Report of Independent Auditors and
Consolidated Financial Statements with
Supplemental Schedules for

Tri-City Healthcare District

June 30, 2014 and 2013

MOSS-ADAMS LLP

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors of
Tri-City Healthcare District

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Tri-City Healthcare District, which comprise the consolidated statement of net position as of June 30, 2014 and 2013, and the related consolidated statements of revenues, expenses, changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 entity'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tri-City Healthcare District as of June 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

MOSS ADAMS LLP

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-10 be presented to supplement the basic consolidated financial statements. Such information, although not part of the basic consolidated 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 consolidated 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.

Other Information
Our audit was conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise the District's basic financial statements. The consolidating statement of net position and consolidating statement of revenues, expenses, and changes in net position are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The consolidating statement of net position and consolidating statement of revenues, expenses, and changes in net position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating statement of net position and consolidating statement of revenues, expenses, and changes in net position are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Moss Adams LLP

Irvine, California
September 22, 2014

Overview

The Tri-City Healthcare District (the "District") is a public healthcare district and is a political subdivision of the State of California (the "State") organized pursuant to Division 23 of the Health and Safety Code of the State of California. The District operates a 397-bed acute care hospital in northern San Diego County (the "County"). The "Tri-City" name represents the cities of Carlsbad, Oceanside, and Vista, the three cities which fall within its boundaries. The District was formed in 1957, and the hospital opened in 1961.

This report contains the operating results of Tri-City Medical Center and the subsidiaries in which the District owns a controlling interest. Those entities include Tri-City Medical Center Ambulatory Surgery Center Operators, LLC ("Ambulatory Surgery Center Operators"), the Tri-City Medical Center Cardiovascular Health Institute, LLC ("Cardiovascular Institute"), the Tri-City Medical Center Orthopedic Institute, LLC ("Orthopedic Institute"), the Tri-City Real Estate Holding and Management Company, LLC ("Real Estate Holding and Management Company") and Tri-City Wellness, LLC ("Wellness Center").

Ambulatory Surgery Center Operators, the Cardiovascular Institute, the Orthopedic Institute, Real Estate Holding and Management Company and the Tri-City Wellness Center are component units that have been blended for presentation purposes. The District has determined blended presentation is appropriate for Ambulatory Surgery Center Operators as it appoints a voting majority of the governing body and its operations are an integral part of the District's mission. The District has also determined blended presentation is appropriate for Cardiovascular Institute and the Orthopedic Institute as the component units provide services almost entirely to the District. The District has determined blended presentation is appropriate for Real Estate Holding and Management Company and the Tri-City Wellness Center as management of the District has operational responsibility.

This section of the District's annual financial report presents an analysis of the District's financial performance for the years ended June 30, 2014 and 2013. All references to years refer to the fiscal year ended June 30, unless otherwise indicated. Please read this analysis in conjunction with the Report of Independent Auditors and the consolidated financial statements that follow this section.

This annual financial report includes three items:

1. Report of Independent Auditors
2. Management's Discussion and Analysis
3. Consolidated financial statements of the District, including notes that explain, in more detail, some of the information in the consolidated financial statements.

The District's consolidated financial statements report information using accounting methods required by the Governmental Accounting Standards Board ("GASB"). These statements contain short-term and long-term financial information about its activities.

Executive Summary

For the year ended June 30, 2014, the District reported consolidated loss from operations of approximately $5.7 million and excess of revenues over expenses of approximately $4.4 million.

The 2014 excess of revenues over expenses by entity was as follows:

Tri-City Medical Center	$ 1,933,170
Ambulatory Surgery Center Operators	1,984,218
Real Estate Holding and Management Company	181,784
Tri-City Wellness Center	66,184
Cardiovascular Institute	143,891
Orthopedic Institute	75,816
Total excess of revenues over expenses	$ 4,385,063

Contributing to the 2014 results were the following significant issues:

- The District recorded revenue totaling approximately $4.0 million through the continuation of the Intergovernmental Transfer ("IGT") program. This program reimbursed the hospital for a portion of the difference between the cost of treating Medi-Cal patients and the amount reimbursed through a pre-existing Medi-Cal contract.

- The District also recorded revenue totaling approximately $2.0 million from the Low Income Health Provider ("LIHP") program, a California Medicaid Demonstration Waiver program ("Section 1115 waiver") which allows the State to establish low income health programs in each county to expand coverage for the uninsured, in advance of the Medicaid expansion program provisions of the Affordable Care Act of 2010. The District participated in this program through a relationship with the County of San Diego Department of Health and Human Services, until the program ended on December 31, 2013.

- The District recorded revenue of approximately $900 thousand and received payments of approximately $1.2 million due to successfully meeting milestones in the implementation of the District's electronic health record ("EHR"), one of the provisions of the American Recovery and Reinvestment Act of 2009. These payments were recorded as Other Operating Revenue.

- The Oncology infusion practice, acquired in April 2013 ("OP Infusion Center"), contributed approximately $3.4 million to excess of revenues over expenses during 2014.

- The District's strategic partnership in Ambulatory Surgery Center Operators resulted in an excess of revenues over expenses of approximately $1.9 million in fiscal 2014. Because the District owns 60% of Ambulatory Surgery Center Operators and Ambulatory Surgery Center Operators owns 52.8% of North Coast Surgery Center Ltd., the District's share of earnings was approximately $600 thousand.

Executive Summary (continued)

Contributing to the 2014 results were the following significant issues: (continued)

- The increase in the District's revenue related to prior years' cost report settlements totaled approximately $517 thousand. Cost reports typically are finalized several years beyond the close of each fiscal year, after review by the appropriate government agency, and after all appeal rights have been exhausted. Tentative settlements occur between the end of a fiscal year and finalization of the settlement process.

- During 2012, the District created the Real Estate Holding and Management Company, for the purpose of holding title to various real properties acquired by the District. Real Estate Holding and Management Company holds capital assets totaling approximately $3.7 million and the related mortgages on those properties with an aggregate balance of approximately $1.6 million as of June 30, 2014.

- During 2013 the District operated the Wellness Center under a capital lease. Tri-City Wellness, LLC was organized during fiscal 2013 in anticipation of purchasing the Wellness Center. During July 2013 Tri-City Wellness, LLC procured a loan from Mid Cap Funding RE Holdings, LLC for $26.5 million and the District contributed the remaining capital to purchase the Wellness Center property.

The District also continued or started the following initiatives which are anticipated to provide future financial benefit:

- The District continued to recruit physicians to improve medical coverage for the communities it serves. The specialties recruited include wound care, colorectal, pulmonary, cardiology and family practice. Loans to physicians accrue interest during the draw period and during the forgiveness period. As of June 30, 2014, a total of approximately $6.4 million has been loaned to physicians, of which approximately $2.5 million has been forgiven.

- Development of the District's EHR continued during 2014, with a focus on implementing applications in an effort to meet Meaningful Use Stage 2 attestation. These applications include Quality Measures, Patient Portal, Direct Messaging and Immunization Registries. The District received approximately $1.2 million from Medicare in Meaningful Use payments during 2014.

- The District implemented its response to the recent healthcare reform legislation by forming its own Accountable Care Organization ("ACO") in 2012. As provisions of national healthcare reform become effective in the coming months and years, the ACO will provide the infrastructure and contracting mechanisms required to align physician and hospital efforts to meet the mandates of the new legislation.

Executive Summary (continued)

Required Consolidated Financial Statements

Consolidated Statement of Net Position – The consolidated statement of net position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities), and net position – the difference between assets and liabilities – of the District, and the changes thereto. The statement of net position also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

Condensed Consolidated Statements of Net Position as of June 30, 2014 and 2013 (in Thousands)

ASSETS

	2014	2013
Current assets	$ 125,580	$ 75,292
Capital assets -- net	114,380	107,878
Noncurrent assets	16,238	73,528
	$ 256,198	$ 256,698

LIABILITIES AND NET POSITION

	2014	2013
Current liabilities	$ 122,790	$ 63,388
Long-term debt -- net of current portion	30,608	93,536
Workers' compensation and comprehensive liability -- net of current portion	8,176	7,898
Total liabilities	161,574	164,822
Net investment in capital assets	79,665	63,326
Unrestricted	13,390	26,729
Restricted	-	115
Restricted, nonexpendable	1,569	1,706
Total net position	94,624	91,876
Total	$ 256,198	$ 256,698

2014 Analysis of Changes in the Consolidated Statement of Net Position

- Current assets totaling approximately $125.6 million reflect an increase in 2014 of approximately $50.3 million over the prior year. The increase is a combination of $51.0 million of restricted cash reclassifying from long term to current assets, an increase of approximately $4.2 million in patient accounts receivable, and a decrease in estimated net third-party payor settlements of approximately $5.2 million. The increase in patient accounts receivable is directly related to the increase in patient volume in 2014 over 2013.

