MATSON & ISOM

TAHOE FOREST HOSPITAL DISTRICT

Truckee, California

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT

June 30, 2013 and 2012

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MATSON & ISOM

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Tahoe Forest Hospital District, a California political subdivision (the District), which comprise the statements of net position as of June 30, 2013 and 2012; the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended; and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

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

INDEPENDENT AUDITORS' REPORT
Continued

Qualified Opinion

In our opinion, except for the effects of not discretely presenting component units as described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2013 and 2012, and the results of their 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 management's discussion and analysis on pages 4 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Matson and Isom

November 22, 2013
Chico, California

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

FINANCIAL HIGHLIGHTS

- Total assets increased $24.2 million in 2013. Total cash and cash equivalents decreased $6.5 million in 2013. Net patient accounts receivable increased $5.9 million. Days net patient service revenue in net patient accounts receivable increased to 100 days at June 30, 2013. Capital assets increased $12.2 million. Assets Limited as to Use – Net increased by $15.1 million.

- Total liabilities increased $27.0 million, current liabilities decreased $0.5 million, and noncurrent liabilities increased $27.5 million.

- The decrease in net position for 2013 was $3.6 million.

FINANCIAL ANALYSIS OF THE DISTRICT

The District's net position decreased $3.7 million from a year ago to $97.2 million. Table 1 provides a summary of the District's net position for 2013 and 2012.

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

	2013	2012
Assets:		
Current assets	$42,925	$41,371
Board-designated and restricted funds	72,446	57,350
Net capital assets	138,067	125,883
Other assets	1,437	6,105
Total Assets	**254,875**	**230,709**
Total Deferred Outflow of Resources:	**2,369**	**3,266**
Liabilities:		
Current liabilities	22,204	22,708
Noncurrent liabilities	137,797	110,314
Total Liabilities	**160,001**	**133,022**
Net Position:		
Unrestricted	57,162	65,583
Net investment in capital assets	39,440	34,836
Restricted by donor for specific uses	642	534
Total Net Position	**$97,244**	**$100,953**

In 2013, the District's cash and investments position increased $9.3 million.

Table 2
SUMMARY OF CASH AND INVESTMENTS
(In thousands)

Account:	**2013**	**2012**
Cash and cash equivalents and short-term investments	$10,345	$16,839
Board designated fund	33,552	38,413
Specific purpose fund	3,680	242
Workers' compensation fund	1	11
Unexpended capital bond fund	37,120	19,896
Total Available Cash and Investments	**$84,698**	**$75,401**

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 decreased by a total of $11.3 million. A decrease in our cash position was anticipated due to the investment in capital and information technology systems, as well as the lag time in billing and collections that is created when a system conversion is completed. The lag time creates a temporary increase in accounts receivable and a decline in cash. The Unexpended Capital Bond Fund shows an increase of $17.2 million over the prior year due to the issuance of the third and final series (Series C) of general obligation bonds in the amount of $26.1 million, offset by 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 $12.2 million to $138.1 million at June 30, 2013. This increase resulted from $80.4 million in capital additions offset by $7.1 million in depreciation, and $61.1 million of asset transfers from construction in progress. The capital additions include $63.8 million in equipment, building and land improvements (of which $61.1 million were transfers from construction in progress), and $16.6 million in construction in progress. Major capital additions during the year included the completion of several construction projects related to Measure C: Skilled Nursing Facility building, Cancer Center building, and the Central Energy Plant. In addition, we invested in surgical equipment and lab equipment for both facilities, pharmacy pyxis equipment, upgraded our CT scanner at our Incline Village facility, made seismic upgrades to our Incline Village facility, relocated our Tahoe City clinic, continued to invest in our computer information systems, and construction for projects related to Measure C on the Tahoe Forest Hospital campus.

DEBT ADMINISTRATION

The District has debt obligations as follows:

	2013	2012
General Obligation Bonds Series 2007	$98,500,000	$72,400,000
Revenue Bonds Series 2006	24,675,000	25,355,000
Variable Rate Demand Revenue Bonds Series 2002	10,155,000	10,430,000
Bank equipment leases	516,138	1,046,607
Municipal Lease	4,931,515	-
Total	**$138,777,653**	**$109,231,607**

The District saw an increase in its debt obligations by $29.5 million due to the issuance of the third and final series (Series C) of the general obligation bonds in the amount of $26.1 million, and a new municipal lease of $6 million.

REVENUES, EXPENSES, AND NET POSITION

Table 3 shows the revenues, expenses, and net position for 2013 and 2012.

