

MATSON  
& ISOM

TAHOE FOREST  
HOSPITAL DISTRICT

**Truckee, California**

FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITORS' REPORT

**June 30, 2012 and 2011**

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June 30, 2012 and 2011

*Tahoe Forest Hospital District*

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## INDEPENDENT AUDITORS' REPORT

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



MATSON  
& ISOM

We have audited the accompanying balance sheets of Tahoe Forest Hospital District (the District), a California political subdivision, as of June 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended, which collectively comprise the basic financial statements of the District as the primary government. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In our opinion, because of the omission of the discretely presented component units, as discussed previously, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units of the District as of June 30, 2012 and 2011, or the changes in financial position thereof for the years then ended.

Further, in our opinion, the financial statements referred to previously present fairly in all material respects, the financial position of the District as the primary government as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITORS' REPORT

Continued

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

*Matson and Isom*

October 17, 2012  
Chico, California

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(Required Supplementary Information)**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

The Balance Sheets, the Statements of Revenues, Expenses, and Changes in Net Assets and Statements of Cash Flows provide an indication of the District's financial health. The Balance Sheets include all of the District's assets 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 Assets report all of the revenues, expenses, increases and decreases in net assets during the time period indicated that resulted from the District's operating and non-operating transactions and capital contributions during the year. The Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources such as investment income, repayment of bonds, and capital additions and improvements.

**FINANCIAL HIGHLIGHTS**

- Total assets increased \$9.8 million in 2012. Total cash and cash equivalents increased \$.8 million in 2012. Net patient accounts receivable increased \$.75 million. Days net patient service revenue in net patient accounts receivable stayed at 59 days at June 30, 2012. Capital assets increased \$35.9 million. Assets Limited as to Use – Net decrease of \$30.1 million.
- Total liabilities increased \$1.7 million, current liabilities increased \$1.9 million, and noncurrent liabilities decreased \$.2 million.
- The increase in net assets for 2012 was \$8.1 million.

**FINANCIAL ANALYSIS OF THE DISTRICT**

The District's net assets increased \$8.1 million from a year ago to \$101.6 million. Table 1 provides a summary of the District's net assets for 2012 and 2011.

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

<b>Assets:</b>	<b>2012</b>	<b>2011</b>
Current assets	\$41,371	\$38,703
Board-designated and restricted funds	57,350	87,457
Net capital assets	125,883	89,939
Other assets	9,988	8,684
<b>Total Assets</b>	<b>\$234,592</b>	<b>\$224,783</b>
<b>Liabilities:</b>		
Current liabilities	22,708	20,794
Noncurrent liabilities	110,314	110,535
<b>Total Liabilities</b>	<b>133,022</b>	<b>131,329</b>
<b>Net Assets:</b>		
Unrestricted	66,200	63,943
Invested in capital assets, net of related debt	34,836	29,284
Restricted by donor for specific uses	534	227
<b>Total Net Assets</b>	<b>101,570</b>	<b>93,454</b>
<b>Total Liabilities and Net Assets</b>	<b>\$234,592</b>	<b>\$224,783</b>

In 2012, the District's cash and investments position decreased \$29.4 million.

**Table 2**  
**SUMMARY OF CASH AND INVESTMENTS**  
**( In thousands )**

<b>Account:</b>	<b>2012</b>	<b>2011</b>
Cash and cash equivalents and short-term investments	\$16,839	\$16,019
Board designated fund	38,413	38,255
Specific purpose fund	242	110
Workers' compensation fund	11	7
Unexpended capital bond fund	19,896	50,454
<b>Total Available Cash and Investments</b>	<b>\$75,401</b>	<b>\$104,845</b>

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. The Unexpended Capital Bond Fund shows a decrease of \$30.6 million over the prior year due to expenditure of project funds directly related to capital asset projects approved as part of the general obligation bonds (Measure C).

#### **CAPITAL ASSETS - NET**

Net capital assets increased \$35.9 million to \$125.9 million at June 30, 2012. This increase resulted from \$41.8 million in capital additions offset by \$5.1 million in depreciation, and \$.75 million of asset transfers from construction in progress. The capital additions include \$5 million in equipment, building and land improvements (of which \$.75 million were transfers from construction in progress), and \$36.8 million in construction in progress. Major capital additions during the year included the purchase of 3 properties, a radiographic system, laryngoscope with video tower system, investment in surgical equipment for both facilities, upgrades to our Incline Village surgical suite and sterile processing equipment, continued investment in our computer information systems, and construction for projects related to Measure C on the Tahoe Forest Hospital campus.



**DEBT ADMINISTRATION**

The District has debt obligations as follows:

	<b>2012</b>	<b>2011</b>
General Obligation Bonds Series 2008 (Measure C)	\$72,400,000	\$72,400,000
Revenue Bonds Series 2006	25,355,000	26,005,000
Variable Rate Demand Revenue Bonds Series 2002	10,430,000	10,690,000
Bank equipment leases	1,046,607	1,446,574
<b>Total</b>	<b>\$109,231,607</b>	<b>\$110,561,574</b>

The District saw a decrease in its debt obligations by \$1.3 million

**REVENUES, EXPENSES, AND NET ASSETS**

Table 3 shows the revenues, expenses, and net assets for 2012 and 2011.

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

<b>Operating Revenues:</b>	<b>2012</b>	<b>2011</b>
Net patient service revenue	\$99,795	\$94,323
Other	6,711	6,596
<b>Total Operating Revenues</b>	<b>106,506</b>	<b>100,919</b>
<b>Operating Expenses:</b>		
Salaries and wages	37,131	33,899
Employee benefits	20,400	19,358
Supplies	12,894	13,878
Professional fees	14,041	12,686
Purchased services	7,404	7,107
Depreciation	4,992	5,372
Insurance	550	750
Other operating expenses	5,766	5,157
<b>Total Operating Expenses</b>	<b>103,178</b>	<b>98,207</b>
<b>OPERATING INCOME</b>	<b>3,328</b>	<b>2,712</b>
<b>Non-Operating Revenues and Expenses</b>		
District tax revenue	8,048	7,824
Income from joint venture	59	31
Interest income	300	280
Donations	678	567
Interest expense	(4,484)	(4,867)
Rental income net	18	7
Gain (Loss) on sale of assets	24	(146)
<b>Total Non-Operating Revenues and Expense</b>	<b>4,643</b>	<b>3,696</b>
<b>Capital Contributions</b>	<b>145</b>	<b>158</b>
<b>Increase in Net Assets</b>	<b>8,116</b>	<b>6,566</b>
<b>Total Net Assets - Beginning of Year</b>	<b>93,454</b>	<b>86,888</b>
<b>Total Net Assets - End of Year</b>	<b>\$101,570</b>	<b>\$93,454</b>

June 30, 2012 and 2011

**NET PATIENT SERVICE REVENUES**

For the year ended June 30, 2012, net patient service revenues increased by \$5.5 million or 5.8%. This was due to a 4.7% increase in gross revenue, as well as positive impacts from prior period settlements and a decline in charity care. Net patient service revenue is composed of gross patient service revenue, less contractual allowances, charity care, provision for bad debts, and prior period settlements.