- Cash on hand and unused availability from the revolving credit facility provide liquidity to the District. Cash and cash equivalents totaled approximately $13.9 million and the unused available revolving line of credit was approximately $18.7 million at June 30, 2014. Subsequent to year end, the District commenced eminent domain proceedings to acquire the on-campus medical office building and accordingly deposited approximately $4.7 million with the State of California Treasurer.

- Noncurrent assets decreased approximately $57.3 million primarily due to reclassification of $51.0 million restricted long term assets to restricted current assets.

- Estimated net third-party payor settlements decreased approximately $5.2 million primarily due to receipts pertaining to the 2013 intergovernmental transfers ("IGT") program, Meaningful Use, and prior year cost report settlements. The majority of third-party settlements receivable at June 30, 2014 pertains to expected Low Income Health Provider ("LIHP") payments.

- Capital assets, net of accumulated depreciation, increased approximately $6.5 million, and totaled approximately $114.4 million net of accumulated depreciation as of June 30, 2014. A combination of cash payments, equipment financing, and a term loan were utilized to acquire approximately $46.2 million in land, buildings, equipment, software, and other improvement projects during the year. The increase is offset by a decrease in capital leases due to the Tri-City Wellness Center purchase.

- Current liabilities increased approximately $59.4 million, and totaled approximately $122.8 million at year end. Long-term debt totaling approximately $30.6 million at June 30, 2014 reflects a decrease of approximately $62.9 million compared to June 30, 2013. The increase in current liabilities and decrease in long term debt is primarily related to a term loan being reclassified from long term debt to short term debt, and includes a new term loan related to the Tri-City Wellness Center purchase. Capital lease obligations decreased approximately $35.9 million due to the purchase of the Tri-City Wellness Center in July 2013.

- Workers' compensation and comprehensive liability insurance reserves classified as long term liabilities increased based on actuarial analyses of open claims and estimates of claims incurred but not yet reported ("IBNR"). Actuarial studies are commissioned twice each year to determine the potential liabilities and required reserves.

Condensed Consolidated Statements of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2014 and 2013 (In Thousands)

	2014	2013
Operating revenues	$ 319,743	$ 308,193
Operating expenses	325,398	322,548
Loss from operations	(5,655)	(14,355)
Nonoperating revenue	10,040	2,994
Excess (deficiency) of revenues over expenses	4,385	(11,361)
Minority interest distributions and restricted fund change - net	(1,637)	(3,572)
Change in net position	2,748	(14,933)
Beginning net position	91,875	106,808
Ending net position	$ 94,623	$ 91,875
Average daily census	193.1	188.2
Emergency room visits	69,357	66,019

2014 Analysis of the Consolidated Statement of Revenues, Expenses and Changes in Net Position

- The District experienced an overall increase in volume in 2014. Total average daily census was 193 for the current year compared to 188 in the prior year. Total hospital outpatient visits increased approximately 3.2% compared to 2013, emergency treat and release visits increased approximately 5.8% and home health visits increased approximately 7.7%. Visits for the OP Infusion Center increased in 2014 due to a full year of operations, compared to approximately two months of operations in 2013.

- Operating revenues increased by approximately $11.6 million in 2014 compared to 2013. The majority of this increase is related to the increase in outpatient services in 2014. The Operating revenue increase is offset by decreases in reimbursement due to sequestration, resulting in a 2% reduction in Medicare reimbursement. Sequestration commenced April 1, 2013, resulting in reduced expected reimbursement of approximately $2.4 million and $600 thousand for the years ended June 30, 2014 and 2013, respectively.

- Operating expenses, which include patient care expenses and overhead and administrative expenses increased approximately $2.9 million. The largest single increase was experienced in supplies expense, which increased approximately $6.7 million primarily due to pharmaceutical expenses related to the OP Infusion Center.

2014 Analysis of the Consolidated Statement of Revenues, Expenses and Changes in Net Position (continued)

- Although the District recognized increased volume and patient revenue in 2014, salaries and related expenses decreased by approximately $5.8 million. A focused effort on increased productivity reduced salaries and related expenses from approximately 61% of total operating revenue in fiscal 2013 to approximately 57% in fiscal 2014.

- Non-operating income and expense consists of interest earned on invested monies, the District's share of property tax revenue collected by the County, net interest expense, and other non-operating items. The resulting net non-operating revenue totaled approximately $10.0 million in 2014 compared to approximately $3.0 million in 2013. The $7.0 million increase in non-operating revenue is primarily due to a decrease of approximately $1.2 million in interest expense and the receipt of approximately $5.5 million in legal settlement income. Interest expense decreased by approximately $1.2 million during fiscal 2014 due to the Tri-City Wellness Center purchase and debt refinancing to more favorable terms.

Statement of Cash Flows – The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital/noncapital financing activities.

	Years Ended June 30,	
	2014	**2013**
Cash flows from:		
Operating activities	$ 11,894	$ 4,866
Noncapital financing activities	12,498	4,503
Capital and related financing activities	(27,897)	(15,128)
Investing activities	4,186	(1,114)
Net change in cash and cash equivalents	681	(6,873)
Beginning cash and cash equivalents	13,248	20,121
Ending cash and cash equivalents	$ 13,929	$ 13,248

Cash flows arise from operating income adjusted for noncash expenditures such as depreciation expense and bad debt expense ("operating activities"), changes in investments and interest income received on investments ("investing activities"), purchase of new capital assets and payments of interest and principal on debt ("capital and related financing activities"), and county tax revenues ("noncapital financing activities").

2014 Analysis of the Consolidated Statement of Cash Flows

Cash and cash equivalents totaled approximately $13.9 million at the end of fiscal 2014 compared to fiscal 2013 ending balance of approximately $13.2 million. Net cash provided by operating activities in 2014 increased approximately $7.0 million compared to 2013. Net cash provided by noncapital financing activities in 2014 increased by approximately $8.0 million. Cash used in capital and related financing activities increased approximately $12.8 million from 2013 to 2014, primarily due to the Tri-City Wellness Center purchase. The District received approximately $1.2 million from the Foundation and Auxiliary during 2014.

2014 Capital Assets

During 2014 the District invested approximately $45.2 million in land, buildings, new equipment, and building improvements. Major acquisitions during 2014 included the Tri-City Wellness Center, continued development of the hospital electronic health record, a mammography system, several hospital remodel projects and a number of significant surgical equipment upgrades.

All payments on capital leases were made timely. More detailed information about the District's debt is presented in Notes 9 and 10 to the consolidated financial statements.

Finance Contact

The District's consolidated financial statements are designed to present users with a general overview of the District's finances and to demonstrate the District's accountability. If you have any questions about the report or need additional financial information, please contact the Chief Financial Officer, Tri-City Healthcare District, 4002 Vista Way, Oceanside, California 92056.

	JUNE 30, 2014	JUNE 30, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 13,928,158	$ 13,247,831
Short-term investments	-	3,818,537
Restricted funds	51,426,000	-
Patient accounts receivable - net of estimated uncollectible accounts of $24,655,998 and $40,194,229 in 2014 and 2013, respectively	43,086,341	38,918,150
Other receivables	2,672,642	1,344,612
Supplies inventory	6,716,866	6,478,260
Prepaid expenses and other assets	3,118,615	2,037,712
Estimated third-party payor settlements	4,631,305	9,447,077
Total current assets	125,579,927	75,292,179
NONCURRENT CASH AND INVESTMENTS		
Board-designated	391,680	386,736
Restricted funds	-	54,598,287
Total noncurrent cash and investments	391,680	54,985,023
CAPITAL ASSETS - net	114,379,827	107,877,928
OTHER ASSETS		
Notes receivable	4,430,469	3,820,885
Other	11,416,223	14,721,563
Total other assets	15,846,692	18,542,448
TOTAL	$ 256,198,126	$ 256,697,578

	JUNE 30, 2014	JUNE 30, 2013
LABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 40,283,983	$ 33,000,048
Accrued payroll and related expenses	18,755,969	17,741,378
Current maturities of long-term debt	4,106,095	3,527,812
Short-term debt	57,375,225	6,800,000
Other current liabilities	970,337	1,409,215
Estimated third-party payor settlements	1,298,780	909,239
Total current liabilities	122,790,389	63,387,692
LONG-TERM DEBT - net of current portion	30,608,235	93,535,544
WORKERS' COMPENSATION AND COMPREHENSIVE LIABILITY - net of current portion	8,175,504	7,898,745
Total liabilities	161,574,128	164,821,981
NET POSITION		
Net investment in capital assets	79,665,497	63,325,879
Unrestricted	13,389,770	26,728,323
Restricted	-	115,438
Restricted, nonexpendable	1,568,731	1,705,957
Total net position	94,623,998	91,875,597
TOTAL	$ 256,198,126	$ 256,697,578

 See accompanying notes.

