Tahoe Forest Hospital District

2016-01-19 Special Meeting of the Board of Directors

2016-01-19 05:30 PM

Tahoe Truckee Unified School District (TTUSD)

11603 Donner Pass Road, Truckee, CA 96161

Meeting Book - 2016-01-19 Special Meeting of the Board of Directors

Agenda Packet Contents

TAHOE FOREST HOSPITAL DISTRICT

SPECIAL MEETING OF THE BOARD OF DIRECTORS

AGENDA

Tuesday, January 19, 2016 at 5:30 p.m.

Tahoe Truckee Unified School District (TTUSD) Office
11603 Donner Pass Rd, Truckee, CA

1. **CALL TO ORDER**

2. **ROLL CALL**

3. **CLEAR THE AGENDA/ITEMS NOT ON THE POSTED AGENDA**

4. **INPUT – AUDIENCE**
This is an opportunity for members of the public to address the Board on items which are not on the agenda. Please state your name for the record. Comments are limited to three minutes. Written comments should be submitted to the Board Clerk 24 hours prior to the meeting to allow for distribution. Under Government Code Section 54954.2 – Brown Act, the Board cannot take action on any item not on the agenda. The Board may choose to acknowledge the comment or, where appropriate, briefly answer a question, refer the matter to staff, or set the item for discussion at a future meeting.

5. **INPUT FROM EMPLOYEE ASSOCIATIONS**
This is an opportunity for members of the Employee Associations to address the Board on items which are not on the agenda. Please state your name for the record. Comments are limited to three minutes.

6. **ITEMS FOR BOARD DISCUSSION AND/OR ACTION**

6.1. Audit Presentation .... ATTACHMENT
Board will receive a presentation on the 2014/2015 audited financials.

6.2. Election of Board Officers◈
Election of the 2016 President of the Tahoe Forest Board of Directors will take place. The new Board President will then preside over the election of the TFHD Vice President, Secretary and Treasurer for the 2016 board term.

6.2.1. Appointment of Board Committees◈ .... ATTACHMENT
The newly elected President of the Tahoe Forest Hospital District Board of Directors will appoint board members to committees and designate board committee chairs for the 2016 term.

6.2.2. Annual Designation of Board Representative to Medical Executive Committee◈
The Board representative to the Medical Executive Committee will be designated for the 2016 term.

7. **ITEMS FOR NEXT MEETING**

8. **BOARD MEMBERS REPORTS/CLOSING REMARKS**

9. **MEETING EFFECTIVENESS ASSESSMENT** .... ATTACHMENT

◈ Denotes Action Item

The Board will identify and discuss any occurrences during the meeting that impacted the effectiveness and value of the meeting.

10. ADJOURN

The next regularly scheduled meeting of the Board of Directors of Tahoe Forest Hospital District is January 28, 2016, 11603 Donner Pass Rd., Truckee, CA. A copy of the Board meeting agenda is posted on the District's web site (www.tfhd.com) at least 72 hours prior to the meeting or 24 hours prior to a Special Board Meeting.

*Denotes material (or a portion thereof) may be distributed later.

Note: It is the policy of Tahoe Forest Hospital District to not discriminate in admissions, provisions of services, hiring, training and employment practices on the basis of color, national origin, sex, religion, age or disability including AIDS and related conditions.

Equal Opportunity Employer. The meeting location is accessible to people with disabilities. Every reasonable effort will be made to accommodate participation of the disabled in all of the District's public meetings. If particular accommodations for the disabled are needed (i.e., disability-related aids or other services), please contact the Executive Assistant at 582-3481 at least 24 hours in advance of the meeting.

◈ Denotes Action Item

Tahoe Forest Hospital District

Truckee, California

REPORT TO THE BOARD OF DIRECTORS

June 30, 2015

K·COE ISOM

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

We have audited the combined financial statements of Tahoe Forest Hospital District (the District), as of and for the year ended June 30, 2015, and have issued our report thereon dated January 14, 2016. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated July 24, 2015, our responsibility, as described by professional standards, is to form and express an opinion about whether the combined financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the combined financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the combined financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance With All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Safeguards have been implemented to reduce the threats on our independence. These safeguards include continuing education related to independence and ethics requirements; peer review of our firm's quality control system; our firm's internal policies and procedures which are designed to monitor compliance with the independence requirements; and the involvement of another firm partner who is responsible for completing an independent technical review of the combined financial statements and significant audit conclusions.

Qualitative Aspects of the District's Significant Accounting Practices

Significant Accounting Policies Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in note 1 to the combined financial statements. Effective July 1, 2014, the District began to include financial data for the District's legally separate component units in the District's audited financial statements. This change was made in order to comply with accounting principles generally accepted in the United States of America which require financial data for such component units to be reported with the financial data of the primary government. As a result of this change, beginning net position for the year ended June 30, 2014, increased by $1,888,492. There have been no additional initial selections of accounting policies and no changes in significant accounting policies or their application during 2015. No matters have come to our attention that would require us, under professional standards, to inform you about: (1) the methods used to account for significant unusual transactions, and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates Accounting estimates are an integral part of the combined financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the combined financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the combined financial statements are accounts receivable allowances, net patient service revenue, and third-party payor settlements; in particular, those related to Medicare and Medi-Cal programs. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. Medicare and Medi-Cal revenue may be subject to retroactive adjustments as a result of examination by governmental agencies and fiscal intermediaries. These examinations may not be resolved for several years; and, accordingly, there may be retroactive adjustments to net patient service revenue in future periods. Additionally, the District has estimated reserves for claims incurred but not reported under its self-insured health and workers' compensation coverage programs.

Management's estimates of accounts receivable allowances, net patient service revenue, third-party payor settlements, and reserves for claims incurred but not reported are based on management's knowledge of, and experience with, a variety of factors. These factors included collections, write-offs, reimbursement rates, account analyses, cost reports, claims payment history, and actuarial calculations. We evaluated the key factors and assumptions used to develop the estimates and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the District's combined financial statements relate to:

- The disclosure of third-party payor arrangements in note 2 to the combined financial statements. The note focuses on arrangements with Medicare and Medi-Cal and the related revenue recognition.

- The disclosure of concentration of credit risk in note 5 to the combined financial statements. The note describes the mix of accounts receivable by payor class.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the combined financial statements as a whole. There were no uncorrected misstatements identified during the course of our audit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. There were no material corrected misstatements identified during the course of our audit.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the District's combined financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations Requested From Management

We have requested certain written representations from management that are included in the management representation letter dated January 14, 2016.