Gross patient service revenues increased by \$7.0 million or 4.7% due to increases in volumes in a few of our outpatient areas when compared to our previous year. Significant volume percentage increases were as follows: Surgical cases 28.8%, GI/Endoscopy cases 7.3%, Lab tests 16.1%, Ultrasound exams 11.3%, and MRI exams 9.2%. In addition, we continue to see growth in revenue from our multi-specialty clinics.

Contractual allowances as a percent of gross patient service revenues decreased slightly from prior year by .20%. However, when incorporating the effect of the prior period settlements the District received in FY 2012 that pertained to FY 2011, FY 2012 actually saw a .62% increase in contractual allowances as a percent of gross patient service revenues. This reflects the shifting in the gross revenue payer mix the District experienced in FY 2012. (See DEDUCTIONS FROM REVENUE below).

Charity care decreased .45% when compared to prior year. FY 2012 was approximately 2.60% of gross patient service revenues, and FY 2011 was approximately 3.10%. (See CHARITY CARE AND COMMUNITY BENEFIT below). However, provision for bad debts as a percent of gross patient service revenues showed a .54% increase compared to previous year.

**INPATIENT BUSINESS ACTIVITY**

Total admissions decreased by 91 and total patient days decreased by 241 reflecting a slight increase in our average length of stay. TFH became a critical access hospital effective July 1, 2007, reducing its acute care beds to 25, down from 35. Table 4 presents a summary of inpatient business activity.

**Table 4**  
**INPATIENT BUSINESS ACTIVITY**

	<b>Acute</b>	<b>2012</b>	<b>2011</b>
Admissions		1,687	1,778
Length of stay		2.97	2.95
Average daily census		13.7	14.4
Occupancy percentage		47.3%	50.0%
Patient days		5,004	5,245
Total ICU days		1,145	1,170
Total medical/surgical days		3,164	3,344
Total obstetrics days		695	731
Total M/S swing days		225	204
Nursery days		773	788
Deliveries		348	379
<b>Skilled Nursing Unit</b>			
Patient days		11,828	11,446
Average daily census		32	31
Occupancy percentage		87.6%	84.8%

## OUTPATIENT BUSINESS ACTIVITY

The District's outpatient revenue was 5.1% higher than the prior year. The increase is attributable to an increase in volumes related to laboratory tests, ultrasound exams, MRI exams and surgical cases. In addition, we had a full year with our pediatric multi-specialty clinics, whereas in fiscal year 2011 we had only 4 months of revenue.

**Table 5**  
**OUTPATIENT BUSINESS ACTIVITY**

	<b>2012</b>	<b>2011</b>
Emergency department visits	16,235	17,348
Laboratory tests	195,490	168,384
Home health visits	4,018	4,080
Radiology exams	10,007	10,483
Ultrasound exams	4,079	3,666
Cat scan exams (including PET CT)	3,829	4,458
MRI scan exams	1,800	1,648
Surgery cases	1,289	1,001
Surgery minutes	97,094	76,229

## DEDUCTIONS FROM REVENUE

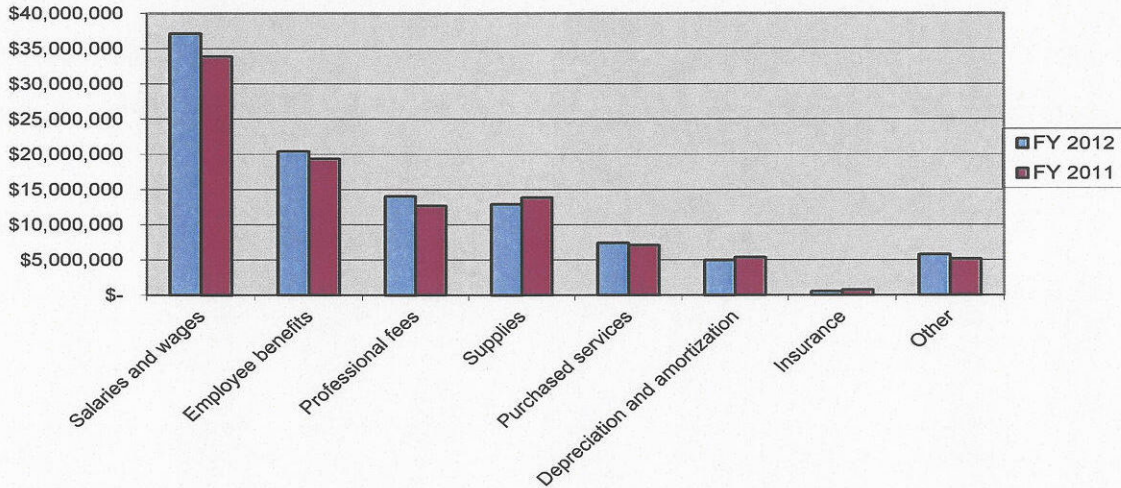
Contractual allowance adjustments (expressed as a percentage of gross revenues) were 32.0% for fiscal year 2012 and 32.2% for fiscal year 2011. The District's payer mix for fiscal year 2012 was 33.0% Medicare, 13.4% Medi-Cal, 0.6% County, 7.0% Other, and 46.0% Insurance compared to fiscal year 2011 mix of 32.0% Medicare, 11.8% Medi-Cal, 0.5% County, 7.0% Other, and 48.7% Insurance. The State programs, as well as some federal programs, continue to hold reimbursements to the District below actual increases (inflation) in costs. TFH became a critical access hospital effective July 1, 2007, which changed its Medicare reimbursement methodology to cost-based reimbursement.

## CHARITY CARE AND COMMUNITY BENEFIT

The District provides care without charge or at amounts less than established rates to patients who meet certain criteria under its charity care policy. Charity allowances are based upon the customary charges for the services provided under this program. The District recorded \$4.1 million in charity care for patient services during fiscal year 2012 and \$4.6 million for fiscal year 2011.