TRI-CITY HEALTHCARE DISTRICT
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	YEARS ENDED JUNE 30,	
	2014	2013
REVENUE:		
Net patient service revenue	$ 290,993,376	$ 275,061,850
Premium revenue	21,255,171	23,218,427
Other revenue	7,494,366	9,913,093
Total operating revenue	319,742,913	308,193,370
EXPENSES:		
Salaries and related	182,869,893	188,714,785
Supplies	66,418,086	59,684,737
Purchased services	19,863,619	19,040,537
Depreciation and amortization	13,366,473	14,165,789
Other operating expense	17,109,611	16,666,901
Professional and medical fees	14,142,515	12,302,543
Maintenance, rent & utilities	11,627,502	11,972,310
Total operating expenses	325,397,699	322,547,602
LOSS FROM OPERATIONS	(5,654,786)	(14,354,232)
NONOPERATING REVENUE (EXPENSE):		
District tax revenue	8,021,086	7,932,675
Interest income	154,935	444,605
Interest expense	(4,320,644)	(5,507,926)
Other non-operating income	6,184,472	124,449
Total non-operating revenue	10,039,849	2,993,803
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	4,385,063	(11,360,429)
MINORITY INTEREST DISTRIBUTIONS AND RESTRICTED FUND CHANGE - NET	(1,636,662)	(3,571,711)
Changes in net position	2,748,401	(14,932,140)
NET POSITION - Beginning of year	91,875,597	106,807,737
NET POSITION - End of year	$ 94,623,998	$ 91,875,597

See accompanying notes.

TRI-CITY HEALTHCARE DISTRICT
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED JUNE 30, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from patients, insurers, and other payors	$ 311,957,639	$ 300,196,396
Payments to vendors	(123,196,907)	(119,153,822)
Payments for salaries, wages, and related benefits	(181,855,302)	(186,183,983)
Other receipts and payments	4,988,790	10,007,563
Net cash provided by operating activities	11,894,220	4,866,154
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Minority interest distributions, net	(1,636,662)	(3,571,711)
Receipt of District taxes	8,021,086	7,932,675
Receipt of other non-operating revenues	6,113,198	141,651
Net cash provided by noncapital financing activities	12,497,622	4,502,615
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(6,869,678)	(8,913,714)
Wellness Center purchase/financing	(38,380,805)	-
Principal repayments on long-term debt	(4,052,194)	(2,923,521)
Principal repayments on short-term debt	(986,551)	(1,262,507)
Proceeds from short-term debt	986,551	1,262,507
Proceeds from term loan	26,500,000	-
Principal repayments on term loan	(349,035)	-
Proceeds from revolving line of credit	330,274,514	19,000,000
Principal repayments on revolving line of credit	(330,699,289)	(17,000,000)
Interest payments on debt	(4,320,644)	(5,290,415)
Net cash used in capital and related financing activities	(27,897,131)	(15,127,650)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for acquisition of oncology infusion practice and interest in OPS Enterprise, LLC	-	(1,558,996)
Proceeds from sale of investments	4,117,593	-
Interest received on investments	68,023	444,605
Net cash provided (used) in investing activities	4,185,616	(1,114,391)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	680,327	(6,873,272)
CASH AND CASH EQUIVALENTS - Beginning of year	13,247,831	20,121,103
CASH AND CASH EQUIVALENTS - End of year	$ 13,928,158	$ 13,247,831

See accompanying notes.

RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	YEARS ENDED JUNE 30, 2014	2013
Loss from operations	$ (5,654,786)	$ (14,354,232)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Provision for bad debts	54,765,985	62,900,616
Depreciation and amortization	13,366,473	14,165,789
Changes in net assets and liabilities		
Patient accounts receivable	(58,934,176)	(59,139,247)
Other receivables	(1,328,030)	469,443
Other - net	(3,825,085)	(790,945)
Accounts payable and accrued liabilities	7,283,935	5,478,415
Accrued payroll and related expenses	1,014,591	(536,940)
Estimated third-party payor settlements	5,205,313	(3,326,745)
Net cash provided by operating activities	$ 11,894,220	$ 4,866,154

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

	2014	2013
Capital assets acquired through long-term debt	$ 1,133,501	$ 932,460
Promissory note issued for purchase of oncology infusion practice (see Note 3)	$ -	$ 3,517,500

See accompanying notes.

Note 1 – Organization

Organization – Tri-City Healthcare District (the "District" or "TCMC") is a political subdivision of the state of California organized as a special district. The District provides comprehensive medical services at its facility located in Oceanside, California. The consolidated financial statements of the District include the accounts of the District, Tri-City Medical Center ASC Operators, LLC ("ASCO"), North Coast Surgery Center Ltd. ("NCSC"), the Cardiovascular Health Institute, LLC ("CVI"), the Orthopedic Institute, LLC ("Ortho"), Tri-City Real Estate Holding and Management Co, LLC ("REHM") and Tri-City Wellness, LLC ("Tri-City Wellness").

ASCO, NCSC, CVI, Ortho, REHM and Tri-City Wellness are component units that have been blended for presentation purposes. The District owns a 60% interest in ASCO, which provides management services to NCSC. ASCO owns a 52.8% interest in NCSC. NCSC provides outpatient surgical services to the surrounding communities of Oceanside, CA. The District has determined blended presentation is appropriate as it appoints a voting majority of ASCO's governing body. The District owns 61.4% of CVI and 50% of Ortho. The Institutes were established to align the goals of independent physician practices and specialty services with the goals of the hospital. Key goals are to improve quality outcome reporting, and to improve financial and operational performance of the respective service lines. The District has determined blended presentation is appropriate for CVI and Ortho as the component units provide services almost entirely to the District. The District owns 99% of REHM. The District has determined blended presentation is appropriate for REHM as management of the District has operational responsibility for REHM. The District owns 99.9% of Tri-City Wellness. The District has determined blended presentation is appropriate for Tri-City Wellness as management of the District has operational responsibility for Tri-City Wellness. All intercompany transactions have been eliminated in the District's consolidated financial statements.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation – The consolidated financial statements have been prepared in accordance with the applicable provisions of the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Health Care Organizations*, and pronouncements of the Governmental Accounting Standards Board ("GASB"). The District uses proprietary (enterprise) fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Accounting estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Note 2 – Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

GASB Statement No. 61, "The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34," modifies certain requirements for inclusion of component units in the financial reporting entity. The requirements of this statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The District adopted GASB No. 61 effective July 1, 2012. The adoption did not have a significant impact on the District.

GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements," identifies and consolidates the accounting and financial reporting provisions that apply to state and local governments. The District adopted GASB No. 62 effective July 1, 2012. The adoption did not have a significant impact on the District.

GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," provides financial reporting guidance for deferred outflows and inflows of resources and identifies net position as the residual of all other elements presented in the consolidated statements of net position. The District adopted GASB 63 effective July 1, 2012. The adoption did not have a significant impact on the District.

GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," 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. The District adopted GASB 65 effective July 1, 2013. The adoption did not have a significant impact on the District.

Cash equivalents – For purposes of the consolidated financial statements, the District considers highly liquid debt instruments (excluding non-current cash and investments) purchased with a maturity of three months or less to be cash equivalents.

Term loan collateral – The term loan is fully collateralized by restricted cash of $51.0 million at June 30, 2014 and 2013. The custodians of the restricted cash are the financial institutions that have provided the term loan. Term loan collateral is included within restricted funds in the consolidated statements of net position at June 30, 2014 and 2013.

Investments – Investments are reported at fair value, as determined by quoted market prices, in the statements of net position, and all investment income or losses, including changes in the fair value of investments, are reported in non-operating income (expense) in the statements of revenues, expenses, and changes in net position.

Note 2 – Summary of Significant Accounting Policies (continued)

Supplies inventories – Supplies inventories are reported at the lower of cost (first-in, first-out) or market value.

Goodwill – Goodwill represents the excess of purchase price of an acquired business over the net tangible and identifiable intangible assets acquired and liabilities assumed in connection with the acquisition of the oncology infusion practice in 2013. At June 30, 2014 and 2013, goodwill associated with this transaction was approximately $4.6 million, which is included in other assets in the consolidated statements of net position. The District evaluates goodwill for impairment at least annually or whenever events or changes in circumstances require an interim impairment assessment. The District compares the fair value of each reporting unit to its carrying amount to determine if there is potential goodwill impairment. If the fair value of a reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than the carrying value of its goodwill. Management determined that there was no impairment of goodwill as of June 30, 2014 and 2013.