Management's Consultations With Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the District, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditors.

Change in 2014 Audit Opinion In our report dated October 24, 2014, we expressed a qualified opinion on the June 30, 2014, financial statements. The District had not included financial data for the District's legally separate component units, which should have been presented as blended component units in accordance with accounting principles generally accepted in the United States of America. For the year ended June 30, 2015, management presented the District's legally separate component units as blended component units in the District's audited financial statements and has restated the June 30, 2014, financial statements, accordingly. As a result of the change in reporting entity, the restated June 30, 2014, combined financial statements conform to current accounting principles generally accepted in the United States of America. Accordingly, our present opinion on the restated June 30, 2014, combined financial statements is different from that expressed in our previous report.

This report is intended solely for the information and use of the Board of Directors and management of Tahoe Forest Hospital District and is not intended to be, and should not be, used by anyone other than these specified parties.

We would like to take this opportunity to express our appreciation for the cooperation and assistance provided to us during the audit by your staff. We look forward to a continued relationship with you.

KCoe Isom, LLP

January 14, 2016
Chico, California

Tahoe Forest Hospital District

Truckee, California

COMBINED FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

June 30, 2015 and 2014

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ISOM

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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, 2015 and 2014; the related combined statements of revenues, expenses, and changes in net position and cash flows for the years then ended; and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

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 audit 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.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2015 and 2014, and the results of its operations, changes in net position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note 17 to the combined financial statements, and as described below, management changed the reporting entity for the years ended June 30, 2015 and 2014, in order to comply with the requirements of accounting principles generally accepted in the United States of America. Our opinion on the June 30, 2015, combined financial statements is not modified with respect to this matter.

Other Matters

Report on Supplementary Information Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5 through 15 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 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.

INDEPENDENT AUDITORS' REPORT
(Continued)

Change in 2014 Audit Opinion In our report dated October 24, 2014, we expressed a qualified opinion on the June 30, 2014, financial statements. Management had not included financial data for the District's legally separate component units, which should have been presented as blended component units in accordance with accounting principles generally accepted in the United States of America. For the year ended June 30, 2015, management has presented the District's legally separate component units as blended component units in the District's audited combined financial statements and has restated the June 30, 2014, financial statements, accordingly. As a result of the change in reporting entity, the restated June 30, 2014, combined financial statements conform to current accounting principles generally accepted in the United States of America. Accordingly, our present opinion on the restated June 30, 2014, combined financial statements, as presented herein, is different from that expressed in our previous report.

KCoe Isom, LLP

January 14, 2016
Chico, California

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary information)

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management 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 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 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 decreased $4.9 million in 2015. Total cash and cash equivalents increased $1.2 million in 2015. Net patient accounts receivable decreased $3.25 million. Days net patient service revenue in net patient accounts receivable decreased to 54.8 days at June 30, 2015. Capital assets increased $6.6 million. Assets Limited as to Use – Net decreased by $9.6 million.

- Total liabilities decreased $5.1 million, current liabilities decreased $3.5 million, and noncurrent liabilities decreased $1.6 million.

- The increase in net position for 2015 was $2.1 million.

FINANCIAL ANALYSIS OF THE DISTRICT

The District's net position increased $2.1 million from a year ago to $99.4 million. Table 1 provides a summary of the District's net position for 2015 and 2014.

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

June 30	2015	2014
Assets		
Current assets	$ 39,532	$ 41,102
Assets limited as to use - net	57,840	67,471
Capital assets - net	151,485	144,885
Other assets	842	1,166
Total Assets	249,699	254,624
Total Deferred Outflows of Resources	4,231	2,331
Liabilities		
Current liabilities	20,964	24,190
Noncurrent liabilities	133,571	135,501
Total Liabilities	154,535	159,691
Net Position		
Unrestricted	62,256	59,776
Net investment in capital assets	36,059	36,733
Restricted by donor for specific uses	1,081	754
Total Net Position	$ 99,396	$ 97,263

In 2015, the District's cash and investments position decreased $8.6 million.

Table 2
SUMMARY OF CASH AND INVESTMENTS
(In thousands)

June 30		2015		2014
Account				
Cash and cash equivalents and short-term investments	$	11,497	$	10,316
Board designated fund		40,731		40,636
Specific purpose fund		3,382		3,049
Workers' compensation fund		13		19
Unexpended capital bond fund		15,432		25,644
Total Available Cash and Investments	$	71,055	$	79,664

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 $1.3 million. An increase in our cash position was anticipated as we finished our recovery from the system conversion done in 2013. The lag time in billing and collections has been reduced and collections have greatly improved. The unexpended capital bond fund shows a decrease of $10.2 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), and due to the refunding of the 2006 Revenue Bond.

CAPITAL ASSETS - NET

Net capital assets increased $6.6 million to $151.5 million at June 30, 2015. This increase resulted from $35.6 million in capital additions offset by $9.7 million in depreciation, and $19.3 million of asset transfers from construction in progress. The capital additions include $24.5 million in equipment, building and land improvements (of which $19.3 million were transfers from construction in progress), and $11.1 million in construction in progress. Major capital additions during the year included investment in imaging equipment (ultrasound and CT Scan), investment in our computer information systems network, software, and software upgrades, and construction for projects related to Measure C on the Tahoe Forest Hospital campus.

DEBT ADMINISTRATION

The District has debt obligations as follows:

June 30	2015	2014
General Obligation Bond Series 2015	$ 30,810,000	$ -
General Obligation Bond Premium	728,152	-
Revenue Bonds Series 2015	20,979,000	-
Variable Rate Demand Revenue Bonds Series 202	9,555,000	9,865,000
Revenue Bonds Series 2006	-	23,975,000
General Obligation Bonds Series 2007	69,100,000	98,495,000
Municipal lease	2,551,645	3,749,992
Bank equipment leases	32,677	1,846
Totals	$ 133,756,474	$ 136,086,838

The District saw a decrease in its debt obligations by $3.1 million due to principal payments on the Municipal Lease, Variable Rate Demand Revenue Bonds Series 2002, and the advance refunding of Revenue Bonds Series 2006.

REVENUES, EXPENSES, AND NET POSITION

Table 3 shows the revenues, expenses, and net position for 2015 and 2014.