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

Operating Revenues:	**2013**	**2012**
Net patient service revenue	$101,567	$99,795
Other	6,142	6,711
Total Operating Revenues	**107,709**	**106,506**
Operating Expenses:		
Salaries and wages	38,779	37,131
Employee benefits	19,944	20,400
Supplies	15,207	12,894
Professional fees	17,850	14,041
Purchased services	7,681	7,404
Depreciation	7,239	4,966
Insurance	636	550
Other operating expenses	6,134	5,766
Total Operating Expenses	**113,470**	**103,152**

OPERATING INCOME (LOSS)	**(5,761)**	**3,354**
Nonoperating Revenues (Expense)		
District tax revenue	10,704	8,048
Income (loss) recognized on joint venture	(31)	59
Interest income	330	300
Donations	550	677
Interest expense	(4,448)	(4,484)
Rental income-net	242	18
Gain (loss) on sale of assets	(12)	24
Total Nonoperating Revenues (Expense)	**7,335**	**4,642**
Income Before Other Revenue, Expenses, Gains and Losses	1,574	7,996
Capital contributions	396	145
Impairment losses	(5,679)	-
Increase (Decrease) in Net Position	(3,709)	8,141
Net Position – Beginning of Year – as Originally Reported	-	93,455
Change in accounting principle	-	(643)
Net Position - Beginning of Year – as Restated	100,953	92,812
Net Position - End of Year	**$97,244**	**$100,953**

NET PATIENT SERVICE REVENUES

For the year ended June 30, 2013, net patient service revenues increased by $1.8 million or 1.8%. This was due to a 12.4% increase in gross revenue, primarily driven by outpatient revenue and revenue derived from the cancer program. Net patient service revenue is composed of gross patient service revenue, less contractual allowances, charity care, provision for bad debts, and prior period settlements.

Gross patient service revenues increased by $19.7 million or 12.4% due to increases in volumes in a few of our outpatient areas when compared to our previous year. Significant volume percentage increases were as follows: Oncology procedures 56%, PET/CT exams 20%, Oncology pharmaceutical units 69%, Physical Therapy procedures 9%, and EKG exams 12%. In addition, we have added Radiation oncology services to our cancer program and saw a marked volume increase in this area; a total of 3,599 radiation oncology procedures.

Contractual allowances as a percent of gross patient service revenues increased from prior year by 3.2%. This reflects shifting in the gross revenue payor mix, and an increase in our contractual allowance reserves due to the lag time in billing and collections related to our information technology system conversions. (See DEDUCTIONS FROM REVENUE below).

Charity care increased 3.7% when compared to prior year. Fiscal year 2013 was approximately 3.2% of gross patient service revenues, and fiscal year 2012 was approximately 2.6%. (See CHARITY CARE AND COMMUNITY BENEFIT below). In addition, provision for bad debts as a percent of gross patient service revenues showed a .3% increase compared to previous year.

INPATIENT BUSINESS ACTIVITY

Total admissions decreased by 26 and total patient days decreased by 97 reflecting a slight decrease in our average length of stay. TFH became a critical access hospital effective July 1, 2007, reducing its acute care beds to 25, down from 35. Table 4 presents a summary of inpatient business activity.

Table 4
INPATIENT BUSINESS ACTIVITY

Acute	**2013**	**2012**
Admissions	1,661	1,687
Length of stay	2.95	2.97
Average daily census	13.4	13.7
Occupancy percentage	46.4%	47.3%
Patient days	4,907	5,004
Total ICU days	983	1,145
Total medical/surgical days	3,040	3,164
Total obstetrics days	872	695
Total M/S swing days	252	225
Nursery days	797	773
Deliveries	365	348
Skilled Nursing Unit		
Patient days	11,723	11,828
Average daily census	32	32
Occupancy percentage	86.8%	87.6%

OUTPATIENT BUSINESS ACTIVITY

The District's outpatient revenue was 18.2% higher than the prior year. The increase is attributable to an increase in volumes related to Oncology procedures and pharmaceutical units, PET/CT exams, EKG exams, and Physical Therapy procedures.

Table 5
OUTPATIENT BUSINESS ACTIVITY

	2013	2012
Emergency department visits	16,324	16,235
Laboratory tests	146,388	195,490
Home health visits	3,980	4,018
Radiology exams	10,542	10,007
Ultrasound exams	3,658	4,079
Cat scan exams (including PET CT)	3,889	3,829
MRI scan exams	1,705	1,800
Radiation oncology procedures	3,599	0
Surgery cases	1,132	1,289
Surgery minutes	86,167	97,094

DEDUCTIONS FROM REVENUE

Contractual allowance adjustments (expressed as a percentage of gross revenues) were 35.2% for fiscal year 2013 and 32.0% for fiscal year 2012. The District's payor mix for fiscal year 2013 was 33.0% Medicare, 12.1% Medi-Cal, 2.7% County, 7.4% Other, and 44.8% Insurance compared to fiscal year 2012 mix of 33.0% Medicare, 13.4% Medi-Cal, 0.6% County, 7.0% Other, and 46.0% 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 $5.6 million in charity care for patient services during fiscal year 2013 and $4.1 million for fiscal year 2012.

OPERATING EXPENSES

Total operating expenses were $113.5 million for the year ended June 30, 2013, and $103.2 million for the year ended June 30, 2012, as summarized in the graph.

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Total operating expenses increased $10.2 million, or 9.9% from the prior year.