**OPERATING EXPENSES**

Total operating expenses were \$103.2 million for the year ended June 30, 2012, and \$98.2 million for the year ended June 30, 2011, as summarized in the graph.



Total operating expenses increased \$5.0 million, or 5.1% from the prior year.

The District experienced increases in the areas of salaries and wages, and employee benefits, which increased by a total of \$4.2 million as a result of wage increases as outlined in the employee bargaining unit agreements, additional FTEs to support the multi-specialty clinics, and an increase in our health insurance costs under our self-insured program. Professional fees increased \$1.3 million due to additional physicians joining our multi-specialty clinics, consulting fees related to ICD-10 implementation, as well as consulting fees related to electronic medical record system implementation. All other expense categories had minimal shifts when compared to prior year.

**ECONOMIC FACTORS AFFECTING NEXT YEAR**

FY 2012 was another exciting and challenging year for the Health System. We are once again very pleased with the number of significant achievements this year that continue to set our health system apart as one of the best rural health systems in America.

Among the many accomplishments of FY 2012, Tahoe Forest Hospital (TFH) was named to an exclusive list of the Top 100 critical access hospitals in the nation. This prestigious recognition was shared with only two other hospitals in California with Tahoe Forest Hospital achieving a ranking of 26th among this exclusive cohort.

Our health system continues to enjoy a strong working relationship with UC Davis Health System. Our Rural PRIME teaching partnership continues to grow. TFH will add a general surgery rotation in 2013, and the TFH medical staff will host our first Rural Healthcare conference in the fall. Our cancer care network partnership is expanding to include radiation oncology and both parties are working toward a more integrated partnership to strengthen the future delivery of cancer care for the region. The completion of our new cancer center in concert with our UCD partnership has brought the health system national attention as a model for rural cancer care.

The Tahoe Forest Hospital Facilities Development Plan continues to be executed within the general board approved budgets for each project. The cancer center building, skilled nursing facility expansion, and the central power plant improvements are complete and on line. Management will begin the next major phase of the construction with the expansion of the emergency department with the project scheduled to begin in July 2012.

In 2012 management began the arduous process of selecting and implementing new health information technology systems. Management has successfully implemented the T Systems product in the emergency departments of both Tahoe Forest and Incline Village Community Hospitals. These installations will allow both hospitals to certify for Stage 1 Meaningful Use. The outpatient EPIC system was implemented into our health system in August 2012. This implementation will qualify our physician practices to also certify for Meaningful Use payments from the federal government. CPSI has been selected as the electronic medical record system for inpatient services, and will also serve as our new business and financial system. CPSI will be implemented in two phases, the first scheduled for completion in December 2012, and the second in April 2013

FY 2013 will look much like 2012. Our strategic focus will continue to be narrowed to improve service and quality outcomes. We will continue to work our way through the process of transforming our information technology systems, and we will continue our quest to innovate rural health care delivery. Management will continue to pursue closer alignment of financing incentives for Rural Health Clinic designation, medical home, and ACO strategies that realign financing incentives to develop new primary care delivery models. Management will continue to explore meaningful partnerships with both rural hospitals and larger health systems to accommodate more efficient and sustainable programming as we continue to experience substantial changes in the landscape of healthcare financing. All of these activities will be coupled with our desire to continue to align our medical community and the health system to enhance our functionality, improve integration and efficiency of operations, and enable all providers to optimize their capacity and their engagement in developing more effective ways to deliver care.

June 30, 2012 and 2011

FY 2013 will be a challenging year. The State of California is suffering from a budget deficit in excess of \$16 billion and there is little hope that our elected officials will devise solutions that enable hospitals to retain even current levels of funding. FY 2013 will see new financing mechanisms for MediCal enacted that could have negative impacts to Tahoe Forest Hospital. National proposals anticipate reimbursement reductions in critical access hospital reimbursements by at least 1%, and if unchanged, the national health reform agenda proposes to reduce California's Medicare reimbursement by \$27 billion over the next ten years. In addition to the State and Federal mandates, commercial insurers are actively modifying hospital reimbursements and bundling payments for services like orthopedics and total joints. Our historical five-year payor mix trends are alarming. Tahoe Forest Hospital has experienced a 5% reduction in commercial payer mix while experiencing double-digit growth in Medicare and MediCal volumes.

The pace and uncertainty of health reform, the changing health insurance and consumer driven market environment combined with the absolute scope of unfunded, yet mandated financial investments, will require our health system to continually evaluate our capital structure, our service level pricing, closely scrutinize sources and uses of capital, redesign care delivery to improve efficiency, and optimize program revenues while we seek to drive collaborative innovation in 2013.

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

The health system will need to find ways to shed overhead as we move forward into the future. Management will be challenged in this area in FY 2013 as it will be essential to reverse spending to align with new levels of reimbursements.

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

Our budget assumptions for 2013 have been carefully constructed to balance key investments with a conservative approach to the maintenance of our strong, yet fragile capital structure. To complement this approach, management will continue to take an aggressive and proactive position on managing controllable expenses in FY 2013 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**

**BALANCE SHEETS**

June 30	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 16,839,453	\$ 16,018,750
Patient accounts receivable - net of allowance for uncollectible accounts of \$13,139,488 in 2012 and \$12,313,805 in 2011	16,045,388	15,289,062
Advances to related party	431,171	115,071
Other receivables	850,795	978,480
Assets limited as to use	1,211,638	1,368,215
Inventories	2,265,636	2,229,673
Prepaid expenses and deposits	865,135	801,337
Estimated third-party payor settlements	2,862,169	1,902,281
<b>Total Current Assets</b>	<b>41,371,385</b>	<b>38,702,869</b>
<b>ASSETS LIMITED AS TO USE</b>		
Assets limited as to use	58,561,887	88,825,744
Less: Amount required to meet current obligations	(1,211,638)	(1,368,215)
<b>Assets Limited as to Use - Net</b>	<b>57,350,249</b>	<b>87,457,529</b>
<b>NONCURRENT ASSETS AND INVESTMENTS</b>		
Investment in joint venture	4,451,956	4,392,580
Bond issuance costs - net	1,315,156	1,386,009
Other receivables	431,020	302,129
Other noncurrent assets	1,222,004	1,238,671
Deferred outflow of resources	2,567,757	1,364,506
<b>Total Noncurrent Assets and Investments</b>	<b>9,987,893</b>	<b>8,683,895</b>
<b>CAPITAL ASSETS - NET</b>	<b>125,882,519</b>	<b>89,938,926</b>
<b>Total Assets</b>	<b>\$ 234,592,046</b>	<b>\$ 224,783,219</b>