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

June 30	2015	2014
Operating Revenues		
Net patient services revenue	$ 118,955	$ 107,664
Other	6,984	6,711
Total Operating Revenues	125,939	114,375
Operating Expenses		
Salaries and wages	41,305	40,493
Employee benefits	22,499	20,765
Professional fees	20,649	18,674
Supplies	17,158	14,940
Purchased services	10,951	10,104
Depreciation	9,613	8,642
Insurance	598	711
Cost of bond issuance	400	-
Other operating expenses	6,744	5,938
Total Operating Expenses	129,917	120,267
Operating Loss	(3,978)	(5,892)
Nonoperating Revenues (Expense)		
District tax revenue	5,481	4,902
District tax revenue - general obligation bonds	4,829	4,745
Loss recognized on joint venture	(136)	(192)
Interest income	317	280
Rental income - net	231	238
Donations	648	659
Gain (Loss) on sale of assets	-	1
Interest expense	(5,259)	(5,390)
Total Nonoperating Revenues (Expenses)	6,111	5,243
Income (Loss) Before Other Revenues, Expenses, Gains and Losses	2,133	(649)
Capital contributions	-	668
Increase (Decrease) in Net Position	2,133	19
Net Position - Beginning of Year	97,263	97,244
Net Position - End of Year	$ 99,396	$ 97,263

NET PATIENT SERVICE REVENUE

For the year ended June 30, 2015, net patient service revenue increased by $11.3 million or 10.5%. 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 revenue increased by $18.5 million or 9.8%, of which $6.6 million was inpatient and $11.8 million was outpatient. Inpatient gross revenue increased primarily due to a price increase that was effective August 1, 2014. Outpatient gross revenue increased due to the price increase as well, but we also saw 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 31.7%, lab tests 15.8%, PET/CT exams 9.7%, ultrasound exams 10.5%, radiology exams 4.9%, and physical therapy procedures 5.5%.

Contractual allowances as a percent of gross patient service revenue was 38.4%, compared to last year's 38.6%, reflecting a 0.2% decrease from prior year. We anticipated an increase in the contractual allowance percentage based upon the payor mix, but we were able to capture back the additional reserves built into the net accounts receivable due to the many information technology system conversions. We have been successful in our billing and collections efforts related to these conversions. (See DEDUCTIONS FROM REVENUE below).

Charity care remained the same when compared to prior year. Fiscal year 2015 was approximately 3.1% of gross patient service revenue, and fiscal year 2014 was approximately 3.2% (See CHARITY CARE AND COMMUNITY BENEFIT below). In addition, provision for bad debts as a percent of gross patient service revenue showed a slight increase of .02% compared to previous year.

INPATIENT BUSINESS ACTIVITY

Total admissions increased by 70 and total patient days decreased by 156 reflecting a decrease in our average length of stay of .21 days. Tahoe Forest Hospital (TFH) became a critical access hospital effective July 1, 2007, reducing its acute care beds to 25, down from 35. Incline Village Community Hospital (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	**2015**	**2014**
Acute		
Admissions	1,687	1,617
Length of stay	2.68	2.89
Average daily census	12.4	12.8
Occupancy percentage	42.70%	44.20%
Patient days	4,521	4,677
Total ICU days	556	563
Total medical/surgical days	3,025	3,194
Total obstetrics days	940	920
Total swing days	231	283
Nursery days	883	877
Deliveries	383	366
Skilled Nursing Units		
Patient days	12,086	12,133
Average daily census	33	33
Occupancy percentage	89.50%	89.80%

OUTPATIENT BUSINESS ACTIVITY

The District's outpatient revenue was 9.4% higher than the prior year. The increase is attributable to an increase in volumes related to lab tests, radiology exams, ultrasound exams, CT and PET CT exams, oncology procedures and physical therapy procedures.

Table 5
OUTPATIENT BUSINESS ACTIVITY

June 30	**2015**	**2014**
Emergency department visits	16,351	16,264
Laboratory test	166,489	143,751
Home health visits	3,575	3,778
Radiology exams	11,124	10,600
Ultrasound exams	4,253	3,848
Cat scan exams (including PET CT)	4,100	3,951
MRI scan exams	1,838	1,851
Radiation oncology procedures	3,390	4,174
Surgery cases	1,058	1,093
Surgery minutes	92,514	99,961

DEDUCTIONS FROM REVENUE

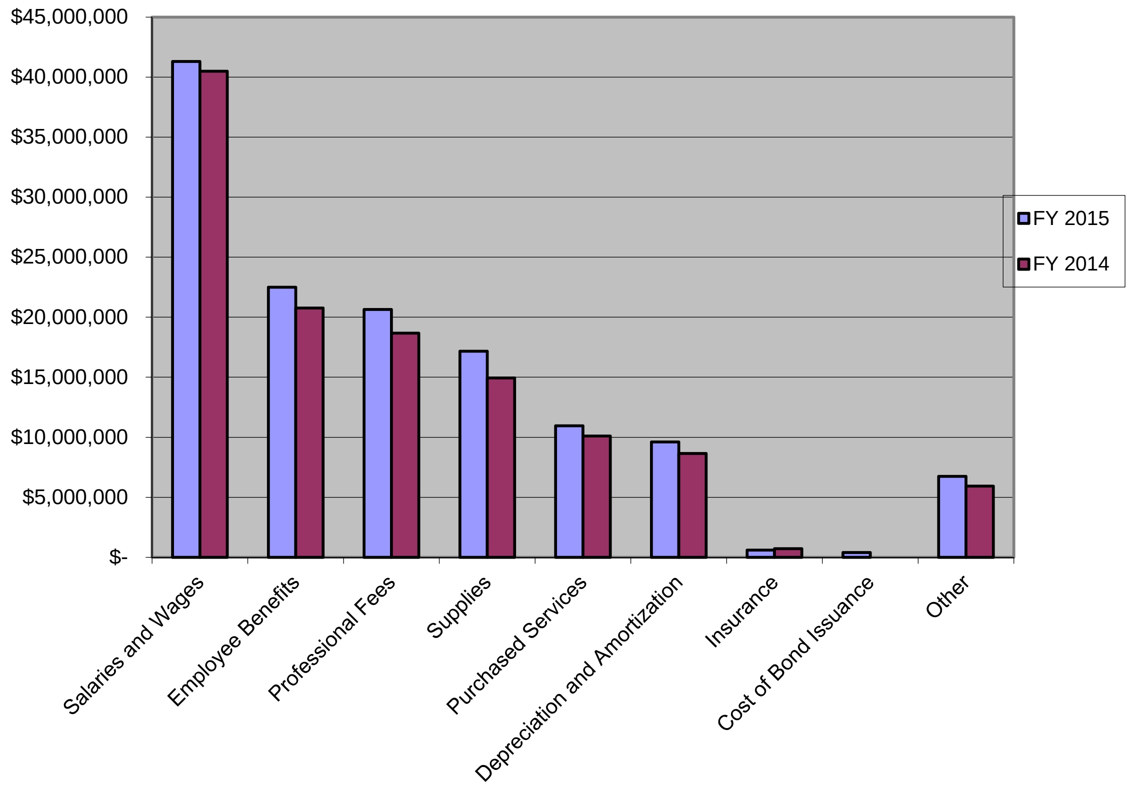
Contractual allowance adjustments (expressed as a percentage of gross revenues) were 38.4% for fiscal year 2015 and 38.6% for fiscal year 2014. The District's payor mix for fiscal year 2015 was 35.7% Medicare, 17.9% Medi-Cal, 0.1% County, 3.8% other, and 42.5% insurance; compared to fiscal year 2014 mix of 34.3% Medicare, 13.1% Medi-Cal, 1.3% County, 6.4% other, and 44.9% insurance. The state programs, as well as some federal programs, continue to hold reimbursements to the District below actual increases (inflation) in costs. Both TFH and IVCH are designated as critical access hospitals under the Medicare program, which provides for cost-based reimbursement of Medicare services.