The District experienced an increase in the area of salaries and wages, and a decrease in employee benefits, for a combined increase of $1.2 million due to the result of wage increases as outlined in the employee bargaining unit agreements which expired June 30, 2013. Professional fees increased $3.8 million due to the addition of a radiation oncologist to support the new radiation service line of the Cancer program. The District also closed the anesthesia department and contracted with an anesthesiology group to provide exclusive anesthesia services. In addition, we added professional services to support the organization through the new information technology system conversions. Supplies increased $2.3 million due to the cost of pharmaceutical drugs for oncology procedures, which is tied directly to the 69% increase in pharmaceutical drug unit volume and revenue. Depreciation and amortization increased $2.3 million due to the first year of depreciation on 3 general obligation bond (Measure C) capital projects: skilled nursing facility, cancer center, and central energy plant, the investment in our information technology systems, and other large capital purchases in surgery, lab and pharmacy.

ECONOMIC FACTORS AFFECTING NEXT YEAR

In FY 2013 we maintained our strategic focus to improve service and quality outcomes. We continue to work our way through the process of transforming our information technology systems, and we continue our quest to innovate rural health care delivery. Management continues to pursue closer alignment of financing incentives for medical home and ACO strategies that realign financing incentives to develop new primary care delivery models. Management continues to explore meaningful partnerships with both rural hospitals and larger health systems to accommodate more efficient and sustainable programming as we continue to experience substantial changes in the landscape of healthcare financing. All of these activities are coupled with our desire to continue to align our medical community and the health system to enhance our functionality, improve integration and efficiency of operations, and enable all providers to optimize their capacity and their engagement in developing more effective ways to deliver care.

FY 2014 will be a challenging year. The State of California continues to struggle with financial balance. We have little hope that our elected officials will devise solutions that enable hospitals to retain current levels of funding. FY 2014 will see new financing mechanisms for Medi-Cal enacted that will have negative impacts to Tahoe Forest Hospital. National proposals anticipate reimbursement reductions in critical access hospital reimbursements by at least 1%, and if unchanged, the national health reform agenda proposes to reduce California's Medicare reimbursement by $27 billion over the next ten years. In addition to the State and Federal mandates, commercial insurers are actively modifying hospital reimbursements and bundling payments for services like orthopedics and total joints. Our historical five-year payor mix trends are alarming. Tahoe Forest Hospital has experienced a 5% reduction in commercial payor mix in FY 2012, and a 1.2% reduction in FY 2013, while experiencing growth in Medicare, Medi-Cal, and Self-Pay volumes.

The pace and uncertainty of health reform, the changing health insurance and consumer driven market environment combined with the absolute scope of unfunded, yet mandated financial investments, will require our health system to continually evaluate our capital structure, our service level pricing, closely scrutinize sources and uses of capital, redesign care delivery to improve efficiency and reduce costs, and optimize program revenues while we seek to drive collaborative innovation in 2014.

Our financial assumptions focus on continued retention of the 70-80% range inpatient market share that we have enjoyed over the past few years, while growing outpatient revenues, mainly in the cancer market and orthopedic market. Outpatient markets will continue to shift with new approaches to insurance benefit design, and we expect to continue to see declines in commercial payor levels and increases in Medicare and Medi-Cal business. It is essential that we continue to invest in programs that have growth markets like the cancer program and continue to talk with local employers to assure them that we will partner with them as they reform their health care budgets.

The health system will need to find ways to shed overhead as we move forward into the future. Management will be challenged in this area in FY 2014 as it will be essential to reverse spending to align with new levels of reimbursements.

Philanthropy and fund raising activities will continue to be a priority as we continue to look for alternative sources of capital to support programs that have been reliant on cost shifting from commercial insurance reimbursements.

Management will continue to take an aggressive and proactive position on managing controllable expenses in FY 2014 to assure that we are able to balance our budget in this dynamic era of health reform. Balance sheet management and organization redesign will continue to be dominant themes as we lead our health system through these challenging times.

FINANCIAL SECTION

June 30	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 10,344,645	$ 16,839,453
Patient accounts receivable - net of allowance for uncollectible accounts of $24,859,330 in 2013 and $13,139,488 in 2012	21,966,816	16,045,388
Advances to related party	981,983	431,171
Other receivables	1,648,605	850,795
Assets limited as to use	1,907,125	1,211,638
Inventories	2,267,147	2,265,636
Prepaid expenses and deposits	1,066,115	865,135
Estimated third-party payor settlements	2,742,612	2,862,169
Total Current Assets	42,925,048	41,371,385
ASSETS LIMITED AS TO USE		
Assets limited as to use	74,353,498	58,561,887
Less: Amount required to meet current obligations	(1,907,125)	(1,211,638)
Assets Limited as to Use - Net	72,446,373	57,350,249
NONCURRENT ASSETS AND INVESTMENTS		
Investment in joint venture	728,349	4,451,956
Physician notes receivable	608,224	431,020
Other noncurrent assets	100,000	1,222,004
Capital assets - net	138,067,395	125,882,519
Total Assets	254,875,389	230,709,133
DEFERRED OUTFLOW OF RESOURCES		
Deferred loss on defeasance	659,404	698,193
Accumulated decrease in fair value of hedging derivative	1,710,354	2,567,757
Total Deferred Outflow of Resources	$ 2,369,758	$ 3,265,950