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

**BALANCE SHEETS***Tahoe Forest Hospital District*

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June 30	2012	2011
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt and capital lease obligations	\$ 1,485,471	\$ 1,390,991
Accounts payable	7,941,637	6,250,057
Accrued payroll and related expenses	7,728,603	6,920,901
Estimated claims incurred but not reported	3,395,724	3,851,676
Estimated third-party payor settlements	-	209,924
Accrued interest	2,156,607	2,170,180
<b>Total Current Liabilities</b>	<b>22,708,042</b>	<b>20,793,729</b>
<b>NONCURRENT LIABILITIES</b>		
Long-term debt and capital lease obligations - net of current maturities	107,746,136	109,170,583
Derivative instrument liability	2,567,757	1,364,506
<b>Total Liabilities</b>	<b>133,021,935</b>	<b>131,328,818</b>
<b>NET ASSETS</b>		
Invested in capital assets - net of related debt	34,836,148	29,284,259
Restricted	534,412	227,196
Unrestricted	66,199,551	63,942,946
<b>Total Net Assets</b>	<b>101,570,111</b>	<b>93,454,401</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 234,592,046</b>	<b>\$ 224,783,219</b>

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

**STATEMENTS OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS**

*Tahoe Forest Hospital District*

Years Ended June 30	2012	2011
<b>OPERATING REVENUES</b>		
Net patient service revenue - net of contractual allowances and provision for bad debts of \$58,385,185 in 2012 and \$56,802,608 in 2011	\$ 99,795,015	\$ 94,323,305
Other revenue	6,711,124	6,596,181
<b>Total Operating Revenues</b>	<b>106,506,139</b>	<b>100,919,486</b>
<b>OPERATING EXPENSES</b>		
Salaries and wages	37,130,794	33,898,929
Employee benefits	20,399,939	19,357,692
Professional fees	14,040,941	12,685,630
Supplies	12,893,812	13,878,072
Purchased services	7,404,230	7,106,518
Depreciation and amortization	4,991,727	5,372,255
Insurance	550,407	750,382
Other	5,766,233	5,157,371
<b>Total Operating Expenses</b>	<b>103,178,083</b>	<b>98,206,849</b>
<b>Operating Income</b>	<b>3,328,056</b>	<b>2,712,637</b>
<b>NONOPERATING INCOME (EXPENSE)</b>		
District tax revenue	4,824,796	4,906,170
District tax revenue - general obligation bonds	3,222,798	2,917,548
Equity interest in joint venture	59,376	30,747
Interest income	300,070	279,847
Rental income - net	17,559	7,363
Donations	677,690	567,047
Gain (Loss) on disposal of assets	24,125	(145,663)
Interest expense	(4,483,822)	(4,867,445)
<b>Total Nonoperating Income (Expense)</b>	<b>4,642,592</b>	<b>3,695,614</b>
<b>Excess of Revenues Over Expenses Before Capital Contributions</b>	<b>7,970,648</b>	<b>6,408,251</b>
Capital contributions	145,062	158,459
<b>Changes in Net Assets</b>	<b>8,115,710</b>	<b>6,566,710</b>
<b>NET ASSETS</b>		
<b>Net Assets - Beginning of Year</b>	<b>93,454,401</b>	<b>86,887,691</b>
<b>Net Assets - End of Year</b>	<b>\$ 101,570,111</b>	<b>\$ 93,454,401</b>

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

**STATEMENTS OF CASH FLOWS**

*Tahoe Forest Hospital District*

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Years Ended June 30	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from and on behalf of patients	\$ 97,868,877	\$ 90,142,224
Payments to suppliers and contractors	(38,983,339)	(38,345,949)
Payments to and on behalf of employees	(57,178,983)	(52,566,844)
Other receipts and payments - net	6,434,591	6,146,474
<b>Net Cash Provided by Operating Activities</b>	<b>8,141,146</b>	<b>5,375,905</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
District tax revenue received for operations	4,737,227	4,917,464
Donations	677,690	567,047
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>5,414,917</b>	<b>5,484,511</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital contributions	145,062	158,459
Acquisition of property and equipment	(40,994,030)	(20,374,061)
Proceeds from sale of assets	25,125	-
Proceeds from issuance of bonds	42,196	42,851,494
Change in assets held by trustee	31,753,436	(23,630,175)
District tax revenue received for debt service on general obligation bonds	3,194,340	2,877,280
Payments on long-term debt and capital leases	(1,409,475)	(4,971,084)
Interest paid on long-term debt and capital leases	(4,508,428)	(4,259,970)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(11,751,774)</b>	<b>(7,348,057)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	311,526	287,326
Net cash received for rental activities	194,467	152,124
Net change in board-designated assets	(1,489,579)	104,702
Investment in joint venture	-	(4,361,833)
<b>Net Cash Used by Investing Activities</b>	<b>(983,586)</b>	<b>(3,817,681)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>820,703</b>	<b>(305,322)</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>16,018,750</b>	<b>16,324,072</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 16,839,453</b>	<b>\$ 16,018,750</b>

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

**STATEMENTS OF CASH FLOWS**

*Tahoe Forest Hospital District*

Page 2 of 2

Years Ended June 30	<b>2012</b>	<b>2011</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 3,328,056	\$ 2,712,637
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	4,991,727	5,372,255
Provision for bad debts	6,727,912	5,606,618
Changes in:		
Patient accounts receivable	(7,484,238)	(7,920,760)
Inventories	(35,963)	(92,866)
Prepaid expenses	(63,798)	89,121
Estimated third-party payor settlements	(1,169,812)	(1,866,939)
Accounts payable and accrued expenses	2,043,330	1,998,000
Other	(196,068)	(522,161)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 8,141,146</b>	<b>\$ 5,375,905</b>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
<b>ISSUANCE OF GENERAL OBLIGATION BONDS</b>		
<b>2008, SERIES B</b>		
Par amount of 2008, Series B bonds	\$ -	\$ 43,000,000
Payments for bond issuance costs	-	(148,506)
<b>Net Proceeds</b>	<b>\$ -</b>	<b>\$ 42,851,494</b>
<b>Capital Lease Obligation Incurred for the Use of Equipment</b>	<b>\$ 79,508</b>	<b>\$ 44,302</b>

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

**1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**Basis of Presentation** The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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

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

**Cash and Cash Equivalents** The District considers highly liquid investments, such as money market accounts, certificates of deposit, and 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.