CHARITY CARE AND COMMUNITY BENEFIT

The District provides care without charge, or at amounts less than established rates, to patients who meet certain criteria under its charity care policy. Charity allowances are based upon the customary charges for the services provided under this program. The District recorded $6.4 million in charity care for patient services during fiscal year 2015 and $6.1 million for fiscal year 2014.

OPERATING EXPENSES

Total operating expenses were $129.5 million for the year ended June 30, 2015, and $120.3 million for the year ended June 30, 2014, as summarized in the graph. Total operating expenses increased $9.6 million, or 8% from the prior year.



The District experienced an increase in the area of salaries and wages and employee benefits, a combined increase of $2.5 million, due to the result of wage increases as outlined in the employee bargaining unit agreements which took effect July 1, 2013, and have a 3-year term. In addition, we experienced an increase in our health insurance and retirement plan costs. Professional fees increased $1.9 million primarily due to our contract with an anesthesiology group to provide exclusive anesthesia services, continued development of the hospitalist program, continued work related to our revenue cycle process improvement project, and increased volume in our gastroenterology multi-specialty clinics. Supplies increased $2.2 million due to increased volume in our oncology program, requiring more oncology pharmaceuticals, and greater supply costs in our surgical/gastroenterology programs. Purchased services increased $0.85 million due to plant repair and maintenance, services provided as part of the new wellness program, and maintenance agreements for surgery, lab, and pharmacy equipment. Depreciation and amortization increased $1.0 million due depreciation on the general obligation bond (Measure C) capital projects such as the emergency/sterile processing department project and the CT scanner replacement project. We also had depreciation associated with the continued investment in our information technology systems, and other large capital purchases in surgery and imaging.

ECONOMIC FACTORS AFFECTING NEXT YEAR

The 2014-15 fiscal year was another challenging year for the District. Management focused on effectively controlling operating expenses, while navigating through a terrible winter season, all in an effort to balance the District's financial position. The year was plagued by multiple challenges in market conditions. Notwithstanding the dismal winter season, our market began to realize the impact of the second-year 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. Statewide, TFH and similar hospitals with Distinct-part skilled nursing facilities (DP/SNF) worked diligently to mitigate the threat of retroactive reimbursement reductions, and are still faced with these threats in fiscal year 2015-16.

Management also continues to see significant changes to the organization's payor mix, driven primarily by the insurance exchanges, Medi-Cal expansion, and aging population utilizing Medicare. We will continue to feel pressure from various insurance companies to renegotiate our payor contracts driving down our levels of reimbursement. Management will continue to push back to try to maintain successfully negotiated contracts with maximum reimbursement levels, inclusive of the products offered on the State exchanges (California and Nevada), as well as with the California Medi-Cal managed care plans and Nevada Medicaid payors.

Multiple departments worked together to deploy and implement the software and hardware changes required to meet the meaningful use stage 1 requirements. The District met all the required metrics and attested as a meaningful user by June 30, 2015. The District was also well prepared for the change from ICD-9 to ICD-10. Systems were tested and/or upgraded, and physicians and staff were well trained.

The District is in the planning stages to meet meaningful use stage 2, and we are currently performing market research into the long-term application of electronic health record (EHR) as directed by the strategic plan. We will have a recommendation on how to proceed in the third quarter of fiscal year 2015-16. New systems that will be implemented in the coming year will be a secure identification system for our patients, a new mobile application aimed at improved wellness and health status, computer aided coding, voice recognition, denials management, payment estimation and authorizations.

The Tahoe Forest Hospital Facilities Development Plan continues to be executed within the general board-approved budgets for each project. During 2014-15, we were able to occupy the new emergency department and sterile processing expansions, the interim birthing area in the Western addition, and initiate the final phase of the Measure C projects with the demolition of a 1952 building and beginning construction of the Women and Family Center. However, we may be challenged by the Office of Statewide Planning and Development (OSHPD) in regard to requirements imposed after the new Women and Family Center is complete, and the interim birthing area is vacated. The estimated costs of these potential requirements are approximately $1 million.

The 2015-16 fiscal year is an aggressive year. Management is projecting earnings from operations (EBITDA) of approximatley $2 million and a drop in cash reserves of approximately $1.4 million; however, the day's cash on hand target remains at 157 days due to a reduction in our expenses per day. Management is projecting $8.5 million in favorable cash flow from operations, philanthropic activities and property tax revenues.

The largest impact on cash is the exceptional number of capital projects that are scheduled to be staged during the fiscal year. The scope of projects includes the continuation of information system transitions, funding of personal property for Measure C project occupancies, installation of the surgical lights and booms, replacement of the nurse call system, and significant projects for IVCH. The IVCH projects include replacement of the siding, enhancements to the HVAC system for the isolation room, second floor upgrades that will be funded by donor support, replacing the 30-year old chiller system, and replacing a portion of the roof. Just these noted capital projects exceed $6.5 million in capital investment for the District.

