002 Variable Rate Demand Revenue Bonds	\$275,000 to \$805,000	July 2006	July 2033
Series 2015 Revenue Bonds - Term Bonds	\$761,114 to \$1,583,873	July 2016	July 2033
2015 General Obligation Bonds - Term Bonds	\$2,515,000 to \$2,895,000	August 2036	August 2038
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 Variable Rate Demand Revenue Bonds to finance the costs of constructing and equipping new health care facilities and remodeling certain existing facilities. The Series 2002 Variable Rate Demand Revenue 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 2015 Revenue Bonds to advance refund \$20,979,000 of Series 2006 Revenue Bonds outstanding. The Series 2015 Revenue Bonds are secured by a pledge of gross revenues.

In connection with the Series 2015 Revenue 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 \$137,097 at June 30, 2016.

The District issued G.O. bonds, as further described in note 7, for the purpose of financing the expansion, improvement, acquisition, construction, equipping and renovating the health facilities of the District; refinancing \$3,500,000 in outstanding debt; and paying costs incident thereto. The 2015 G.O. Bonds were issued for the purpose of refunding the Series A (2008) G.O. Bonds, and the 2016 G.O. Bonds were issued for the purpose of refunding the Series B (2010) G.O. Bonds.

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.

Tahoe Forest Hospital District
NOTES TO THE COMBINED FINANCIAL STATEMENTS
(Continued)

Advanced Refundings

On April 13, 2006, the District advance refunded \$11,790,000 of 1999 Series A Bonds outstanding with Series 2006 Bonds totaling \$11,790,000 with the Series 2006 Revenue Bonds totaling \$12,557,998. 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) G.O. Bonds totaling \$29,345,000 with the 2015 G.O. 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) G.O. 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 revenue 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.

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. The swap's original notional amount of \$11,800,000 matched the variable-rate bonds at the agreement date. The swap commenced three years after the Bonds were issued (July 2002). Starting in fiscal year 2005, the notional value of the swap, and the principal amount of the associated debt, will decline with each principal payment made by the District. Under the swap, the District pays the counterparty a fixed payment of 3.54% and receives a variable payment computed as 70% of the 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 \$2,281,527 and \$1,774,439 as of June 30, 2016 and 2015, 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 \$2,281,527 and \$1,774,439 at June 30, 2016 and 2015, respectively, and a corresponding accumulated decrease in fair value of hedging derivative (deferred outflow of resources). Fair values is based on a market to market report which is considered a level 2 fair value input.

Credit Risk As of June 30, 2016, 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, 2016. 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.

Tahoe Forest Hospital District
NOTES TO THE COMBINED FINANCIAL STATEMENTS
(Continued)

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 \$3,518,685 and \$2,582,757 in 2016 and 2015, 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 \$751,298 and \$824,203 at June 30, 2016 and 2015, 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 \$225,000 with an aggregate specific annual deductible of \$100,000. There were no significant changes in insurance coverage from the prior year.

Tahoe Forest Hospital District
NOTES TO THE COMBINED FINANCIAL STATEMENTS
(Continued)

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, 2016 and 2015, has been included in the accompanying combined statements of net position under estimated claims incurred but not reported. Changes in the claims liability are as follows:

June 30	2016	2015
Estimated claims incurred but not reported -		
beginning of year	\$ 1,307,731	\$ 997,635
Incurred claims and claims adjustment expense	4,770,151	9,285,432
Claim payments	(4,770,151)	(8,975,336)
Estimated Claims Incurred But Not Reported -		
 End of Year	\$ 1,307,731	\$ 1,307,731

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, 2016 and 2015, has been included in the accompanying combined statements of net position under estimated claims incurred but not reported. Changes in the claims liability are as follows:

June 30	2016	2015
Estimated claims incurred but not reported -		
beginning of year	\$ 404,807	\$ 1,006,475
Incurred claims and claims adjustment expense	1,298,201	2,032
Claim payments	(582,028)	(603,700)
Estimated Claims Incurred But Not Reported -		
 End of Year	\$ 1,120,980	\$ 404,807