Capital assets – Property, plant and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful life of each class of depreciable asset (the shorter of the estimated useful life or the lease term for leasehold improvements) as follows:

Land improvements	15 years
Buildings and buildings improvements	10-40 years
Leasehold improvements	3-15 years

Interest cost incurred on borrowed funds during the period of construction of capital assets, net of any interest earned on temporary investments of the proceeds for construction projects funded by tax-exempt borrowings, is capitalized as a component of the cost of acquiring those assets. Net interest cost capitalized was approximately $31 thousand and $103 thousand for the years ended June 30, 2014 and 2013, respectively.

Capital assets are evaluated for impairment when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is dependent upon the event or circumstance in which the impairment occurred. Impairment losses, if any, are recorded in the statements of revenues, expenses, and changes in net position. No impairment losses are recorded in the years ended June 30, 2014 and 2013.

Note 2 – Summary of Significant Accounting Policies (continued)

Net position – Net position of the District is classified in four components. "Net investment in capital assets" consists of capital assets, net of accumulated depreciation and is reduced by the balances of any outstanding borrowing used to finance the purchase or construction of those assets. "Unrestricted" net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted. "Restricted" net position is non-capital net position required to be used for a particular purpose, as specified by contributors external to the District. "Restricted, nonexpendable" net position includes the net position of ASCO, CVI, Ortho, REHM and Tri-City Wellness not owned by the District.

Grants and contributions – From time to time, the District receives grants and contributions from individuals or private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Operating revenues and expenses – The District's statements of revenues, expenses, and changes in net position distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the District's principal activity. Operating expenses include all expenses incurred to directly provide health care services. Non-operating income and expenses consist of those revenues and expenses that result from non-exchange transactions, such as District taxes, financing costs, interest expense, and investment income.

Net patient service revenue – Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. 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. The District estimates net collectible accounts receivable and the corresponding impact on net patient services revenue by applying historical collection realization percentages to outstanding gross accounts receivable by payor class. Normal estimation differences between subsequent cash collections on patient accounts receivable and net patient accounts receivable estimated in the prior year are reported as adjustments to net patient service revenue during the collection period. Subsequent collections through August 2014 have exceeded net patient accounts receivable reflected as of June 30, 2013 by approximately $180 thousand. Subsequent collections through September 2013 were approximately $2.0 million less than accounts receivable reflected as of June 30, 2012.

Note 2 – Summary of Significant Accounting Policies (continued)

Premium revenue – The District has agreements with various health maintenance organizations ("HMOs") to provide medical services to subscribing participants. Under these agreements, the District receives monthly capitation payments based on the number of each HMO's participants, regardless of services actually performed by the District. The District recognizes premium revenue in the period the District is obligated to provide services, which is generally in the month capitation payments are received. In addition, the HMOs make fee-for-service payments to the District for certain covered services based upon discounted fee schedules. Under some of these agreements, the District also participates in shared-risk pools with medical groups, through which it could receive additional reimbursement or pay additional amounts to the medical groups. In conjunction with the risk pools, the District estimates incurred but not reported ("IBNR") claims for medical services provided to patients at other facilities (see Note 15). IBNR liabilities of approximately $1.7 million are included in accounts payable and accrued liabilities in the accompanying consolidated statements of net position as of June 30, 2014 and 2013.

Property taxes – The District receives financial support from property taxes. These funds are used to support operations. Property taxes are levied annually by the County of San Diego (the "County") on behalf of the District and are intended to finance the District's activities. The County's fiscal year is from July 1 through June 30. Amounts of tax levied are based on assessed property values as of the first day of January proceeding the fiscal year for which the taxes are levied. District tax revenue amounted to approximately $8.0 million and $7.9 million for the years ended June 30, 2014 and 2013, respectively.

Income taxes – The District is a governmental subdivision of the state of California and is exempt from federal income and state franchise taxes.

Compensated absences – The District's benefits-eligible employees earn vacation leave at varying rates based upon qualifying-service hours. Employees may accumulate vacation leave up to a specified maximum. Accrued vacation leave is paid to the employee upon termination of employment or upon conversion to non-benefits-eligible status. The estimated amount of vacation leave payable to employees is reported as a current liability of approximately $8.7 million and $8.2 million at June 30, 2014 and 2013, respectively. Sick time is also earned at a specific rate per qualified-service hours. However, no payment is made for accrued sick time when employment is terminated.

Note 3 – Acquisitions

During fiscal 2013, the District operated the Wellness Center under a capital lease. Tri-City Wellness, LLC was organized during fiscal 2013 in anticipation of purchasing the Wellness Center. During July 2013, Tri-City Wellness, LLC procured a loan from Mid Cap Funding RE Holdings, LLC for $26.5 million and the District contributed the remaining capital to purchase the Wellness Center property. Accordingly, the Wellness Center property is accounted for as a capital lease during fiscal 2013 and until purchased during fiscal 2014. Tri-City Wellness, LLC is a component unit that is included in the consolidated financial statements.

Note 3 – Acquisitions (continued)

During April 2013, the District acquired an oncology infusion practice. The consolidated financial statements include the operations of the oncology practice for the periods subsequent to the acquisition.

During August 2012, the District acquired a 25% interest in OPS Enterprises, LLC, which leases the building utilized by the oncology infusion practice. The District's investment in OPS Enterprises, LLC is included in other assets in the accompanying consolidated statements of net position at June 30, 2014 and 2013.

Note 4 – Patient Service Revenue, Third-Party Reimbursement Programs and Non-Operating Revenue

The District renders services to patients under contractual arrangements with the Medicare and Medi-Cal programs and various HMOs and preferred provider organizations ("PPOs"). The Medicare program generally pays the District a prospectively determined rate per discharge for services rendered to Medicare inpatients. Additionally, Medicare reimburses the District for certain capital related costs and psychiatric services on the basis of costs incurred. Up until January 1, 2014, the Medi-Cal program provided for payment at a prospectively negotiated contractual rate per day for services to Medi-Cal inpatients.

Senate Bill 853 added section 14105.28 to the Welfare and Institution Code. This section mandated the design and implementation of a new payment methodology for hospital inpatient services provided to Medi-Cal beneficiaries based upon Diagnosis Related Groups ("DRGs"). The DRG reimbursement, case-based, methodology replaced the previous per diem payment method for all private hospitals with admissions on or after July 1, 2013, and for non-designated public hospitals with admissions on or after January 1, 2014. A per diem reimbursement methodology is still used for rehabilitative services and behavioral health services. Revenue from the Medicare and Medi-Cal programs accounted for approximately 60% and 55% of the District's gross patient service revenue in the years ended June 30, 2014 and 2013, respectively.

The District is reimbursed for serving a disproportionate share of low income patients, reimbursable Medicare bad debt and certain other items at a tentative rate with final settlement determined after the District's submission of annual cost reports and audits thereof by State and Federal agencies and their intermediaries. Cost reports for the Medicare programs have been final settled for all years through 2010. Results of cost report settlements, as well as the District's estimates for settlements, of all fiscal years through 2014 are reflected in the accompanying consolidated financial statements.

Note 4 – Patient Service Revenue, Third-Party Reimbursement Programs and Non-Operating Revenue (continued)

Estimated net third-party settlements consisted of a net receivable of approximately $3.3 million and $8.5 million as of June 30, 2014 and 2013, respectively. During fiscal year 2014, the District settled various prior-year cost reports, appeal issues and adjusted prior-year settlement estimates. Prior year settlements and changes in estimates resulted in approximately $517 thousand and $1.1 million of additional net patient service revenue in the years ended June 30, 2014 and 2013, respectively, and are included in net patient service revenue in the accompanying consolidated statements of revenue, expenses, and changes in net position.

The hospital recorded net patient service revenue of approximately $2.0 million and $2.8 million during the years ended June 30, 2014 and 2013, respectively, from the Low Income Health Provider ("LIHP") program, a five-year California Medicaid Demonstration Waiver program ("Section 1115 waiver") which allowed the State of California to establish low income health programs in each county to expand coverage for the uninsured, in advance of the Medicaid expansion program provisions of the Affordable Care Act of 2010. The District participated in this program through a relationship with the County of San Diego Department of Health and Human Services, until the program ended on December 31, 2013.

The District has also entered into payment agreements with certain commercial insurance carriers, HMOs, and PPOs. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

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

	2014	2013
Medicare plans	30 %	30 %
Medi-Cal plans	20	14
HMO/PPO	35	44
Others	15	12
Total	100 %	100 %

Non-operating revenue includes District tax revenue and other non-patient service revenue. District tax revenue totaled approximately $8.0 million and $7.9 million for the years ended June 30, 2014 and 2013, respectively. Fiscal 2014 other non-operating income includes approximately $5.5 million in legal settlements.