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

Management will continue to take an aggressive and proactive position on managing controllable expenses in fiscal year 2015-16 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

Tahoe Forest Hospital District

COMBINED STATEMENTS OF NET POSITION

June 30	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	$ 12,697,818	$ 11,347,380
Patient accounts receivable - net of allowance for uncollectible accounts of $16,903,061 in 2015 and $19,740,807 in 2014	17,870,107	21,124,945
Advances to related party	2,112,114	1,709,926
Other receivables	1,541,387	972,045
Assets limited as to use	1,717,337	1,878,250
Inventories	2,317,563	2,506,410
Prepaid expenses and deposits	1,454,114	1,568,323
Unconditional promises to give - net	30,536	94,899
Beneficial interest in Community for Cancer Care Endowment	1,274,996	1,205,980
Estimated third-party payor settlements	1,024,506	805,104
Total Current Assets	42,040,478	43,213,262
Assets Limited as to Use		
Assets limited as to use	59,557,519	69,348,918
Less: Amount required to meet current obligations	(1,717,337)	(1,878,250)
Assets Limited as to Use - Net	57,840,182	67,470,668
Noncurrent Assets and Investments		
Investment in joint venture	324,395	496,395
Physician notes receivable	517,915	586,511
Other noncurrent assets	-	83,333
Capital assets - net	151,485,005	144,885,483
Total Assets	252,207,975	256,735,652
Deferred Outflow of Resources		
Deferred loss on defeasance - net	2,456,847	620,616
Accumulated decrease in fair value of hedging derivative	1,774,439	1,710,011
Total Deferred Outflow of Resources	4,231,286	2,330,627
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 256,439,261	$ 259,066,279

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

COMBINED STATEMENTS OF NET POSITION
(Continued)

June 30		2015		2014
LIABILITIES				
Current Liabilities				
Current maturities of long-term debt and capital lease obligations	$	1,960,073	$	2,295,193
Accounts payable		5,323,111		5,754,727
Patient balances payable		633,635		1,282,330
Accrued payroll and related expenses		8,167,980		8,302,901
Estimated claims incurred but not reported		2,536,741		2,895,012
Estimated third-party payor settlements		368,523		1,097,690
Other accrued expenses		533,448		223,077
Accrued interest		1,718,963		2,561,726
Total Current Liabilities		21,242,474		24,412,656
Noncurrent Liabilities				
Long-term debt and capital lease obligations - net of current maturities		131,796,401		133,791,645
Derivative instrument liability		1,774,439		1,710,011
TOTAL LIABILITIES		154,813,314		159,914,312
NET POSITION				
Net investment in capital assets		36,058,660		36,733,130
Temporarily restricted		3,179,415		2,440,917
Unrestricted		62,387,872		59,977,920
TOTAL NET POSITION		101,625,947		99,151,967
TOTAL LIABILITIES AND NET POSITION	$	256,439,261	$	259,066,279

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

Tahoe Forest Hospital District

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

Years Ended June 30	2015	2014
Operating Revenues		
Net patient service revenue - net of contractual allowances and provision for bad debts of $87,883,743 in 2015 and $80,714,236 in 2014	$ 118,954,594	$ 107,664,272
Other revenue	6,983,789	6,710,952
Total Operating Revenues	125,938,383	114,375,224
Operating Expenses		
Salaries and wages	41,305,001	40,492,967
Employee benefits	22,498,628	20,764,643
Professional fees	20,649,250	18,673,595
Supplies	17,158,123	14,939,799
Purchased services	10,950,904	10,104,398
Depreciation and amortization	9,612,792	8,681,205
Insurance	598,253	711,516
Other	7,417,268	6,804,795
Total Operating Expenses	130,190,219	121,172,918
Operating Loss	(4,251,836)	(6,797,694)
Nonoperating Revenues (Expenses)		
Property tax revenue	5,480,605	4,902,246
Property tax revenue - general obligation bonds	4,829,411	4,744,356
Loss recognized on joint venture	(136,300)	(191,666)
Contributions - net	760,529	440,460
Change in value of beneficial interest in Community for Cancer Care Endowment	3,688	166,456
Special event revenue	498,692	525,730
Interest income	317,042	280,574
Rental income - net	231,065	237,992
Gain on disposal of assets	-	1,000
Interest expense	(5,258,916)	(5,351,418)
Total Nonoperating Revenues (Expenses)	6,725,816	5,755,730
Income Before Other Revenues, Expenses, Gains and Losses	2,473,980	(1,041,964)
Capital contributions	-	668,498
Increase (Decrease) in Net Position	2,473,980	(373,466)
NET POSITION		
Net Position - Beginning of Year	99,151,967	99,525,433
Net Position - End of Year	$ 101,625,947	$ 99,151,967

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

Tahoe Forest Hospital District
COMBINED STATEMENTS OF CASH FLOWS

Years Ended June 30	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from, and on behalf of, patients	$ 120,612,168	$ 112,733,529
Payments to suppliers and contractors	(56,145,837)	(52,241,660)
Payments to, and on behalf of, employees	(64,531,716)	(60,867,928)
Other receipts and payments - net	6,938,830	7,340,525
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,873,445	6,964,466
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property tax revenue received for operations	5,428,875	5,290,791
Contributions received	824,892	546,547
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	6,253,767	5,837,338
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	-	668,498
Acquisition of property and equipment	(15,422,249)	(14,497,404)
Transfers to board-designated assets	(415,291)	(7,211,504)
Change in assets held by trustee	7,292,692	12,216,084
Property tax revenue received for general obligation bonds	5,178,785	4,944,094
Principal paid on general obligation bonds	(50,000)	(5,000)
Interest payments on general obligation bonds	(4,677,674)	(4,678,774)
Principal paid on long-term debt and capital leases	(2,251,756)	(2,685,815)
Interest paid on long-term debt and capital leases	(1,689,942)	(1,727,737)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(12,035,435)	(12,977,558)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	307,347	281,790
Net cash received for rental activities	317,802	310,264
Advances to related party	(402,188)	(727,943)
Cash received from joint venture	35,700	40,288
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	258,661	(95,601)
Net Increase (Decrease) in Cash and Cash Equivalents	1,350,438	(271,355)
Cash and Cash Equivalents - Beginning of Year	11,347,380	11,618,735
Cash and Cash Equivalents - End of Year	$ 12,697,818	$ 11,347,380

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

Tahoe Forest Hospital District

COMBINED STATEMENTS OF CASH FLOWS
(Continued)

Years Ended June 30	2015	2014
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	$ (4,251,836)	$ (6,797,694)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	9,651,580	8,642,417
Provision for bad debts	3,321,782	3,062,443
Changes in:		
Patient accounts receivable	(66,944)	(1,379,769)
Inventories	188,847	(239,263)
Prepaid expenses	114,209	(502,208)
Estimated third-party payor settlements	(948,569)	3,035,198
Accounts payable and accrued expenses	(669,808)	106,929
Patient balances payable	(648,695)	351,385
Other	182,879	685,028
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 6,873,445	$ 6,964,466
NONCASH INVESTING AND FINANCING ACTIVITIES		
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	$ -	$ -
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 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 (TFHS) 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.