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

June 30	2013	2012
LIABILITIES		
CURRENT LIABILITIES		
Current maturities of long-term debt and capital lease obligations	$ 2,690,814	$ 1,485,471
Accounts payable	6,127,622	7,941,637
Accrued payroll and related expenses	7,668,236	7,728,603
Estimated claims incurred but not reported	3,139,995	3,395,724
Accrued interest	2,577,226	2,156,607
Total Current Liabilities	22,203,893	22,708,042
NONCURRENT LIABILITIES		
Long-term debt and capital lease obligations - net of current maturities	136,086,839	107,746,136
Derivative instrument liability	1,710,354	2,567,757
Total Liabilities	160,001,086	133,021,935
NET POSITION		
Net investment in capital assets	39,440,311	34,836,148
Restricted	641,469	534,412
Unrestricted	57,162,281	65,582,588
Total Net Position	$ 97,244,061	$100,953,148

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

Years Ended June 30	2013	2012
OPERATING REVENUES		
Net patient service revenue - net of contractual allowances and provision for bad debts of $76,338,828 in 2013 and $58,385,185 in 2012	$101,566,879	$ 99,795,015
Other revenue	6,142,592	6,711,124
Total Operating Revenues	107,709,471	106,506,139
OPERATING EXPENSES		
Salaries and wages	38,778,617	37,130,794
Employee benefits	19,943,943	20,399,939
Professional fees	17,850,419	14,040,941
Supplies	15,206,878	12,893,812
Purchased services	7,680,764	7,404,230
Depreciation and amortization	7,239,280	4,966,011
Insurance	636,454	550,407
Other	6,133,885	5,766,233
Total Operating Expenses	113,470,240	103,152,367
Operating Income (Loss)	(5,760,769)	3,353,772
NONOPERATING REVENUES (EXPENSE)		
Property tax revenue	5,716,834	4,824,796
Property tax revenue - general obligation bonds	4,986,760	3,222,798
Income (Loss) recognized on joint venture	(30,517)	59,376
Interest income	330,077	300,070
Rental income - net	242,348	17,559
Donations	549,507	677,690
Gain (Loss) on disposal of assets	(11,867)	24,125
Interest expense	(4,448,220)	(4,483,822)
Total Nonoperating Revenues (Expense)	7,334,922	4,642,592
Income Before Other Revenues, Expenses, Gains and Losses	1,574,153	7,996,364
Capital contributions	395,838	145,062
Impairment losses	(5,679,078)	-
Increase (Decrease) in Net Position	(3,709,087)	8,141,426
Net Position - Beginning of Year - as Originally Reported		93,454,401
Change in accounting principle	-	(642,679)
Net Position - Beginning of Year - as Restated	100,953,148	92,811,722
Net Position - End of Year	$ 97,244,061	$100,953,148

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

Years Ended June 30	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	$ 95,765,008	$ 97,868,877
Payments to suppliers and contractors	(49,307,260)	(38,983,339)
Payments to and on behalf of employees	(59,038,656)	(57,178,983)
Other receipts and payments - net	5,613,627	6,750,691
Net Cash Provided (Used) by Operating Activities	(6,967,281)	8,457,246
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property tax revenue received for operations	5,337,349	4,737,227
Donations	549,507	677,690
Net Cash Provided by Noncapital Financing Activities	5,886,856	5,414,917
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	395,838	145,062
Acquisition of property and equipment	(18,378,834)	(40,994,030)
Transfers (to) from board-designated assets	6,205,487	(1,489,579)
Proceeds from municipal lease	6,000,000	-
Proceeds from issuance of bonds	25,960,704	42,196
Change in assets held by trustee	(21,997,098)	31,753,436
Proceeds from sale of assets	-	25,125
Property tax revenue received for general obligation bonds	4,684,579	3,194,340
Interest payments on general obligation bonds	(4,153,059)	(3,626,627)
Principal paid on long-term debt and capital leases	(2,553,954)	(1,409,475)
Interest paid on long-term debt and capital leases	(1,806,031)	(881,801)
Net Cash Used by Capital and Related Financing Activities	(5,642,368)	(13,241,353)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	364,714	311,526
Net cash received for rental activities	316,693	194,467
Advances on note receivable	(550,812)	(316,100)
Cash received from joint venture	97,390	-
Net Cash Provided by Investing Activities	227,985	189,893
Net Increase (Decrease) in Cash and Cash Equivalents	(6,494,808)	820,703
Cash and Cash Equivalents - Beginning of Year	16,839,453	16,018,750
Cash and Cash Equivalents - End of Year	$ 10,344,645	$ 16,839,453

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

Years Ended June 30	2013	2012
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	$ (5,760,769)	$ 3,353,772
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	7,239,280	4,966,011
Provision for bad debts	8,277,732	6,727,912
Changes in:		
Patient accounts receivable	(14,199,160)	(7,484,238)
Inventories	(1,511)	(35,963)
Prepaid expenses	(200,980)	(63,798)
Estimated third-party payor settlements	119,557	(1,169,812)
Accounts payable and accrued expenses	(2,130,111)	2,043,330
Other	(311,319)	120,032
Net Cash Provided (Used) by Operating Activities	$ (6,967,281)	$ 8,457,246
NONCASH INVESTING AND FINANCING ACTIVITIES		
ISSUANCE OF GENERAL OBLIGATION BONDS 2008, SERIES C		
Par amount of 2008, Series C bonds	$ 26,100,000	$ -
Payments for bond issuance costs	(139,296)	-
Net Proceeds	$ 25,960,704	$ -
CAPITALIZED INTEREST		
Interest payments on general obligation bonds	$ 4,153,059	$ 3,626,627
Interest capitalized	(1,970,278)	(961,702)
Net Interest Expense on General Obligation Bonds	$ 2,182,781	$ 2,664,925