Tahoe Forest Hospital District
NOTES TO THE COMBINED FINANCIAL STATEMENTS
(Continued)

12. COMMITMENTS AND CONTINGENCIES

Construction Project Commitments

Construction project commitments as of June 30, 2016, were as follows:

Construction Project	Remaining Construction Commitments
South Building; Birthing/Dietary Phase II	\$ 3,157,300

Operating Leases

The District leases certain facilities and equipment under non-cancelable operating leases. Total lease expense was \$2,024,927 and \$2,010,150 for 2016 and 2015, respectively. Future minimum payments under these non-cancelable operating lease agreements are as follows:

Years Ending June 30	
2017	\$ 879,774
2018	770,251
2019	601,523
2020	538,234
2021	387,383
Total Minimum Payments	\$ 3,177,165

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 2016 and 2015 was approximately \$48,000 and \$45,000, respectively, 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.

Tahoe Forest Hospital District
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 (Continued)

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. As of January 1, 2015, the buildings to which the extension applied no longer housed any acute care services. The Board of Directors 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. 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. INVESTMENT IN JOINT VENTURE

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

June 30	2016		2015	
Total assets	\$	4,006,477	\$	4,323,519
Total liabilities		54,805		66,414
Total Equity	\$	3,951,672	\$	4,257,105
Equity Positions				
Tahoe Forest Hospital District	\$	3,639,072	\$	3,920,095
Truckee Surgery Center, Inc.		312,600		337,010
Total	\$	3,951,672	\$	4,257,105
Net Loss	\$	(318,167)	\$	(16,533)

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

June 30	2016		2015	
Tahoe Forest Hospital District equity position	\$	3,639,072	\$	3,920,095
Impairment reserve		(3,595,700)		(3,595,700)
Investment in Joint Venture	\$	43,372	\$	324,395

Tahoe Forest Hospital District
NOTES TO THE COMBINED FINANCIAL STATEMENTS
(Continued)

14. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following:

June 30	2016	2015
Receivable in less than one year	\$ 12,834	\$ 32,384
Receivable in one to five years	6,350	3,500
Total Unconditional Promises to Give	19,184	35,884
Less: Unamortized discount	(715)	(1,956)
Less: Allowance for uncollectible amounts	(1,847)	(3,392)
Unconditional Promises to Give - Net	\$ 16,622	\$ 30,536

Promises to give that are not to be received within the subsequent year are discounted at 3% per year.

15. TEMPORARILY RESTRICTED NET POSITION

Temporarily restricted net position is available for the following purposes:

June 30	2016	2015
Capital Campaign - Phase II	\$ -	\$ 365,631
Cancer prevention	369,635	415,303
Cancer care	1,372,671	1,303,277
Hospice and other	1,164,533	1,095,204
Total Temporarily Restricted Net Position	\$ 2,906,839	\$ 3,179,415

16. BENEFICIAL INTEREST IN COMMUNITY FOR CANCER CARE ENDOWMENT

TFHSF established the Community for Cancer Care Endowment Fund (the Fund) at Tahoe Truckee Community Foundation (TTCF). Under the terms of the agreement, TFHSF is the named beneficiary of the Fund, and 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 agree from time to time. Distributions in excess of TTCF's spending policy may be made to TFHSF in any year as determined by the Board of Directors of TTCF. TFHSF may request, at any time, that TTCF disburse up to 100% of the Fund to 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, 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 TFHSF ceases to exist or if the governing board of TTCF votes that support of TFHSF is: (a) no longer necessary, or (b) inconsistent with the needs of TTCF. The Fund had a value of \$1,356,049 and \$1,274,996 at June 30, 2016 and 2015, respectively, and is reported in the combined financial statements as beneficial interest in Community for Cancer Care Endowment.