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, 2015, the LAIF pool includes structured notes and asset-backed securities which total 2.08% 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, 2015, the fair value of LAIF was 100.04% 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, 2015. 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, 2015 and 2014, the valuation allowance was $3,392 and $10,655, 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.

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 $26,728 and $129,136 at June 30, 2015 and 2014, respectively.

During the year ended June 30, 2014, IVCHF transferred $75,000 to Parasol under the arrangements of a short-term investment without granting variance power to Parasol. These funds were transferred back to IVCHF subsequent to June 30, 2015.

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 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 $92,855 and $61,147 was recorded by the District for the years ended June 30, 2015 and 2014, 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.

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 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 $838,000 and $1,040,000 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014, was $187,477 and $148,689, respectively. Amortization expense for each of the years ended June 30, 2015 and 2014, 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. As of June 30, 2015, the District had not recorded any related amortization. Deferred income recognized 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. As of June 30, 2015, the District had not recorded any related amortization. Amortization expense is estimated to be approximately $60,000 for each of the next five years.

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 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.

Charity Care The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charges excluded from revenue under the District's charity care policy were $6,372,980 and $6,074,298 for 2015 and 2014, 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 8% of its financial support from property taxes in 2015 and 2014.

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.

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, 2015 and 2014, 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, 2013, 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 reimbursments 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, 2013, and final settlements have been paid through that date. Outpatient services related to Medi-Cal beneficiaries are paid at prospectively determined rates per procedure.

Revenue from the Medicare and Medi-Cal programs accounted for approximately 36% and 18% of gross patient service revenue in 2015 and approximately 34% and 14% of gross patient revenue in 2014, 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 $81,000 in 2015 and approximately $631,000 in 2014 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:

		Fair Value at	
June 30	**Maturities**	**2015**	**2014**
Cash and Cash Equivalents			
Deposits (1)		$ 13,222,739	$ 11,554,539
LAIF (2)	7.9 months average	41,304,803	41,207,274
Subtotal		54,527,542	52,761,813
Assets Held by Trustees			
Cash		4,367,189	6,181,419
Money market funds		29,820	2,564,125
LAIF (2)	7.9 months average	13,330,786	18,288,562
Government bonds		-	900,379
Total Assets Held by Trustees		17,727,795	27,934,485
Total Cash, Deposits, and Investments		$ 72,255,337	$ 80,696,298

(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	**2015**	**2014**
Cash and cash equivalents	$ 12,697,818	$ 11,347,380
Assets limited as to use	59,557,519	69,348,918
Total Cash, Deposits, and Investments	$ 72,255,337	$ 80,696,298

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 $12,197,422 and $13,417,330 at June 30, 2015 and 2014, 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, 2015.

4. ASSETS LIMITED AS TO USE

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

June 30	2015	2014
Board Designated Assets		
Cash	$ 252,729	$ 152,659
LAIF	41,576,995	41,261,774
Subtotal	41,829,724	41,414,433
Assets Held by Trustees		
Cash	4,367,189	6,181,419
Money market funds	29,820	2,564,125
LAIF	13,330,786	18,288,562
Government bonds	-	900,379
Subtotal	17,727,795	27,934,485
Total Assets Limited as to Use	$ 59,557,519	$ 69,348,918

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	2015	2014
Medicare	27%	28%
Medi-Cal	17%	16%
Patients	18%	17%
Commercial insurance and others	38%	39%
Totals	100%	100%

6. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

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	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

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

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.

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

				Expenditures
Construction Project	**Prior**	**2014**	**2015**	**Total**
Dietary #1	$ 3,197,158	$ 1,285,917	$ 654,354	$ 5,137,429
Infill/Medical Records	1,983,025	37,951	1,656	2,022,632
S. Building/Interim Birthing/Dietary/Respiratory Therapy	2,688,902	3,196,114	5,220,513	11,105,529
TFH Master Plan	1,359,285	41,041	242	1,400,568
Cancer Center Building	26,971,163	139,250	8,413	27,118,826
Cancer Center Equipment	2,301,095	-	-	2,301,095
Central Plant Upgrades	15,395,060	-	30,089	15,425,149
Emergency Dept/Sterile Processing	6,269,299	5,563,534	2,142,957	13,975,790
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	199,774	-	-	199,774
Totals	$ 69,776,091	$ 10,263,807	$ 8,058,224	$ 88,098,122

8. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

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

June 30, 2015	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
2015 General Obligation Bonds	$ -	$ 30,810,000	$ -	$ 30,810,000	$ -
2015 General Obligation Bonds Premium	-	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 $934, 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

June 30, 2014	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Series 2006 Revenue Bonds	$ 24,675,000	$ -	$ 700,000	$ 23,975,000	$ 735,000
Series 2002 Variable Rate Demand Revenue Bonds	10,155,000	-	290,000	9,865,000	310,000
Series A (2008) General Obligation Bonds	29,400,000	-	5,000	29,395,000	50,000
Series B (2010) General Obligation Bonds	43,000,000	-	-	43,000,000	-
Series C (2012) General Obligation Bonds	26,100,000	-	-	26,100,000	-
Lease agreement with Bank of America Public Capital payable in monthly installments of $103,637, including interest at 1.42% through July 2017. The lease is collateralized by equipment and any unspent lease proceeds.	4,931,515	-	1,181,523	3,749,992	1,198,347
Lease agreement with US Bank payable in monthly installments of $4,809, included interest at 4.62% through July 2014. The lease was collateralized by equipment.	56,291	-	56,291	-	-
Lease agreement with Bank of America payable in monthly installments of $38,350, included interest at 4.06% through May 2014. The lease was collateralized by equipment.	413,411	-	413,411	-	-
Lease agreement with US Bank payable in monthly installments of $773, included interest at 6.71% through June 2014. The lease was collateralized by equipment.	8,948	-	8,948	-	-
Balance Forward	$ 138,740,165	$ -	$ 2,655,173	$ 136,084,992	$ 2,293,347