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

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

The District participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF). As of June 30, 2013, the LAIF pool includes structured notes and asset-backed securities which total 1.96% 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, 2013, the fair value of LAIF is 100.03% of the carrying value and is deemed to not represent a material difference. There are no LAIF funds invested in derivatives as of June 30, 2013. LAIF has oversight by the Local Investment Advisory Board (LIAB), which consists of five members as designated by statute. The Chairperson of the LIAB is the State Treasurer or a designated representative. The District is considered to be a voluntary participant in the LAIF investment pool.

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

Advances to Related Party The District has agreed to make advances to the Tahoe Institute of Rural Health Research (the Institute), a nonprofit research organization, of up to $2,000,000 on an as-needed basis. Outstanding advances accrue interest at a rate of 5.00%. Interest income of $32,059 and $12,666 was recorded by the District for the years ended June 30, 2013 and 2012, respectively.

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

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

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

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

Capitalized Interest Interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The District's interest cost capitalized was approximately $1,970,000 and $962,000 for the years ended June 30, 2013 and 2012, 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, 2013 and 2012, is $109,901 and $71,112, respectively. Amortization expense for the years ended June 30, 2013 and 2012, amounted to $38,788, and is estimated to be $38,788 for each of the next five years.

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

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

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

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

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

Net Patient Service Revenue Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and net of charity care. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charges excluded from revenue under the District's charity care policy were $5,545,287 and $4,040,077 for 2013 and 2012, respectively.

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

Risk Management The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; medical malpractice; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

The District participates in a risk management authority for comprehensive liability self-insurance. The District is also partially self-insured for employee health insurance and workers' compensation insurance, up to certain stop-loss limits. The District estimates liabilities for claims incurred but not reported based on historical claims activity. Paid claims, estimated losses, and changes in reserves are expensed in the current period. These self-insurance programs are more fully described in note 11.

Property Tax Revenues Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent if paid after December 10 and April 10. Property taxes are levied by Nevada and Placer County Assessors on the District's behalf. They are intended to support general maintenance and operations of the District, including charity care and uncompensated care programs, and to service the debt on the 2008 Series A, Series B, and Series C general obligation bonds. The amount of property tax received is dependent upon the assessed real property valuation, as determined by Nevada and Placer County Assessors. The District received approximately 9% and 7% of its financial support from property taxes in 2013 and 2012, respectively.

Reclassifications Various reclassifications have been made to the 2012 financial statements in order to reflect the presentation adopted with the 2013 financial statements.

Impact of Recently Issued Accounting Standards

In March 2012, GASB issued Statement No. 66, *Technical Corrections - 2012,* with required implementation for the District during the 2013-14 fiscal year. The statement improves accounting and financial reporting for a governmental reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements: Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements.* The District has not yet determined the effect this statement will have on its financial statements.

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

2. NET PATIENT SERVICE REVENUE

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

Medicare Tahoe Forest Hospital and Incline Village Community Hospital are each designated as a "critical access hospital" under the Medicare program. Accordingly, inpatient acute and outpatient services rendered to Medicare program beneficiaries are reimbursed under a cost reimbursement methodology pursuant to the facilities' designation as "critical access hospitals." Costs incurred are reimbursed at tentative rates with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The District's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the District. Incline Village Community Hospital Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2011, and final settlements have been received through that date. Tahoe Forest Hospital Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2012, and final settlements have been received through that date.

Medi-Cal Inpatient services rendered to Medi-Cal program beneficiaries are reimbursed under a cost reimbursement methodology. Reimbursement is at tentative rates with final settlement determined after submission of annual cost reports and audits thereof by the Medi-Cal fiscal intermediary. Medi-Cal cost reports have been audited by the Medi-Cal fiscal intermediary through June 30, 2011, and final settlements have been received through that date. Outpatient services related to Medi-Cal beneficiaries are paid at prospectively determined rates per procedure.

Revenue from the Medicare and Medi-Cal programs accounted for approximately 33% and 15% of gross patient service revenue in 2013 and approximately 33% and 11% of gross patient revenue in 2012, 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 decreased by approximately $27,000 in 2013 and increased by approximately $3,100,000 in 2012, due to changes in prior-year retroactive adjustments compared with amounts previously estimated. The District believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory actions.