June 30, 2012 and 2011

The District participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF). As of June 30, 2012, the LAIF pool includes structured notes and asset-backed securities which total 3.47% 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, 2012, the fair value of LAIF is 100.12% 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, 2012. LAIF has oversight by the Local Investment Advisory Board (LIAB), which consists of five members as designated by statute. The Chairman of the LIAB is the State Treasurer or his designated representative. The District is considered to be a voluntary participant in the LAIF investment pool.

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

***Advances to Related Party*** The District has agreed to make advances to the Tahoe Institute of Rural Health Research (the Institute), a nonprofit research organization, of up to \$2,000,000 on an as needed basis. Outstanding advances accrue interest at a rate of 5.00%. Interest income of \$12,666 and \$2,490 was recorded by the District for the years ended June 30, 2012 and 2011, respectively.

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

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

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



**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. Expenditures which increase values, change capacities, or extend useful lives are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation expense in the financial statements. Useful lives are 2 to 40 years for land improvements, 5 to 40 years for buildings and improvements, and 5 to 20 years for equipment.

**Costs of Borrowing** 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 \$962,000 and \$485,000 for the years ended June 30, 2012 and 2011, respectively.

**Bond Issuance Costs** Bond issuance costs are deferred and amortized using the effective interest method over the life of the bonds. Bond issuance costs included original cost of \$1,541,774, and accumulated amortization of \$226,618 and \$155,765, at June 30, 2012 and 2011, respectively. Amortization expense for the years ended June 30, 2012 and 2011, amounted to \$64,504 and \$64,204, respectively, and is estimated to be \$64,504 for the next five years.

**Net Assets** The District's net assets are classified into three components, as follows:

*Invested in Capital Assets - Net of Related Debt:* Consists of capital assets, including restricted 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.

*Restricted Net Assets:* Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, laws or regulations of other governments, or laws through constitutional provisions or enabling legislation.

*Unrestricted Net Assets:* Consists of all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

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

**Charity Care** The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charges excluded from revenue under the District's charity care policy were \$4,040,077 and \$4,611,615 for 2012 and 2011, respectively.

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

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

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

**District Tax** Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent if paid after December 10 and April 10. Property taxes are levied by Nevada and Placer County Assessors on the District's behalf. They are intended to support general maintenance and operations of the District, including charity care and uncompensated care programs, and to service the debt on the 2008 Series A and Series B 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 7% of its financial support from property taxes in 2012 and 2011.

**Reclassifications** Various reclassifications have been made to the 2011 financial statements in order to reflect the presentation adopted with the 2012 financial statements.

**Impact of Recently Issued Accounting Standards** In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with GASB pronouncements: 1) FASB Statements and Interpretations; 2) Accounting Principles Board (APB) Opinions; and 3) Accounting Research Bulletins (ARB) of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The provisions of GASB Statement No. 62 are effective for the District's 2012-13 fiscal year. The District has not yet determined the effect this Statement will have on its financial statements.

June 30, 2012 and 2011

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, with required implementation for the District during the 2012-13 fiscal year. The statement establishes standards for reporting deferred outflows of resources, deferred inflows of resources, and net position for all state and local governments. Management does not expect the implementation of GASB No. 63 to have a material effect on the District's financial statements.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, with required implementation for the District during the 2013-14 fiscal year. The statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Management does not expect the implementation of GASB No. 65 to have a material effect on the District's financial statements.

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

## 2. NET PATIENT SERVICE REVENUE

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

**Medicare** Tahoe Forest Hospital and Incline Village Community Hospital are each designated as a "critical access hospital" under the Medicare program. Accordingly, inpatient acute and outpatient services rendered to Medicare program beneficiaries are reimbursed under a cost reimbursement methodology pursuant to the facilities' designation as "critical access hospitals." Costs incurred are reimbursed at tentative rates with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The District's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the District. Incline Village Community Hospital Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2011, and final settlements have been received through that date. Tahoe Forest Hospital Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2010, and final settlements have been received through that date.

June 30, 2012 and 2011

***Medi-Cal*** Inpatient services rendered to Medi-Cal program beneficiaries are reimbursed under a cost reimbursement methodology. Reimbursement is at tentative rates with final settlement determined after submission of annual cost reports and audits thereof by the Medi-Cal fiscal intermediary. Medi-Cal cost reports have been audited by the Medi-Cal fiscal intermediary through June 30, 2010, and final settlements have been received through that date. Outpatient services related to Medi-Cal beneficiaries are paid at prospectively determined rates per procedure.

Revenue from the Medicare and Medi-Cal programs accounted for approximately 33% and 11% of gross patient service revenue in 2012 and approximately 32% and 10% of gross patient revenue in 2011, 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 \$3,100,000 in 2012 and approximately \$1,900,000 in 2011, 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:

	<b>Maturities</b>	<b>June 30, 2012</b>	<b>Fair Value at June 30, 2011</b>
<b>CASH AND CASH EQUIVALENTS</b>			
Deposits (1)		\$ 18,252,526	\$ 16,099,587
LAIF (2)	8.9 months average	38,995,345	38,838,000
<b>Subtotal</b>		<b>57,247,871</b>	<b>54,937,587</b>
<b>ASSETS HELD BY TRUSTEES</b>			
Cash		94,064	43,901,992
Money market funds		2,443,434	2,464,434
LAIF (2)	8.9 months average	14,715,592	2,640,102
Government bonds	24 years	900,379	900,379
<b>Total Assets Held by Trustees</b>		<b>18,153,469</b>	<b>49,906,907</b>
<b>Total Cash, Deposits, and Investments</b>		<b>\$ 75,401,340</b>	<b>\$104,844,494</b>

- (1) **Deposits** The carrying amount of deposits includes checking accounts, savings accounts, nonnegotiable certificates of deposit, and money market accounts 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 balance sheets under the following captions:

June 30	<b>2012</b>	<b>2011</b>
Cash and cash equivalents	\$ 16,839,453	\$ 16,018,750
Assets limited as to use	58,561,887	88,825,744
<b>Total Cash, Deposits, and Investments</b>	<b>\$ 75,401,340</b>	<b>\$104,844,494</b>

**Custodial Credit Risk – Deposits and Investments**

Custodial credit risk is the risk that, in the event of a financial institution failure, the District's deposits might not be recovered. The District has collateralization agreements with the financial institutions, which mitigate custodial credit risk. Deposits with financial institutions amounted to \$18,050,192 and \$16,234,318 at June 30, 2012 and 2011, respectively. Deposits amounting to \$250,000 in each qualifying financial institution are covered by 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% may be invested in repurchase agreements or 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, 2012.