Note 5 – Cash and Cash Equivalents and Investments

The State of California Government Code (the "Code") generally authorizes the District to invest unrestricted and Board-designated assets in obligations of the U.S. Treasury and certain U.S. government agencies, obligations of the state of California and local government entities, bankers' acceptances, commercial paper, certificates of deposit, repurchase agreements, and mortgage securities. Certain of these investments may be purchased only in limited amounts, as defined in the Code.

The California State Treasurer's Office makes available the Local Agency Investment Fund ("LAIF") through which local governments may pool investments. Each governmental entity may invest up to $40 million in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. The District is a voluntary participant in the LAIF. The fair value of the District's investments in the LAIF is reported in the accompanying consolidated financial statements based on the District's pro rata share of the fair value provided by the LAIF for the entire LAIF portfolio. As of June 30, 2014 and 2013 the District held approximately $392 thousand and $387 thousand in LAIF, respectively.

The District has $51.0 million held as collateral for a $51.0 million term loan, which is held in a pledged cash account classified as restricted funds at June 30, 2014 and 2013 in the accompanying consolidated statements of net position.

There are many factors that can affect the value of investments. Some, such as credit risk, custodial credit risk, and concentration of credit risk and interest rate risk, may affect both equity and fixed income securities. Equity and debt securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

Credit risk – Fixed income securities are subject to credit risk, which is the chance that an issuer will fail to pay interest or principal in a timely manner or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk. The District invests primarily in obligations of the U.S. government.

Concentration of credit risk – Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the District to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. Investments issued or guaranteed by the U.S. government and investments in external investment pools, such as LAIF, are not considered subject to concentration of credit risk. In accordance with state law, no more than 5% of total investments may be invested in the securities of any one issuer, except obligations of the U.S. government, no more than 10% may be invested in any one mutual fund, and no more than 30% may be invested in bankers' acceptances of any one commercial bank.

Note 5 – Cash and Cash Equivalents and Investments (continued)

Custodial credit risk-deposits – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2014 and 2013, the District's bank balances totaled approximately $65.4 million and $67.9 million, respectively, and were not exposed to custodial credit risk, as the uninsured deposits are with financial institutions which are individually required by state law to have government deposits collateralized at a rate of 110% of the deposits. Such collateral is considered to be held in the District's name.

Custodial credit risk – investments – District policy requires that all investments be insured or registered, or be held by the District's agent in the agent's nominee name, with subsidiary records listing the District as the legal owner. For these reasons, the District is not exposed to custodial credit risk for its investments.

Interest rate risk – Interest rate risk is the risk that the value of fixed income securities will decline due to increasing interest rates. The terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. As a means of limiting its exposure to fair value losses arising from increasing interest rates, the District's investment policy, as per statutory requirements, limits the term of any investment to a maturity not exceeding five years.

The carrying amount of deposits and investments are included in the following statements of net position captions at June 30:

	2014	2013
Cash and cash equivalents	$ 13,928,158	$ 13,247,831
Short-term investments	-	3,818,537
Restricted cash	51,426,000	54,598,287
Board-designated	391,680	386,736
Total	$ 65,745,838	$ 72,051,391

Note 6 – Restricted Cash and Investments

The District held other cash and investments that are restricted by external parties for the following purposes at June 30:

	2014	2013
Workers' compensation letters of credit	$ 426,000	$ 730,000
Term loan collateral	51,000,000	51,000,000
Restricted per Wellness Center lease agreement	-	2,868,287
Total	$ 51,426,000	$ 54,598,287

Note 7 – Capital Assets

Property, plant, and equipment as of June 30, 2014 and 2013 consisted of the following:

2014	Beginning Balance June 30, 2013	Additions	Deletions	Transfers	Ending Balance June 30, 2014
Land and land improvements	$ 9,827,710	$ 10,050,000	$ -	$ -	$ 19,877,710
Buildings and improvements	168,417,230	2,399,226	-	30,099,233	200,915,689
Equipment	138,614,463	1,798,551	(145,427)	2,129,762	142,397,349
	316,859,403	14,247,777	(145,427)	32,228,995	363,190,748
Assets under lease	41,544,445	1,133,502	-	(33,433,241)	9,244,706
Less accumulated depreciation and amortization	(252,969,916)	(13,122,568)	-	6,156,675	(259,935,809)
Construction in progress	2,443,996	4,388,615	-	(4,952,429)	1,880,182
Total capital assets	$ 107,877,928	$ 6,647,326	$ (145,427)	$ -	$ 114,379,827

2013	Beginning Balance June 30, 2012	Additions	Deletions	Transfers	Ending Balance June 30, 2013
Land and land improvements	$ 8,927,606	$ 901,259	$ (1,155)	$ -	$ 9,827,710
Buildings and improvements	166,656,775	52,712	(49,314)	1,757,057	168,417,230
Equipment	133,169,633	3,465,810	(1,016,118)	2,995,138	138,614,463
	308,754,014	4,419,781	(1,066,587)	4,752,195	316,859,403
Assets under lease	42,732,258	-	-	(1,187,813)	41,544,445
Less accumulated depreciation and amortization	(239,502,425)	(14,496,582)	1,029,091	-	(252,969,916)
Construction in progress	480,105	5,528,273	-	(3,564,382)	2,443,996
Total capital assets	$ 112,463,952	$ (4,548,528)	$ (37,496)	$ -	$ 107,877,928

Note 8 – Other Assets

Other assets consisted of the following as of June 30:

	2014	2013
Goodwill	$ 4,629,430	$ 4,629,430
Wellness Center purchase option	-	5,000,000
Medical office building prepaid rent	5,004,692	5,004,692
Other	1,782,101	87,441
Total	$ 11,416,223	$ 14,721,563

Note 8 – Other Assets (continued)

As of June 30, 2014 and 2013, approximately $5.0 million is reflected in other assets in the accompanying consolidated statements of net position pertaining to prepaid rental payments to the developer of an on-campus medical office building. Claims have been made by the developer and claims have been made by the District regarding the medical office building. Subsequent to year-end, the District commenced eminent domain proceedings to acquire the medical office building and accordingly deposited approximately $4.7 million with the State of California Treasurer.

Note 9 – Short-Term Debt

Term loan – In April 2012, the District replaced its existing term loan with a new term loan with an initial maturity date of June 28, 2013. The new term loan maintained the existing principal outstanding of $51.0 million and existing collateral of $51.0 million with new lenders. The term loan currently matures on September 26, 2014, after which the District anticipates extending the maturity to February 28, 2015 or later.

Line of credit – In July 2013, a new revolving line of credit was obtained from Mid Cap, LLC and the prior revolving line of credit was paid in full. The amount available under this new line of credit is up to $25.0 million, subject to a borrowing base calculation, as defined within the Credit and Security Agreement. The interest rate is the London Interbank Offered Rate ("LIBOR") plus 3.50% subject to a LIBOR floor of 1%. The term of this line of credit is three years. The borrowings on the credit facility are fully collateralized by certain assets of the District.

The District's revolving line of credit facility and term loan are subject to compliance with certain debt covenants, including restrictions on additional indebtedness, maximum debt to capitalization ratio, and a minimum fixed charge coverage ratio. As of June 30, 2014, the District was in compliance with the covenants.

A schedule of changes in the District's short-term debt as of June 30, 2014 and 2013 is as follows:

2014	Beginning Balance	Additions	Payments	Other Classification	Ending Balance
Insurance financing	$ -	$ 986,551	$ (986,551)	$ -	$ -
Term loan	-	-	-	51,000,000	51,000,000
Line of credit	6,800,000	330,274,514	(330,699,289)	-	6,375,225
Total short-term debt	$ 6,800,000	$ 331,261,065	$ (331,685,840)	$ 51,000,000	$ 57,375,225

2013	Beginning Balance	Additions	Payments	Other Classification	Ending Balance
Insurance financing	$ -	$ 1,262,507	$ (1,262,507)	$ -	$ -
Term loan	51,000,000	-	-	(51,000,000)	-
Line of credit	4,800,000	19,000,000	(17,000,000)	-	6,800,000
Total short-term debt	$ 55,800,000	$ 20,262,507	$ (18,262,507)	$ (51,000,000)	$ 6,800,000

Note 10 – Long-Term Debt

The terms and due dates of the District's long-term debt are as follows:

- REHM term note, interest rate of 3.25%, with principal balance outstanding of approximately $871 thousand and $925 thousand at June 30, 2014 and 2013, respectively. Principal payments of approximately $4 thousand plus interest are due monthly commencing December 2011 with the remaining aggregate unpaid amount due December 2016. The note is collateralized by certain real estate of REHM.