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

3. CASH, DEPOSITS, AND INVESTMENTS

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

Deposits and investments at carrying value consisted of the following:

	Maturities	June 30, 2013	Fair Value at June 30, 2012
CASH AND CASH EQUIVALENTS			
Deposits (1)		$ 10,424,372	$ 18,252,526
LAIF (2)	9.1 months average	34,123,202	38,995,345
Subtotal		44,547,574	57,247,871
ASSETS HELD BY TRUSTEES			
Cash		5,761,408	94,064
Money market funds		2,497,851	2,443,434
LAIF (2)	9.1 months average	30,990,931	14,715,592
Government bonds	23 years	900,379	900,379
Total Assets Held by Trustees		40,150,569	18,153,469
Total Cash, Deposits, and Investments		$ 84,698,143	$ 75,401,340

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

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

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

June 30	2013	2012
Cash and cash equivalents	$ 10,344,645	$ 16,839,453
Assets limited as to use	74,353,498	58,561,887
Total Cash, Deposits, and Investments	$ 84,698,143	$ 75,401,340

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. Deposits with financial institutions amounted to $11,124,342 and $18,050,192 at June 30, 2013 and 2012, respectively. Deposits amounting to $250,000 in each qualifying financial institution are covered by federal depository insurance and the remaining balances are subject to collateralization agreements.

Concentration of Credit Risk – Investments

California Government Code, Section 53635, places the following concentration limits on LAIF, which is unrated:

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

California Government Code, Section 53601, places the following concentration limits on the District's investments:

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

The District has a formal investment policy in place to maximize the return on invested cash while minimizing risk of capital loss. District policy limits investments to one and one half years, unless otherwise approved by the Board of Directors. The District was in compliance with their investment policies as of June 30, 2013.

4. ASSETS LIMITED AS TO USE

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

June 30	2013	2012
BOARD DESIGNATED ASSETS		
Cash	$ 235,378	$ 1,764,625
LAIF	33,967,551	38,643,791
Subtotal	34,202,929	40,408,416
ASSETS HELD BY TRUSTEES		
Cash	5,761,408	94,064
Money market funds	2,497,851	2,443,434
LAIF	30,990,931	14,715,592
Government bonds	900,379	900,379
Subtotal	40,150,569	18,153,469
Total Assets Limited as to Use	$ 74,353,498	$ 58,561,885

5. PATIENT ACCOUNTS RECEIVABLE

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2013 and 2012, was as follows:

	2013	2012
Medicare	24%	22%
Medi-Cal	16%	20%
Patients	29%	28%
Commercial insurance and others	31%	30%
Total	100%	100%

6. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance June 30, 2012	Additions	Retirements/ Transfers	Balance June 30, 2013
Land and improvements	$ 6,313,855	$ 4,626	$ -	$ 6,318,481
Buildings and improvements	79,515,830	51,349,695	-	130,865,525
Equipment	51,624,745	12,410,076	40,284	63,994,537
Subtotal	137,454,430	63,764,397	40,284	201,178,543
Less: Accumulated depreciation	(75,662,839)	(7,123,491)	25,417	(82,811,747)
Property held for future expansion	836,353	-	-	836,353
Construction in progress	63,254,575	16,680,096	61,070,425	18,864,246
Capital Assets - Net	$ 125,882,519	$ 73,321,002	$ 61,136,126	$ 138,067,395

	Balance June 30, 2011	Additions	Retirements/ Transfers	Balance June 30, 2012
Land and improvements	$ 6,250,778	$ 63,077	$ -	$ 6,313,855
Buildings and improvements	75,935,965	3,579,865	-	79,515,830
Equipment	51,376,635	1,358,218	1,110,108	51,624,745
Subtotal	133,563,378	5,001,160	1,110,108	137,454,430
Less: Accumulated depreciation	(71,643,002)	(5,128,945)	(1,109,108)	(75,662,839)
Property held for future expansion	836,353	-	-	836,353
Construction in progress	27,182,197	36,814,444	742,066	63,254,575
Capital Assets - Net	$ 89,938,926	$ 36,686,659	$ 743,066	$ 125,882,519

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 and $72,400,000 as of June 30, 2013 and 2012, respectively.

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	Prior Expenditures	June 30, 2012 Expenditures	June 30, 2013 Expenditures	Total Expenditures	Status
Dietary #1	$ -	$ 240,579	$ 2,956,579	$ 3,197,158	In progress
Emergency Dept/Sterile Processing	1,416,298	785,555	4,067,447	6,269,300	In progress
Infill/Medical Records	1,250,385	634,906	97,734	1,983,025	In progress
S. Building/Interim	1,392,582	1,013,598	282,723	2,688,903	In progress
TFH Master Plan	1,089,105	80,368	189,812	1,359,285	In progress
Cancer Center Building	11,494,618	14,209,832	1,266,713	26,971,163	Completed
Cancer Center Equipment	-	2,250,552	50,543	2,301,095	Completed
Central Plant Upgrades	5,722,177	8,865,515	807,366	15,395,058	Completed
Fiber West Installation	950	-	-	950	Completed
IT Data Center Building	1,306,944	(833)	-	1,306,111	Completed
IT Data Center Equipment	9,109	-	-	9,109	Completed
IT/Administration Relocation	401,124	-	-	401,124	Completed
MPOE Fiber Installation	183,577	-	-	183,577	Completed
Nuclear Medicine Camera/Flouroscopy	2,242,176	-	-	2,242,176	Completed
Skilled Nursing Facility	1,122,706	3,449,145	696,432	5,268,283	Completed
Skilled Nursing Facility Flooring	199,774	-	-	199,774	Completed
Total	$ 27,831,525	$ 31,529,217	$ 10,415,349	$ 69,776,091	

8. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

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

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

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Due Within One Year
Series 2006 Revenue Bonds	$ 26,005,000	$ -	$ 650,000	$ 25,355,000	$ 680,000
Series 2002 Variable Rate Demand Revenue Bonds	10,690,000	-	260,000	10,430,000	275,000
Series A (2008) General Obligation Bonds	29,400,000	-	-	29,400,000	-
Series B (2010) General Obligation Bonds	43,000,000	-	-	43,000,000	-
Lease agreement with US Bank payable in monthly installments of $4,809, including interest at 4.62%, through July 2014. The lease is collateralized by equipment.	161,383	-	51,336	110,047	53,757
Lease agreement with Bank of America payable in monthly installments of $38,350, including interest at 4.06% through May 2014. The lease is collateralized by equipment.	1,263,813	-	416,585	847,228	433,818
Lease agreement with US Bank payable in monthly installments of $773, including interest at 6.71%, through June 2014. The lease is collateralized by equipment.	25,143	-	7,827	17,316	8,368
Lease agreement with Great America Leasing payable in monthly installments of $473, including interest at 2.60%, through June 2014. The lease is collateralized by equipment.	16,235	-	5,244	10,991	5,410
Lease agreement with Graphic Savings Group payable in monthly installments of $1,631, including interest at 0.04%, through June 2014. The lease is collateralized by equipment.	-	48,908	9,778	39,130	19,561
Lease agreement with Great America Leasing payable in monthly installments of $934, including interest at 0.01%, through August 2014. The lease is collateralized by equipment.	-	30,600	8,705	21,895	9,557
Total Long-Term Debt and Capital Lease Obligations	$ 110,561,574	$ 79,508	$ 1,409,475	$ 109,231,607	$ 1,485,471

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

	Long-Term Debt		Capital Lease Obligations	
	Principal Amount	Interest Amount	Principal Amount	Interest Amount
2014	$ 995,000	$ 6,227,181	$ 1,695,814	$ 73,124
2015	1,095,000	6,187,683	1,200,193	45,324
2016	1,410,000	6,140,461	1,215,411	29,238
2017	1,575,000	6,080,046	1,232,718	10,932
2018	1,895,000	6,012,270	103,517	122
2019-2023	13,320,000	28,563,265	-	-
2024-2028	21,375,000	24,711,043	-	-
2029-2033	30,090,000	18,800,344	-	-
2034-2038	36,900,000	11,048,997	-	-
2039-2043	24,675,000	2,616,900	-	-
Total	$ 133,330,000	$ 116,388,190	$ 5,447,653	$ 158,740

Following is a summary of equipment under capital leases:

June 30	2013	2012
Cost of equipment	$ 10,469,247	$ 7,346,694
Less: Accumulated depreciation	7,616,761	6,934,918
Capital Lease Equipment - Net	$ 2,852,486	$ 411,776

Following is a summary of bonded debt:

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

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

Principal payments on the bonds are as follows:

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

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

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

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

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

In connection with the Series 2006 bond agreement, the District is required to make monthly deposits to the trustee for the term bond sinking fund payments, serial bond principal payments, insurance premiums becoming due and payable within the next 12 months, and for interest payments becoming due and payable within the next six months. Aggregate future monthly deposits required are $201,940 at June 30, 2013.

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

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

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

9. INTEREST RATE SWAP AGREEMENT

Objective of the Interest Rate Swap In May 2005, as a means to lower its borrowing costs when compared against fixed-rate bonds, the District entered into an interest rate swap in connection with its Series 2002 Variable-Rate Revenue Bonds. The intention of the swap was to effectively change the District's variable interest rate on the Bonds to a synthetic fixed rate of 3.54%.

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

Fair Value Because interest rates have declined since execution of the swap, the swap had negative fair values of $1,710,354 and $2,567,757 as of June 30, 2013 and 2012, respectively. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the District's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using mathematical approximations of market values derived from proprietary models. These valuations are calculated on a mid-market basis and do not include bid/offer spread that would be reflected in an actual price quotation. It should be assumed that the actual price quotations for unwinding the transactions would be different. In connection with the fair value determination of the interest rate swap, the District has recorded a derivative instrument liability in the amount of $1,710,354 and $2,567,757 at June 30, 2013 and 2012, respectively, and a corresponding accumulated decrease in fair value of hedging derivative (deferred outflow of resources).

Credit Risk As of June 30, 2013, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the District would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated A2/A/A as of June 30, 2013. To mitigate the potential for credit risk, if the counterparty's credit quality falls below AA/Aa, the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

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

10. BENEFIT PROGRAMS

The District contributes to the Tahoe Forest Hospital District Employee Money Purchase Pension Plan, a defined contribution pension plan administered by the District. The money purchase pension plan covers employees who complete 1,000 hours of service in a calendar year. The District is required to make annual contributions to the money purchase pension plan equal to 3% of each eligible employee's annual compensation, plus 3% of an eligible employee's annual compensation in excess of the social security tax wage base. Employee contributions are voluntary and are limited to 10% of an employee's annual compensation.

The District provides a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The deferred compensation plan allows employees to defer a portion of their current compensation until future years. The District matches participant deferrals from 3% to 7% of compensation. Employee contributions are limited to 100% of total employee compensation or the maximum amount allowable by law. The employer matching contributions under this deferred compensation plan are deposited into employee accounts in the money purchase pension plan.