**4. ASSETS LIMITED AS TO USE**

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

June 30	2012	2011
<b>BOARD DESIGNATED ASSETS</b>		
Cash	\$ 1,764,625	\$ 564,723
LAIF	38,643,791	38,354,114
<b>Subtotal</b>	<b>40,408,416</b>	<b>38,918,837</b>
<b>ASSETS HELD BY TRUSTEES</b>		
Cash	94,064	43,901,992
Money market funds	2,443,434	2,464,434
LAIF	14,715,592	2,640,102
Government bonds	900,379	900,379
<b>Subtotal</b>	<b>18,153,469</b>	<b>49,906,907</b>
<b>Total Assets Limited as to Use</b>	<b>\$ 58,561,885</b>	<b>\$ 88,825,744</b>

**5. PATIENT ACCOUNTS RECEIVABLE**

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2012 and 2011, was as follows:

	2012	2011
Medicare	22%	23%
Medi-Cal	20%	14%
Patients	28%	27%
Commercial insurance and others	30%	36%
<b>Total</b>	<b>100%</b>	<b>100%</b>

**6. CAPITAL ASSETS**

A summary of changes in capital assets is as follows:

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

	<b>Balance June 30, 2010</b>	<b>Additions</b>	<b>Retirements/ Transfers</b>	<b>Balance June 30, 2011</b>
Land and improvements	\$ 6,052,219	\$ 198,559	\$ -	\$ 6,250,778
Buildings and improvements	73,711,175	3,129,223	904,433	75,935,965
Equipment	48,112,456	3,736,881	472,702	51,376,635
<b>Subtotal</b>	127,875,850	7,064,663	1,377,135	133,563,378
Less: Accumulated depreciation	(67,397,752)	(5,476,722)	(1,231,472)	(71,643,002)
Property held for future expansion	836,353	-	-	836,353
Construction in progress	13,828,497	18,563,112	5,209,412	27,182,197
<b>Capital Assets - Net</b>	<b>\$ 75,142,948</b>	<b>\$ 20,151,053</b>	<b>\$ 5,355,075</b>	<b>\$ 89,938,926</b>



**7. 2007 GENERAL OBLIGATION BOND PROCEEDS AND EXPENDITURES**

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), and in August 2010 the District issued another \$43,000,000 in bonds (Series B), totaling \$72,400,000 as of June 30, 2012 and 2011.

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

<u>Construction Project</u>	<u>Prior Expenditures</u>	<u>June 30, 2011 Expenditures</u>	<u>June 30, 2012 Expenditures</u>	<u>Total Expenditures</u>	<u>Status</u>
Cancer Center Building	\$ 3,251,354	\$ 8,243,264	\$ 14,209,832	\$ 25,704,450	In progress
Cancer Center Equipment	-	-	3,259,566	3,259,566	In progress
Emergency Dept/Sterile Processing	1,069,001	347,296	785,555	2,201,852	In progress
Fiber West Installation	950	-	-	950	In progress
Infill/Medical Records	383,491	866,893	634,906	1,885,291	In progress
S. Building/Interim	850,281	542,301	1,013,598	2,406,179	In progress
Skilled Nursing Facility	511,824	610,882	3,449,145	4,571,851	In progress
TFH Master Plan	917,510	171,595	80,368	1,169,473	In progress
Central Plant Upgrades	1,202,143	4,520,035	8,865,516	14,587,694	Completed
IT/Administration Relocation	-	401,124	-	401,124	Completed
IT Data Center Building	1,170,871	136,074	-	1,306,944	Completed
IT Data Center Equipment	9,109	-	-	9,109	Completed
MPOE Fiber Installation	183,577	-	-	183,577	Completed
Nuclear Medicine Camera/Fluorscopy	578,274	1,663,902	-	2,242,176	Completed
Skilled Nursing Facility Flooring	180,601	19,173	-	199,774	Completed
<b>Total</b>	<b>\$ 10,308,986</b>	<b>\$ 17,522,539</b>	<b>\$ 32,298,485</b>	<b>\$ 60,130,010</b>	

**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2012 and 2011

*Tahoe Forest Hospital District*

**8. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS**

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2012 and 2011

*Tahoe Forest Hospital District*

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amounts Due Within One Year
Series 2006 Revenue Bonds	\$ 26,630,000	\$ -	\$ 625,000	\$ 26,005,000	\$ 650,000
Series 2002 Variable Rate Demand Revenue Bonds	10,940,000	-	250,000	10,690,000	260,000
Series 1999 Revenue Bonds	3,040,000	-	3,040,000	-	-
Series A (2008) General Obligation Bonds	29,400,000	-	-	29,400,000	-
Series B (2010) General Obligation Bonds	-	43,000,000	-	43,000,000	-
Note payable to West America Bank in monthly installments of \$3,310, including interest at 5.50% per annum, paid off in 2011.	86,506	-	86,506	-	-
Note payable to West America Bank in quarterly installments of \$9,158, including interest at 5.80% per annum, paid off in 2011.	52,267	-	52,267	-	-
Lease agreement with Bank of America payable in monthly installments of \$22,886, including interest at 3.55%, paid off in 2011.	465,325	-	465,325	-	-
Lease agreement with US Bank payable in monthly installments of \$4,809, including interest at 4.62%, through July 2014. The lease is collateralized by equipment.	210,408	-	49,025	161,383	51,336
Lease agreement with Bank of America payable in monthly installments of \$38,350, including interest at 4.06% through May 2014. The lease is collateralized by equipment.	1,663,850	-	400,037	1,263,813	416,584
Lease agreement with US Bank payable in monthly installments of \$773, including interest at 6.71%, through June 2014. The lease is collateralized by equipment.	-	27,637	2,494	25,143	7,827
Lease agreement with Great America Leasing payable in monthly installments of \$473, including interest at 2.60%, through June 2014. The lease is collateralized by equipment.	-	16,665	430	16,235	5,244
<b>Total Long-Term Debt and Capital Lease Obligations</b>	<b>\$ 72,488,356</b>	<b>\$ 43,044,302</b>	<b>\$ 4,971,084</b>	<b>\$ 110,561,574</b>	<b>\$ 1,390,991</b>

**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2012 and 2011

*Tahoe Forest Hospital District*

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

	<b>Long-Term Debt</b>		<b>Capital Lease Obligations</b>	
	<b>Principal Amount</b>	<b>Interest Amount</b>	<b>Principal Amount</b>	<b>Interest Amount</b>
2013	\$ 955,000	\$ 5,224,022	\$ 530,471	\$ 33,168
2014	995,000	5,184,267	514,290	10,998
2015	1,095,000	5,141,864	1,846	22
2016	1,410,000	5,094,642	-	-
2017	1,575,000	5,034,227	-	-
2018 to 2022	10,880,000	23,973,489	-	-
2023 to 2027	17,215,000	20,940,666	-	-
2028 to 2032	24,595,000	15,951,597	-	-
2033 to 2037	29,335,000	9,521,650	-	-
2038 to 2042	20,130,000	2,294,000	-	-
<b>Total</b>	<b>\$108,185,000</b>	<b>\$ 98,360,424</b>	<b>\$ 1,046,607</b>	<b>\$ 44,188</b>

Following is a summary of equipment under capital leases:

<b>June 30</b>	<b>2012</b>	<b>2011</b>
Cost of equipment	\$ 7,346,694	\$ 7,233,532
Less: Accumulated depreciation	6,934,918	6,598,989
<b>Capital Lease Equipment - Net</b>	<b>\$ 411,776</b>	<b>\$ 634,543</b>

Following is a summary of bonded debt:

	<b>Maturity</b>	<b>Annual Interest Rate</b>	<b>Amount Issued</b>
<b>REVENUE BONDS</b>			
2002 Variable Rate Demand Revenue Bonds	July 2033	3.54%	\$ 12,000,000
2006 Hospital Revenue Bonds - Serial Bonds	July 2007 to 2021	3.70% to 5.00%	10,335,000
2006 Hospital Revenue Bonds - Term Bonds	July 2022 to 2036	3.70% to 5.00%	17,050,000
<b>Total Revenue Bonds</b>			<b>39,385,000</b>
<b>GENERAL OBLIGATION BONDS</b>			
2007 General Obligation Bonds, Series A - Serial Bonds	August 2013 to 2038	4.00% to 5.50%	27,140,000
2007 General Obligation Bonds, Series A - Term Bonds	August 2023 to 2025	4.00% to 5.50%	2,260,000
2007 General Obligation Bonds, Series B	August 2015 to 2040	4.00% to 5.13%	43,000,000
<b>Total General Obligation Bonds</b>			<b>72,400,000</b>
<b>Total</b>			<b>\$ 111,785,000</b>

Accrued interest is paid on January 1 and July 1 each year for the 2002 Variable Rate Demand Revenue Bonds (the Series 2002 Bonds) and the 2006 Hospital Revenue Bonds (the Series 2006 Bonds), and February 1 and August 1 for the 2007 General Obligation Bonds (the G.O. Bonds).

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

	<u>Required Deposits</u>	<u>Commencing</u>	<u>Due Annually Ending</u>
2002 Variable Rate Demand Revenue Bonds	\$275,000 to \$805,000	July 2006	July 2033
2006 Hospital Revenue Bonds - Term Bonds	\$690,000 to \$2,780,000	July 2022	July 2036
2007 General Obligation Bonds, Series A - Term Bonds	\$655,000 to \$855,000	August 2023	August 2025

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

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

In connection with the Series 2006 bond agreement, the District is required to make monthly deposits to the trustee for the term bond sinking fund payments, serial bond principal payments, and insurance premiums becoming due and payable within the next 12 months, and for interest payments becoming due and payable within the next six months. Aggregate future monthly deposits required are approximately \$201,940 at June 30, 2012.

The G.O. Bonds were issued for the purpose of financing the expansion, improvement, acquisition, construction, equipping and renovation of health facilities of the District, refinance \$3,500,000 in outstanding debt (including the Series 1999 A Bonds), and to pay costs incident thereto.

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

The balance of the Series 1999 bonds were fully refunded in 2011. The costs of refunding in 2011 along with the balance of the unamortized refunding costs from the prior 1999 Series A refunding resulted in a deferred charge amounting to \$769,304. The deferred charge is being amortized as a component of interest expense over a period of 20 years ending in June 2030.

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

## 9. INTEREST RATE SWAP AGREEMENT

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

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

**Fair Value** Because interest rates have declined since execution of the swap, the swap had negative fair values of \$2,567,757 and \$1,364,506 as of June 30, 2012 and 2011, respectively. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the District's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using mathematical approximations of market values derived from proprietary models. These valuations are calculated on a mid-market basis and do not include bid/offer spread that would be reflected in an actual price quotation. It should be assumed that the actual price quotations for unwinding the transactions would be different. In connection with the fair value determination of the interest rate swap, the District has recorded a derivative instrument liability in the amount of \$2,567,757 and \$1,364,506 at June 30, 2012 and 2011, respectively, and a corresponding deferred outflow of resources (asset).

**Credit Risk** As of June 30, 2012, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the District would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated A2/A/A as of June 30, 2012. 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 \$2,415,160 and \$2,223,650 in 2012 and 2011, 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 \$927,000 at June 30, 2012.

**Employee Health Insurance**

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

The liability for unpaid claims is estimated using an industry average that is based on actual claims paid. The estimated liability for claims pending and incurred but not reported at June 30, 2012 and 2011, has been included in the accompanying balance sheets under estimated claims incurred but not reported. Changes in the claims liability are as follows:

	<b>2012</b>	<b>2011</b>
Estimated claims incurred but not reported - beginning of year	\$ 1,275,711	\$ 1,017,359
Incurred claims and claims adjustment expense	7,599,456	7,918,198
Claim payments	<u>(7,844,996)</u>	<u>(7,659,846)</u>
<b>Estimated Claims Incurred But Not Reported - End of Year</b>	<u>\$ 1,030,171</u>	<u>\$ 1,275,711</u>

**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 \$400,000 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, 2012 and 2011, has been included in the accompanying balance sheets under estimated claims incurred but not reported. Changes in the claims liability are as follows:

	<b>2012</b>	<b>2011</b>
Estimated claims incurred but not reported - beginning of year	\$ 1,532,207	\$ 1,532,207
Incurred claims and claims adjustment expense	555,672	756,190
Claim payments	<u>(649,327)</u>	<u>(756,190)</u>
<b>Estimated Claims Incurred But Not Reported - End of Year</b>	<u>\$ 1,438,552</u>	<u>\$ 1,532,207</u>



**12. COMMITMENTS AND CONTINGENCIES**

**Construction Project Commitments**

Construction project commitments as of June 30, 2012, are as follows:

<b>Construction Project</b>	<b>Remaining Construction Commitment</b>
Cancer Center	\$ 1,686,115
Central energy plant upgrades and relocations	696,508
Incline Village CT Scanner replacement	553,279
Phase I Dietary/RT/MR/Dietary Office/staff lockers	3,671,503
Skilled nursing facility	387,243
<b>Total</b>	<b>\$ 6,994,648</b>

**Operating Leases**

The District leases certain facilities and equipment under noncancelable operating leases. Total lease expense was \$2,271,205 and \$2,217,042 for 2012 and 2011, respectively. Future minimum payments under these agreements at June 30, 2012, were as follows:

<b>Years Ending June 30</b>	
2013	\$ 1,276,009
2014	730,990
2015	472,827
2016	127,707
2017	47,767
<b>Total Minimum Payments</b>	<b>\$ 2,655,300</b>

**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 2005, 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, 2013. The Board of Directors has approved a \$98.5 million expansion plan, which includes expanding and enhancing the emergency room to ensure access to lifesaving care; maintaining critical medical services including pediatrics, maternity, long-term care for seniors and cancer care; and upgrading facilities that are outdated or do not meet state-mandated earthquake safety standards. This plan will enable the District to comply with SB 1953 seismic guidelines. The financing for this expansion plan has multiple parts, including \$72.4 million of general obligation bonds to be repaid through ad valorem property taxes of the residents of the District (see note 8).

**13. FOUNDATIONS**

**Tahoe Forest Health System Foundation**

The Tahoe Forest Health System Foundation (TFHSF) is a legally separate nonprofit organization, exempt from federal tax, formed to assist in developing and increasing the facilities of the District. TFHSF's activities are governed by a separate board of directors. TFHSF's financial activity is not included in the District's financial statements, but is a component unit of the District. During the years ended June 30, 2012 and 2011, TFHSF distributed approximately \$621,000 and \$910,000, respectively, to the District. TFHSF has issued separate financial statements for the year ended June 30, 2012. A copy of TFHSF's financial statements can be obtained through the District.

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

	<b>2012</b>	<b>2011</b>
Total assets	\$ 1,335,000	\$ 525,000
Total liabilities	131,000	186,000
<b>Net Assets</b>	<b>\$ 1,204,000</b>	<b>\$ 339,000</b>
<b>Total Revenue</b>	<b>\$ 1,930,000</b>	<b>\$ 1,639,000</b>
<b>Total Expenses</b>	<b>\$ 1,270,000</b>	<b>\$ 1,544,000</b>

**Incline Village Community Hospital Foundation**

The Incline Village Community Hospital Foundation (IVCHF) is a legally separate nonprofit organization, exempt from federal tax, formed to assist in developing and increasing the facilities of the District. IVCHF's activities are governed by a separate board of directors. IVCHF's financial activity is not included in the District's financial statements, but is a component unit of the District. During the years ended June 30, 2012 and 2011, IVCHF distributed approximately \$188,000 and \$169,000, respectively, to the District. IVCHF has issued separate financial statements for the year ended June 30, 2012. A copy of IVCHF's financial statements can be obtained through the District.

**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2012 and 2011

*Tahoe Forest Hospital District*

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

	<b>2012</b>	<b>2011</b>
Total assets	\$ 836,000	\$ 744,000
Total liabilities	-	-
<b>Net Assets</b>	<b>\$ 836,000</b>	<b>\$ 744,000</b>
<b>Total Revenue</b>	<b>\$ 500,000</b>	<b>\$ 381,000</b>
<b>Total Expenses</b>	<b>\$ 407,000</b>	<b>\$ 305,000</b>

**14. INVESTMENT IN JOINT VENTURE**

The District owns 51% of Truckee Surgery Center, LLC (the Center). The District invested in the Center in December 2010, and the summarized financial information as of June 30, 2011, is for seven months only. Summarized financial information for the Center as of June 30 is as follows:

	<b>2012</b>	<b>2011</b>
Total assets	\$ 5,053,387	\$ 5,130,820
Total liabilities	82,504	274,195
<b>Total Equity</b>	<b>\$ 4,970,882</b>	<b>\$ 4,856,625</b>
<b>EQUITY POSITIONS</b>		
Tahoe Forest Hospital District	\$ 4,451,956	\$ 4,392,580
Truckee Surgery Center, Inc.	518,926	464,045
<b>Total</b>	<b>\$ 4,970,882</b>	<b>\$ 4,856,625</b>
<b>Net Income</b>	<b>\$ 114,257</b>	<b>\$ 60,288</b>

**15. SUBSEQUENT EVENTS****Municipal Lease**

In July 2012, the District entered into a master equipment lease/purchase agreement totaling \$6,000,000. Of the total proceeds, \$1,113,154 will be used to reimburse the District for equipment costs previously incurred. The remaining balance of \$4,886,846 will be used to finance future equipment acquisitions. The lease is payable in monthly installments of \$103,637, including interest at 1.41%, beginning in August 2012 through July 2017.

**Issuance of General Obligation Bonds, Election of 2007, Series C**

In August 2012, the District issued the \$26,100,000 General Obligation Bonds, Election of 2007, Series C (the 2012 G.O. Bonds), to fund the construction and equipping of additions and improvements to the District's health facilities and to pay costs incident thereto.

**NOTES TO THE FINANCIAL STATEMENTS**

*Tahoe Forest Hospital District*

June 30, 2012 and 2011

The 2012 G.O. Bonds represent the general obligation of the District. The District has the power and is obligated to cause to be levied and collected by both Nevada and Placer Counties annual ad valorem taxes on all property within the District's boundaries subject to taxation by the District for payment when due of the principal and interest on the bonds. However, the District is legally required to repay the 2012 G.O. Bonds if ad valorem taxes are insufficient.

Interest on the 2012 G.O. Bonds is payable semiannually on February 1 and August 1 at rates ranging from 3.00% to 5.50% beginning February 2013 through August 2042 with principal payments in amounts ranging from \$135,000 to \$2,440,000 due beginning August 2017 through August 2042.