June 30, 2014	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Balance Brought Forward	$ 138,740,165	$ -	$ 2,655,173	$ 136,084,992	$ 2,293,347
Lease agreement with Great America Leasing payable in monthly installments of $473, included interest at 2.60% through June 2014. The lease was collateralized by equipment.	5,581	-	5,581	-	-
Lease agreement with Graphic Savings Group payable in monthly installments of $1,631, included interest at 0.04% through June 2014. The lease was collateralized by equipment.	19,569	-	19,569	-	-
Lease agreement with Great America Leasing payable in monthly installments of $934, including interest at 0.01% through August 2014. The lease is collateralized by equipment.	12,338	-	10,492	1,846	1,846
Total Long-Term Debt and Capital Lease Obligations	$ 138,777,653	$ -	$ 2,690,815	$ 136,086,838	$ 2,295,193

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

	Long-Term Debt		Capital Lease Obligations	
Years Ending June 30	Principal Amount	Interest Amount	Principal Amount	Interest Amount
2016	$ 738,098	$ 5,460,784	$ 1,221,975	$ 30,528
2017	1,664,212	5,458,593	1,240,523	11,886
2018	2,045,835	5,394,819	111,671	725
2019	2,274,222	5,314,120	8,522	237
2020	2,518,902	5,222,121	1,631	3
2021 to 2025	16,838,547	24,278,434	-	-
2026 to 2030	25,000,520	19,795,262	-	-
2031 to 2035	34,550,621	13,877,688	-	-
2036 to 2040	34,771,196	6,693,938	-	-
2041 to 2045	10,769,999	756,250	-	-
Totals	$ 131,172,152	$ 92,252,009	$ 2,584,322	$ 43,379

Following is a summary of equipment under capital leases:

June 30	**2015**	**2014**
Cost of equipment	$ 4,526,546	$ 3,709,721
Less: Accumulated depreciation	1,509,788	974,183
Capital Lease Equipment - Net	$ 3,016,758	$ 2,735,538

Following is a summary of bonded debt:

June 30, 2015	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 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
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
Total General Obligation Bonds			99,910,000
Total			$ 132,889,000

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 2015 Revenue Bonds (the Series 2015 Bonds), and on February 1 and August 1 for the General Obligation Bonds (the G.O. Bonds).

Principal payments on the bonds are as follows:

June 30, 2015	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 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
2015 General Obligation Bonds	August 1 ranging from $165,000 to $2,895,000

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

		Due Annually	
June 30, 2015	**Required Deposits**	**Commencing**	**Ending**
2002 Variable Rate Demand Revenue Bonds	$275,000 to $805,000	July 2006	July 2033
2015 Revenue Bonds - Term Bonds	$761,114 to $1,583,873	July 2016	July 2033
Series 2015 General Obligation Bonds - Term Bonds	$2,515,000 to $2,895,000	August 2036	August 2038
Series B (2010) General Obligation Bonds - Term Bonds	$1,630,000 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 2015 Bonds to advance refund $20,979,000 of Series 2006 Bonds outstanding. The Series 2015 Bonds are secured by a pledge of gross revenues.

In connection with the Series 2015 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 $143,111 at June 30, 2015.

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 series 2015 G.O. Bonds were issued for the purpose of refinancing the 2008 Series A 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.

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.

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 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) general obligation bonds totaling $29,345,000 with the 2015 general obligation refunding 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.

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 $1,774,439 and $1,710,011 as of June 30, 2015 and 2014, 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 $1,774,439 and $1,710,011 at June 30, 2015 and 2014, respectively, and a corresponding accumulated decrease in fair value of hedging derivative (deferred outflow of resources).

Credit Risk As of June 30, 2015, 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, 2015. 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 $2,582,757 and $2,175,058 in 2015 and 2014, 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 $824,203 and $890,902 at June 30, 2015 and 2014, 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.

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, 2015 and 2014, has been included in the accompanying balance sheets under estimated claims incurred but not reported. Changes in the claims liability are as follows:

June 30	**2015**	**2014**
Estimated claims incurred but not reported - beginning of year	$ 997,635	$ 860,027
Incurred claims and claims adjustment expense	9,285,432	7,611,788
Claim payments	(8,975,336)	(7,474,180)
Estimated Claims Incurred But Not Reported - End of Year	$ 1,307,731	$ 997,635

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, 2015 and 2014, has been included in the accompanying balance sheets under estimated claims incurred but not reported. Changes in the claims liability are as follows:

June 30	**2015**	**2014**
Estimated claims incurred but not reported - beginning of year	$ 1,006,475	$ 1,392,606
Incurred claims and claims adjustment expense	2,032	237,675
Claim payments	(603,700)	(623,806)
Estimated Claims Incurred But Not Reported - End of Year	$ 404,807	$ 1,006,475

12. COMMITMENTS AND CONTINGENCIES

Construction Project Commitments

Construction project commitments as of June 30, 2015, were as follows:

Construction Project	**Remaining Construction Commitments**
Emergency Department/Sterile Processing Department	$ 222,177
Interim Birthing at WA	38,787
South Building; Birthing/Dietary Phase II	13,140,475
Total	$ 13,401,439

Operating Leases

The District leases certain facilities and equipment under non-cancelable operating leases. Total lease expense was $2,010,150 and $1,994,493 for 2015 and 2014, respectively. Future minimum payments under these non-cancelable operating lease agreement are as follows:

Years Ending June 30		
2016	$	1,031,757
2017		451,867
2018		341,884
2019		172,686
2020		108,917
Thereafter		1,408
Total Minimum Payments	$	2,108,519

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 2015 and 2014 was approximately $45,000 and $7,500, 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.