Total employer contributions under the above benefit programs were $2,725,194 and $2,415,160 in 2013 and 2012, 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 $887,362 at June 30, 2013.

Employee Health Insurance

The District is self-insured to provide group medical, dental, and vision coverage. A third party administers these coverages for the District. The District funds its losses based on actual claims. A stop-loss insurance contract executed with an insurance carrier provides a specific stop-loss deductible per claim of $175,000 with an aggregate specific annual deductible of $100,000. There were no significant changes in insurance coverage from the prior year.

The liability for unpaid claims is estimated using an industry average that is based on actual claims paid. The estimated liability for claims pending and incurred but not reported at June 30, 2013 and 2012, has been included in the accompanying balance sheets under estimated claims incurred but not reported. Changes in the claims liability are as follows:

	2013	2012
Estimated claims incurred but not reported - beginning of year	$ 1,030,171	$ 1,275,711
Incurred claims and claims adjustment expense	6,225,754	7,599,456
Claim payments	(6,395,898)	(7,844,996)
Estimated Claims Incurred But Not Reported - End of Year	$ 860,027	$ 1,030,171

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, 2013 and 2012, has been included in the accompanying balance sheets under estimated claims incurred but not reported. Changes in the claims liability are as follows:

	2013	2012
Estimated claims incurred but not reported - beginning of year	$ 1,438,552	$ 1,532,207
Incurred claims and claims adjustment expense	561,814	555,672
Claim payments	(607,760)	(649,327)
Estimated Claims Incurred But Not Reported - End of Year	$ 1,392,606	$ 1,438,552

12. COMMITMENTS AND CONTINGENCIES

Construction Project Commitments

Construction project commitments as of June 30, 2013, are as follows:

Construction Project	Remaining Construction Commitment
Phase I Dietary/RT/MR/Dietary Office/staff lockers	$ 588,900
Emergency Department/Sterile Processing Department	4,763,689
Interim Birthing at WA	1,438,369
Total	$ 6,790,958

Operating Leases

The District leases certain facilities and equipment under noncancelable operating leases. Total lease expense was $2,180,897 and $2,271,205 for 2013 and 2012, respectively. Future minimum payments under these agreements at June 30, 2013, were as follows:

Years Ending June 30	
2014	$ 986,110
2015	427,474
2016	115,976
2017	47,767
Total Minimum Payments	$ 1,577,327

Litigation

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

Seismic Compliance

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

13. FOUNDATIONS

Tahoe Forest Health System Foundation

The Tahoe Forest Health System Foundation (TFHSF) is a legally separate nonprofit organization, exempt from federal tax, formed to assist in developing and increasing the facilities of the District. TFHSF's activities are governed by a separate board of directors. TFHSF's financial activity is not included in the District's financial statements, but is a component unit of the District. During the years ended June 30, 2013 and 2012, TFHSF distributed approximately $517,000 and $621,000 respectively, to the District. TFHSF has issued separate financial statements for the year ended June 30, 2013. A copy of TFHSF's financial statements can be obtained through the District.

Incline Village Community Hospital Foundation

The Incline Village Community Hospital Foundation (IVCHF) is a legally separate nonprofit organization, exempt from federal tax, formed to assist in developing and increasing the facilities of the District. IVCHF's activities are governed by a separate board of directors. IVCHF's financial activity is not included in the District's financial statements, but is a component unit of the District. During the years ended June 30, 2013 and 2012, IVCHF distributed approximately $428,000 and $188,000, respectively, to the District. IVCHF has issued separate financial statements for the year ended June 30, 2013. A copy of IVCHF's financial statements can be obtained through the District.

14. INVESTMENT IN JOINT VENTURE

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

	2013	2012
Total assets	$ 4,818,428	$ 5,053,387
Total liabilities	128,348	82,504
Total Equity	$ 4,690,080	$ 4,970,883
EQUITY POSITIONS		
Tahoe Forest Hospital District	$ 4,324,049	$ 4,451,956
Truckee Surgery Center, Inc.	366,031	518,927
Total	$ 4,690,080	$ 4,970,883
Net Income (Loss)	$ (59,837)	$ 114,257

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

	2013	2012
Tahoe Forest Hospital District equity position	$ 4,324,049	$ 4,451,956
Impairment loss (see note 15)	(3,595,700)	-
Investment in Joint Venture	$ 728,349	$ 4,451,956

15. IMPAIRMENT LOSSES

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

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

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

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

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

16. CHANGE IN ACCOUNTING PRINCIPLE

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* clarified which financial statement items should continue to be presented as assets and liabilities and which should be treated as current period expenditures (outflows) or current period inflows. Debt issuance costs were identified as an item that should be treated as a current period expenditure (outflow). Accounting changes adopted to conform to the provisions of Statement No. 65 are required to be applied retroactively by restating the financial statements for all periods presented. Therefore, the District's June 30, 2011 net debt issuance costs of $642,679 was removed from net position – beginning of year for 2012, and the related amortization expense of $25,716 for the year ended June 30, 2012 was removed from depreciation and amortization expense for 2012.