- REHM term note, interest rate of 3.50%, with principal balance outstanding of approximately $750 thousand and $858 thousand at June 30, 2014 and 2013, respectively. Principal payments of approximately $8 thousand plus interest are due monthly commencing January 2012 with the remaining aggregate unpaid amount due December 2016. The note is collateralized by certain real estate of REHM.

- Wellness Center Term loan, interest rate of LIBOR plus 6.0% subject to a LIBOR floor of 0.75%, with principal balance outstanding of approximately $26.2 million at June 30, 2014. Principal and interest payments of approximately $180 thousand are due monthly with the remaining aggregate unpaid amount due July 2016. The note is fully collateralized by certain real estate of Tri-City Wellness, LLC.

- Bank of the West note payable, interest rate of 2.89%, with principal balance outstanding of approximately $657 thousand and $864 thousand at June 30, 2014 and 2013, respectively. Principal and interest payments of approximately $19 thousand are due monthly commencing June 2012 with the remaining aggregate unpaid amount due May 2017. The note is collateralized by certain capital assets of the District.

- Bank of the West note payable, interest rate of 2.91%, with principal balance outstanding of approximately $667 thousand and $845 thousand at June 30, 2014 and 2013, respectively. Principal and interest payments of approximately $17 thousand are due monthly commencing January 2013 with the remaining aggregate unpaid amount due December 2017. The note is collateralized by certain capital assets of the District.

- Promissory note payable – OP Infusion Center, interest rate of 4.75%, with principal balance outstanding of approximately $2.2 million and $3.3 million at June 30, 2014 and 2013, respectively. Principal and interest payments of approximately $105 thousand are due monthly with the remaining aggregate unpaid amount due April 2016. The note is collateralized by certain capital assets of the District.

The District's term loan is subject to compliance with certain debt covenants, including restrictions on additional indebtedness, maximum debt to capitalization ratio, and a minimum fixed charge coverage ratio. As of June 30, 2014, the District was in compliance with the covenants.

Note 10 – Long-Term Debt (continued)

- Various capital equipment leases with interest rates varying between 2.31% and 7.04%. Principal and interest payments due monthly commencing various dates and expiring on various dates ranging from April 2014 through March 2019. Principal balances due totaled approximately $3.4 million and $4.3 million as of June 30, 2014 and 2013, respectively.

A schedule of changes in the District's long-term debt (including current portion) as of June 30, 2014 and 2013 is as follows:

2014	Beginning Balance	Additions	Payments	Other Classification	Ending Balance	Due Within 1 Year
REHM notes payable	$ 1,783,333	$ -	$ (162,500)	$ -	$ 1,620,833	$ 150,000
Wellness Center term loan	-	26,500,000	(349,035)	-	26,150,965	420,580
Bank of the West notes payable	1,708,962	-	(385,068)	-	1,323,894	396,382
Promissory note payable (infusion)	3,334,930	-	(1,126,239)	-	2,208,691	1,180,915
Term Loan	51,000,000	-	-	(51,000,000)	-	-
Other	53,299	-	(49,486)	-	3,813	-
Total long-term debt	57,880,524	26,500,000	(2,072,328)	(51,000,000)	31,308,196	2,147,877
Capital lease obligations	39,182,832	1,440,897	(2,328,902)	(34,888,693)	3,406,134	1,958,218
Total long-term debt	$ 97,063,356	$ 27,940,897	$ (4,401,230)	$ (85,888,693)	$ 34,714,330	$ 4,106,095

2013	Beginning Balance	Additions	Payments	Other Classification	Ending Balance	Due Within 1 Year
REHM notes payable	$ 1,920,833	$ -	$ (137,500)	$ -	$ 1,783,333	$ 150,000
Bank of the West notes payable	1,064,572	932,460	(288,070)	-	1,708,962	385,068
Promissory note payable (infusion)	-	3,517,500	(182,570)	-	3,334,930	1,126,239
Term Loan	-	-	-	51,000,000	51,000,000	-
Other	149,830	-	(96,531)	-	53,299	-
Total long-term debt	3,135,235	4,449,960	(704,671)	51,000,000	57,880,524	1,661,307
Capital lease obligations	41,001,529	400,154	(2,218,851)	-	39,182,832	1,866,505
Total long-term debt	$ 44,136,764	$ 4,850,114	$ (2,923,522)	$ 51,000,000	$ 97,063,356	$ 3,527,812

Note 10 – Long-Term Debt (continued)

A schedule, by year, of future minimum payments under long-term debt and capital lease obligations as of June 30, 2014, is as follows:

Years Ending June 30,	Principal	Interest	Total
2015	$ 4,106,095	$ 2,056,555	$ 6,162,650
2016	2,852,099	1,893,121	4,745,220
2017	27,361,804	189,096	27,550,900
2018	282,620	7,838	290,458
2019	111,712	1,337	113,049
Total	$ 34,714,330	$ 4,147,947	$ 38,862,277

Assets acquired through capital leases as of June 30, 2014 and 2013 are as follows:

	2014	2013
Land and buildings under capital lease	$ -	$ 32,645,716
Equipment under capital lease	3,907,588	3,561,613
Software under capital lease	5,337,119	5,337,117
Subtotal	9,244,707	41,544,446
Accumulated amortization	(1,711,583)	(8,817,610)
Total	$ 7,533,124	$ 32,726,836

Note 11 – Retirement Plans

The District has a contributory money accumulation pension plan ("MAPP") covering substantially all employees, under which benefits are limited to amounts accumulated from total contributions. As of June 30, 2014, there were a total of 1,248 plan members, including retirees. Active plan members are required to contribute 2% of covered salary. The District is required to contribute 6% of annual covered payroll. Plan provisions and contribution requirements are established and may be amended by the Board. The District's contribution expense related to the MAPP totaled approximately $4.7 million and $5.5 million for the year ended June 30, 2014 and 2013, respectively.

Since 1983, the District has sponsored a retirement plan, the Tri-City Healthcare District National Security Retirement Program ("NSRP"), an alternative to the U.S. Social Security system. NSRP is administered by an insurance company and provides retirement and survivorship benefits. As a condition of participation, each employee makes contributions to NSRP. The District contributed 4.5% of each employee's annual compensation up to approximately $78 thousand and $76 thousand for the years ended June 30, 2014 and 2013, respectively.

The District's contributions to NSRP totaled approximately $2.6 million for the years ended June 30, 2014 and 2013. Effective January 1, 1992, the District provided its employees with the option of remaining in the NSRP program or transferring to the U.S. Social Security system. Statutes authorize NSRP to invest in group or individual insurance or annuity contracts or other funding vehicles as approved by the District's Board. Contributions to NSRP are deposited in one or more of four investment options as directed by individual participants.

The District also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. Employees who elect to participate in the plan make contributions through a reduction in salary. All employee contributions are invested by a funding agency selected by the District. The investments of the NSRP retirement plan and the Section 457 deferred compensation plan and earnings thereon are held by fiduciaries in trust for the benefit of the employees. The NSRP and the Section 457 deferred compensation plan assets are not subject to the claims of the District's general creditors. Accordingly, the plans' assets and the related liabilities are excluded from the accompanying consolidated statements of net position as of June 30, 2014.

The District maintains a tax-deferred capital accumulation account for certain management personnel under which the District has contributed funds to mutual fund investments as directed by the participants. The contributions vest over a period of no less than two years. As of June 30, 2014 and 2013, the District has invested approximately $286 thousand and $248 thousand, respectively, which is included in other long-term assets on the accompanying consolidated statement of net position. The corresponding compensation liabilities of approximately $154 thousand and $157 thousand are included in accrued payroll and related expenses on the accompanying consolidated statements of net position. The plan assets remain the property of the District until paid or made available to participants, subject only to claims of the District's general creditors.

Note 12 – Operating Leases

The District leases certain building space and equipment under non-cancelable operating leases expiring between March 2014 and November 2022. Operating lease expense for all operating leases totaled approximately $2.3 million and $2.7 million for the years ended June 30, 2014 and 2013, respectively. As of June 30, 2014, future minimum lease payments under non-cancelable operating leases are as follows:

Years Ending June 30,	
2015	$ 2,132,798
2016	1,529,365
2017	1,364,598
2018	1,111,858
2019	268,524
Thereafter	872,703
Total	$ 7,279,846

Note 13 – Related Organizations

Tri-City Hospital Foundation (the "Foundation") and Tri-City Hospital Auxiliary (the "Auxiliary") are California nonprofit corporations organized to benefit the District. Both the Foundation and the Auxiliary have bylaws that govern their separate activities, and the members and officers of each of the two organizations are selected solely by the members themselves.

Donations to the District by the Foundation totaled approximately $1.1 million and $1.3 million in the years ended June 30, 2014 and 2013, respectively. The Auxiliary donated $138 thousand to the District during the year ended June 30, 2014, and did not make any donations to the District during the year ended June 30, 2013.

The District pays salaries and related costs for employees of the Foundation, provides facilities for the Auxiliary gift shop, and provides administrative office space to both organizations free of charge. Such costs totaled approximately $597 thousand and $784 thousand in the years ended June 30, 2014 and 2013, respectively.

Note 13 – Related Organizations (continued)

A summary of the organizations' assets, liabilities and net assets (unaudited) as of June 30, 2014 and 2013 is as follows:

	2014	2013
Tri-City Hospital Foundation		
Assets	$ 3,603,943	$ 4,297,968
Liabilities	$ -	$ -
Net Assets	$ 3,603,943	$ 4,297,968
Tri-City Hospital Auxiliary		
Assets	$ 1,305,094	$ 1,292,080
Liabilities	$ 780,261	$ 783,645
Net Assets	$ 524,833	$ 508,435

Note 14 – Partnerships

During the year ended June 30, 2010, the District entered into a general partnership with Surgical Care Affiliates of Oceanside to form Tri-City Medical Center Ambulatory Surgery Center Operators, LLC ("ASCO"), a California Limited Liability Company. The partnership acquired controlling interest in North Coast Surgery Center ("NCSC"), a partnership between ASCO, and several limited partners, primarily physicians. The primary purpose of the District's involvement in the venture is to relocate lower acuity out-patient surgeries to the surgery center in order to free up surgical suite time for surgeries requiring hospital surgical services. The financial results of ASCO have been consolidated into the District's consolidated financial statements.

Also during the year ended June 30, 2010, the District formed the Cardiovascular Institute, LLC ("CVI"), a California Limited Liability Company. The purpose of CVI is to further the District's mission and commitment to promote cardiovascular health and provide quality heart and vascular services for the residents of the District. The District and CVI entered into a co-management agreement under which CVI provides certain services to meet this mission.

During the year ended June 30, 2011, the District formed the Orthopedic Institute, LLC ("Ortho"), a California Limited Liability Company. The purpose of Ortho is to further the District's mission and commitment to promote orthopedic health and provide quality surgical, non-invasive and rehabilitation services for the residents of the District. The District and Ortho entered into a co-management agreement under which Ortho provides certain services to meet this mission.

Note 14 – Partnerships (continued)

During the year ended June 30, 2012, the District formed the Tri-City Real Estate Holding and Management Company, LLC ("REHM"), a California Limited Liability Company. The purpose of the REHM is to facilitate the acquisition and use of real estate properties to promote the District's mission.

During the year ended June 30, 2014 the District formed Tri-City Wellness, LLC, a California Limited Liability Company to purchase the Wellness Center which the District had previously operated under a capital lease. During July 2013, Tri-City Wellness, LLC procured a loan from Mid Cap Funding RE Holdings, LLC for $26.5 million and the District contributed the remaining capital to purchase the Wellness Center.

The portion of Consolidated Excess of Revenues Over Expenses attributable to minority interests in these entities for the years ended June 30, 2014 and 2013 is approximately $1.5 million and $2.3 million, respectively.

Note 15 – Commitments and Contingencies

Legal actions – The District is involved in various legal matters arising from time to time in the ordinary course of business. Management believes that these matters will not have a material adverse effect on the District's financial position or results of operations.

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

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medi-Cal programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services. During July 2013, the District made an offer for settlement to the Office of Inspector General ("OIG") and Department of Justice ("DOJ") related to a self-disclosure program to resolve a previously self-disclosed matter. The District has yet to receive an acceptance or counter offer. Although the ultimate settlement is unknown, management believes the financial impact related to this matter will not be material. The District was surveyed by the California Department of Public Health ("CDPH") based on an allegation of noncompliance with certain Emergency Medical Treatment and Labor Act ("EMTALA") requirements. Following the survey, The Centers for Medicare and Medicaid Services ("CMS") issued a Statement of Deficiencies to the District. The District submitted a Plan of Correction in response to the Statement of Deficiencies and expects the Plan of Correction to be accepted and verified through a resurvey. Management believes that the District is in compliance with other current laws and regulations.

Note 15 – Commitments and Contingencies (continued)

Seismic compliance – California Senate Bill 1953 ("SB 1953") requires hospital acute care buildings to meet stringent seismic guidelines by 2013. There are efforts to extend the SB 1953 deadline beyond 2013 and to repeal the requirements imposed. The California Office of Statewide Health Planning and Development ("OSHPD") has revised its SB 1953 compliance standards by considering the HAZUS zones (FEMA Hazards – U.S.) in which each hospital is located. Under these revised HAZUS standards, it is expected that many acute care facilities throughout the state may be required to perform less seismic retrofit than originally expected, or none at all.

Based on a waiver granted to the District by OSHPD during 2009, the District's buildings are considered in compliance with all SB 1953 requirements to the year 2030.

Self-insurance insurance programs – The District is self-insured for unemployment benefits and dental PPO benefits.

Prior to January 1, 1999, the District was also self-insured for workers' compensation, with stop-loss insurance coverage for individual claims of more than $250 thousand. For policy years 1999 through 2001, the District has reached maximum premium levels on its policies and has no further liability exposure on claims from those years. For policy year 2002, the District has a retrospective premium workers' compensation insurance coverage with a maximum premium. The maximum premium level has not been reached for the 2002 policy year and further liability exposure is possible. For policy years 2003 and 2004, the District had a large-deductible workers' compensation plan, with stop-loss insurance coverage for individual claims of more than $350 thousand. Under this insurance arrangement, as of June 30, 2014, the District maintains letters of credit totaling $110 thousand for calendar year 2003 and $316 thousand for calendar year 2004. Beginning January 1, 2005, the District began a self-insured worker's compensation program. The District has fully reserved for estimated claims based on actuarial analysis of policy years prior to 1999, and 2002 through 2014. Such reserves were approximately $7.8 million and $7.4 million as of June 30, 2014 and 2013, respectively.

Comprehensive liability insurance coverage – The District is insured for comprehensive liability (professional liability, general liability, personal injury and advertising liability, and employee benefits administration) under a claims-made policy, which covers asserted claims and incidents reported to the insurance carrier, and has a per-claim deductible of $1 million effective July 1, 2009. The District has reserved for estimated claims through 2014, including an estimate of IBNR. Such reserves were approximately $3.8 million and $3.5 million as of June 30, 2014 and 2013, respectively.

Note 15 – Commitments and Contingencies (continued)

The following is a summary of the changes in the self-insured and claims-made plan liabilities for the years ended June 30, 2013 and June 30, 2014:

Balance, as of June 30, 2012	$ 11,666,693
Additions	1,843,118
Payments	(2,628,463)
Balance, as of June 30, 2013	10,881,348
Additions	3,931,197
Payments	(3,271,064)
Balance, as of June 30, 2014	$ 11,541,481

Medical services IBNR – The following is a summary of the changes in the medical services IBNR claims for the years ended June 20, 2013 and June 30, 2014:

Balance, as of June 30, 2012	$ 1,851,146
Additions	7,867,967
Payments	(8,030,177)
Balance, as of June 30, 2013	1,688,936
Additions	8,141,363
Payments	(8,137,066)
Balance, as of June 30, 2014	$ 1,693,233

Physician loan agreements – The District has 24 Physician Recruitment Agreements in effect as of June 30, 2014 under which the District has elected to loan the practicing physicians up to a specified amount per month for a period of two or three years (the "loan distribution period"). At the end of the loan distribution period, each physician is obligated by a signed loan agreement to repay the outstanding loan balance. The loan can be repaid in cash or in-kind services. For repayment in-kind, the District forgives the loans monthly over the period defined in the loan agreement (up to 3 years), so long as the physician continues the practice in the defined service area. The unforgiven loan balances outstanding as of June 30, 2014 and 2013 totaled approximately $4.4 million and $3.8 million, respectively, and are included in other long-term assets in the accompanying consolidated statements of net position.

Note 16 – Hospital Fee

The California Hospital Fee Program (the "Program") was signed into law by the Governor of California and became effective on January 1, 2010. Amending legislation to conform to changes requested by the Centers for Medicare and Medicaid Services ("CMS") during the approval process was signed into law on September 8, 2010 by the Governor of California. The Program required a "hospital fee" or "Quality Assurance Fee" ("QA Fee") to be paid by certain hospitals to a State fund established to accumulate the assessed QA Fees and receive matching federal funds. QA Fees and corresponding matching federal funds are then paid to participating hospitals in two supplemental payment methodologies: a fee-for-service methodology and a managed care plan methodology.

The period covered by the Program included a substantial retroactive federal matching component, including all or a portion of the 2008-2009 and 2009-2010 federal fiscal years. CMS approved California's State Plan Amendment and Waiver as of October 7, 2010 allowing the State to implement the QA Fee and the fee-for-service supplemental payment methodology of the legislation. Final approval of the Program was effective December 30, 2010. The QA Fee assessment and fee-for-service supplemental payments for approved periods were assessed and paid in installments through December 2010. Managed care supplemental payments were paid through March 2011.

Additional legislation in March 2011 ("SB 90") extended the Program for the period from January 1, 2011 through June 30, 2011; however, the extension under SB 90 included only private hospitals and thus excluded the District. As an alternative, the Non-designated Public Intergovernmental Transfer Program was established under AB 113 in 2011 to allow non-designated public hospitals to access additional federal funds. Under this legislation, intergovernmental transfers ("IGT") of approximately $4.0 million and $2.8 million were recorded by the District during the years ended June 30, 2014 and 2013, respectively, which increased net patient service revenue in the accompanying consolidated statement of operations.

Note 17 – Subsequent Events

Subsequent to year-end, the District commenced eminent domain proceedings to acquire an on-campus medical office building and accordingly deposited approximately $4.7 million with the State of California Treasurer. See Note 8 – Other Assets.

SUPPLEMENTAL SCHEDULES

TRI-CITY HEALTHCARE DISTRICT
CONSOLIDATING STATEMENT OF NET POSITION
JUNE 30, 2014

	TCMC	ASCO	REHM	WC	CVI	Ortho	Eliminations	Consolidated
ASSETS								
CURRENT ASSETS								
Cash and cash equivalents	$ 12,827,057	$ 641,911	$ 124,119	$ 95,559	$ 139,855	$ 99,657	$ -	$ 13,928,158
Restricted cash	51,426,000	-	-	-	-	-	-	51,426,000
Patient accounts receivable - net of estimated uncollectible accounts of $24,655,998 and $40,194,229 in 2014 and 2013, respectively	42,308,331	778,010	-	-	-	-	-	43,086,341
Other receivables	1,865,877	-	8,474	631,773	229,839	138,404	(201,725)	2,672,642
Supplies inventory	6,715,675	1,191	-	-	-	-	-	6,716,866
Prepaid expenses and other assets	2,545,293	39,041	-	534,281	-	-	-	3,118,615
Estimated third-party payor settlements	4,631,305	-	-	-	-	-	-	4,631,305
Total current assets	122,319,538	1,460,153	132,593	1,261,613	369,694	238,061	(201,725)	125,579,927
NONCURRENT INVESTMENTS								
Board-designated	391,680	-	-	-	-	-	-	391,680
Total noncurrent investments	391,680	-	-	-	-	-	-	391,680
CAPITAL ASSETS - net	71,980,653	1,065,067	3,697,475	37,636,632	-	-	-	114,379,827
OTHER ASSETS								
Notes receivable	4,430,469	-	-	-	-	-	-	4,430,469
Other	27,114,530	-	-	-	127,324	60,745	(15,886,376)	11,416,223
Total other assets	31,544,999	-	-	-	127,324	60,745	(15,886,376)	15,846,692
TOTAL	$ 226,236,870	$ 2,525,220	$ 3,830,068	$ 38,898,245	$ 497,018	$ 298,806	$ (16,088,101)	$ 256,198,126

TRI-CITY HEALTHCARE DISTRICT
CONSOLIDATING STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2014

	TCMC	ASCO	REHM	WC	CVI	Ortho	Eliminations	Consolidated
LIABILITIES AND NET POSITION								
CURRENT LIABILITIES								
Accounts payable and accrued liabilities	$ 39,794,809	$ 302,116	$ -	$ 451,032	$ 266,615	$ 122,168	$ (652,757)	$ 40,283,983
Accrued payroll and related expenses	18,610,042	145,927	-	-	-	-	-	18,755,969
Current maturities of long-term debt	3,535,515	-	150,000	420,580	-	-	-	4,106,095
Short-term debt	57,375,225	-	-	-	-	-	-	57,375,225
Other current liabilities	736,318	86,913	-	147,106	-	-	-	970,337
Estimated third-party payor settlements	1,298,780	-	-	-	-	-	-	1,298,780
Total current liabilities	121,350,689	534,956	150,000	1,018,718	266,615	122,168	(652,757)	122,790,389
LONG-TERM DEBT - net of current position	3,403,203	3,813	1,470,833	25,730,386	-	-	-	30,608,235
WORKERS' COMPENSATION AND COMPREHENSIVE LIABILITY - net of current portion	8,175,504	-	-	-	-	-	-	8,175,504
Total liabilities	132,929,396	538,769	1,620,833	26,749,104	266,615	122,168	(652,757)	161,574,128
NET POSITION								
Net investment in capital assets	65,041,935	1,061,254	2,076,642	11,485,666	-	-	-	79,665,497
Unrestricted	28,265,539	(431,946)	110,501	651,326	141,375	88,319	(15,435,344)	13,389,770
Restricted	-	-	-	-	-	-	-	-
Restricted, non-expendable	-	1,357,143	22,092	12,149	89,028	88,319	-	1,568,731
Total net position	93,307,474	1,986,451	2,209,235	12,149,141	230,403	176,638	(15,435,344)	94,623,998
TOTAL	$ 226,236,870	$ 2,525,220	$ 3,830,068	$ 38,898,245	$ 497,018	$ 298,806	$ (16,088,101)	$ 256,198,126

See accompanying report of independent auditors.

TRI-CITY HEALTHCARE DISTRICT
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

	TCMC	ASCO	REHM	WC	CVI	Ortho	Eliminations	Consolidated
REVENUE:								
Net patient service revenue	$ 282,830,098	$ 8,163,278	$ -	$ -	$ -	$ -	$ -	$ 290,993,376
Premium revenue	21,255,171	-	-	-	-	-	-	21,255,171
Other revenue	7,310,875	3,171	259,971	2,487,962	255,701	118,555	(2,941,869)	7,494,366
Total operating revenue	311,396,144	8,166,449	259,971	2,487,962	255,701	118,555	(2,941,869)	319,742,913
EXPENSES:								
Salaries and related expenses	180,634,411	2,145,840	-	-	44,821	44,821	-	182,869,893
Supplies	64,486,171	1,931,915	-	-	-	-	-	66,418,086
Purchased services	19,691,922	545,952	-	-	(91,152)	(89,167)	(193,936)	19,863,619
Depreciation and amortization	12,311,473	295,050	-	744,173	8,933	6,844	-	13,366,473
Other operating expense	16,619,322	450,358	3,130	13,882	14,370	8,549	-	17,109,611
Professional and medical fees	13,877,232	58,753	-	-	134,838	71,692	-	14,142,515
Maintenance, rent & utilities	12,914,261	733,715	-	-	-	-	(2,020,474)	11,627,502
Total operating expenses	320,534,792	6,161,583	3,130	758,055	111,810	42,739	(2,214,410)	325,397,699
(LOSS) GAIN FROM OPERATIONS	(9,138,648)	2,004,866	256,841	1,729,907	143,891	75,816	(727,459)	(5,654,786)
NONOPERATING REVENUE (EXPENSE):								
District tax revenue	8,021,086	-	-	-	-	-	-	8,021,086
Interest income	154,885	50	-	-	-	-	-	154,935
Interest expense	(2,575,117)	(6,747)	(75,057)	(1,663,723)	-	-	-	(4,320,644)
Other non-operating revenue (expense)	5,470,964	(13,951)	-	-	-	-	727,459	6,184,472
Total non-operating revenue (expense)	11,071,818	(20,648)	(75,057)	(1,663,723)	-	-	727,459	10,039,849
EXCESS OF REVENUES OVER EXPENSES	1,933,170	1,984,218	181,784	66,184	143,891	75,816	-	4,385,063
Minority interest distributions and restricted fund change - net	(115,438)	(1,364,735)	-	-	(85,654)	(70,835)	-	(1,636,662)
Contributions (distributions) between consolidating entities	-	(836,304)	-	12,082,957	(131,688)	(92,433)	(11,022,532)	-
Changes in net position	1,817,732	(216,821)	181,784	12,149,141	(73,451)	(87,452)	(11,022,532)	2,748,401
NET POSITION - Beginning of year	91,489,742	2,203,272	2,027,451	-	303,854	264,090	(4,412,812)	91,875,597
NET POSITION - End of year	$ 93,307,474	$ 1,986,451	$ 2,209,235	$ 12,149,141	$ 230,403	$ 176,638	$ (15,435,344)	$ 94,623,998