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	2015	2014
Total assets	$ 4,323,519	$ 4,674,238
Total liabilities	66,414	102,143
Total Equity	$ 4,257,105	$ 4,572,095
Equity Positions		
Tahoe Forest Hospital District	$ 3,920,095	$ 4,092,095
Truckee Surgery Center, Inc.	337,010	480,000
Total	$ 4,257,105	$ 4,572,095
Net Loss	$ (16,533)	$ (126,605)

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	2015	2014
Tahoe Forest Hospital District equity position	$ 3,920,095	$ 4,092,095
Impairment reserve (see note 18)	(3,595,700)	(3,595,700)
Investment in Joint Venture	$ 324,395	$ 496,395

14. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following:

June 30	2015	2014
Receivable in less than one year	$ 32,384	$ 61,249
Receivable in one to five years	3,500	55,153
Total Unconditional Promises to Give	35,884	116,402
Less: Unamortized discount	(1,956)	(10,848)
Less: Allowance for uncollectible amounts	(3,392)	(10,655)
Unconditional Promises to Give - Net	$ 30,536	$ 94,899

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	2015	2014
Capital Campaign - Phase II	$ 365,631	$ 76,149
Cancer prevention	415,303	305,111
Cancer care	1,303,277	1,290,250
Hospice and other	1,095,204	769,407
Total Temporarily Restricted Net Position	$ 3,179,415	$ 2,440,917

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 $1,274,996 and $1,205,980 at June 30, 2015 and 2014, respectively, and is reported in the combined financial statements as beneficial interest in Community for Cancer Care Endowment.

17. CHANGE IN REPORTING ENTITY

Effective July 1, 2014, the District began to include financial data for the District's legally separate component units in the District's audited financial statements. This change was made in order to comply with accounting principles generally accepted in the United States of America which require financial data for such 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. As a result of this change in reporting entity, beginning net position for the year ended June 30, 2014, increased by $1,888,492.

2016 TFHD Board Officer/Committee Interest Survey

I have an interest in serving as one of the following **Board Officers – indicate Yes or No:**
* *NOTE: Sessler is not eligible for a 2nd term as President*

	Yes / No	Yes / No	Yes / No	Yes / No	Yes / No
President:	Mohun:	Sessler: **----**	Chamblin: N	Jellinek: Y	Zipkin: Y
Vice President:	Mohun:	Sessler: Y	Chamblin: N	Jellinek: Y	Zipkin:
Secretary:	Mohun:	Sessler: Y	Chamblin: N	Jellinek: Y	Zipkin:
Treasurer:	Mohun: Y	Sessler: N	Chamblin: Y	Jellinek: Y	Zipkin:

Appointments to Board Committees For 2016

Please rate your interest in serving on the following committees: **#1 = highest and #5 = lowest interest.** Please note that the Board Treasurer serves as chair of the Finance committee.

I am interested in being the chair of the following committee:

• **Finance:**	Mohun: 1	Sessler: 5	Chamblin: 1	Jellinek: 4	Zipkin:
• **Personnel/Retirement:**	Mohun: 5	Sessler: 4	Chamblin: 2	Jellinek: 6	Zipkin:
• **Governance:**	Mohun: 1	Sessler: 3	Chamblin: 6	Jellinek: 2	Zipkin:
• **Quality:**	Mohun: 1	Sessler: 2	Chamblin: 4	Jellinek: 1	Zipkin:
• **Community Benefit:**	Mohun: 5	Sessler: 1	Chamblin: 6	Jellinek: 6	Zipkin:

I am interested in serving on the following committee:

• **Finance:**	Mohun: 1	Sessler: 5	Chamblin: 1	Jellinek: 4	Zipkin: 6
• **Personnel/Retirement:**	Mohun: 5	Sessler: 4	Chamblin: 2	Jellinek: 6	Zipkin: 2
• **Governance:**	Mohun: 1	Sessler: 3	Chamblin: 6	Jellinek: 1	Zipkin: 2
• **Quality:**	Mohun: 1	Sessler: 2	Chamblin: 4	Jellinek: 2	Zipkin: 1
• **Community Benefit:**	Mohun: 5	Sessler: 1	Chamblin: 6	Jellinek: 5	Zipkin: 1

Please type your name to indicate your interest in an appointment to one of the committee positions listed below and indicated your level of interest as **High, Medium, or Low**.

1. **Joint Conference Committee** (Board President and One Other Board Member)

High	**Medium**	**Low**
Zipkin (N)	Sessler (Y)	Chamblin (N)
	Jellinek (N)	Mohun (Y)

2. **IVCH Foundation Executive Committee** (Unofficial Member)

High	**Medium**	**Low**
	Jellinek (N)	Chamblin (N)
		Mohun (N)
		Sessler (N)

3. **Bioethics Committee**

High	**Medium**	**Low**
	Sessler (N)	Chamblin (N)
	Jellinek (N)	Mohun (N)

4. **Citizen's Oversight Committee**

High	Medium	Low
Chamblin (Y)	Jellinek (Y)	Sessler (N)
		Zipkin (N)
		Mohun (N)

5. **Health System Foundation**

High	Medium	Low
Chamblin (Y)	Sessler (N)	Zipkin (N)
	Jellinek (N)	Mohun (N)

6. **Tahoe Institute for Rural Health Research**

High	Medium	Low
Sessler (Y)	Jellinek (N)	Chamblin (N)
		Zipkin (N)
		Mohun (N)

7. **Legislative Ad-Hoc Committee**

High	Medium	Low
	Zipkin (N)	Sessler (Y)
	Jellinek (N)	Chamblin (N)
		Mohun (N)

8. **Med Tech Council**

High	Medium	Low
Mohun (Y)	Jellinek (Y)	Sessler (N)
		Chamblin (N)
		Zipkin (N)

Tahoe Forest Hospital District

Board of Directors Meeting Evaluation Form

Date: ____

		Exceed Expectations		Meets Expectations		Below Expectations
1	Overall, the meeting agenda is clear and includes appropriate topics for Board consideration	5	4	3	2	1
2	The consent agenda includes appropriate topics and worked well	5	4	3	2	1
3	The Board packet & handout materials were sufficiently clear and at a 'governance level'	5	4	3	2	1
4	Discussions were on target	5	4	3	2	1
5	Board members were prepared and involved	5	4	3	2	1
6	The education was relevant and helpful	5	4	3	2	1
7	Board focused on issues of strategy and policy	5	4	3	2	1
8	Objectives for meeting were accomplished	5	4	3	2	1
9	Meeting ran on time	5	4	3	2	1

Please provide further feedback here: