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

Tri-City Healthcare District

June 30, 2015 and 2014

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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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, 2015 and 2014, 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 and the California Code of Regulations, Title 2, Section 1131.2, *State Controller's Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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, 2015 and 2014, 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 and the California Code of Regulations, Title 2, Section 1131.2, *State Controller's Minimum Audit Requirements for California Special Districts*. 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 24, 2015

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 Medical Center Neuroscience Institute, LLC ("Neuro 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, the Neuro Institute, the 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 the Cardiovascular Institute, the Orthopedic Institute, and the Neuro Institute as the component units provide services almost entirely to the District. The District has determined blended presentation is appropriate for the 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, 2015 and 2014. 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, 2015, the District reported consolidated net income from operations of approximately $424 thousand and excess of revenue over expenses of approximately $4.4 million.

The 2015 excess of revenue over expenses by entity was as follows:

Tri-City Medical Center	$ 1,687,567
Ambulatory Surgery Center Operators	1,751,315
Real Estate Holding and Management Company	197,097
Tri-City Wellness Center	176,165
Cardiovascular Institute	361,463
Orthopedic Institute	156,607
Neuroscience Institute	140,042
Eliminations	(36,288)
Total excess of revenue over expenses	$ 4,433,968

Contributing to the 2015 results were the following significant issues:

- The District recorded revenue totaling approximately $8.9 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 recorded revenue of approximately $1.1 million and received payments of approximately $727 thousand 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. This revenue is recorded as other operating revenue.

- The Oncology infusion practice, acquired in April 2013 by Tri-City Medical Center ("OP Infusion Center"), contributed approximately $3.8 million to excess of revenues over expenses during 2015.

- The District's strategic partnership in Ambulatory Surgery Center Operators resulted in an excess of revenues over expenses of approximately $1.8 million in fiscal 2015. 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 $555 thousand.

- The increase in the District's revenue related to prior years' cost report settlements totaled approximately $2.1 million. 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.

Executive Summary (continued)

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 obstetrics and gynecology, minimally invasive surgery and internal medicine. Loans to physicians accrue interest during the draw period and during the forgiveness period. As of June 30, 2015, the physician loan balance was $5.5 million. Approximately $1.3 million was forgiven during 2015.

- In response to the need for additional primary care physicians in the TCHD service area, the District opened the Tri-City Primary Care physician clinic in January 2015. The District owns and operates the clinic from which four physicians provide professional services to the community.

- Development of the District's EHR continued during 2015, with a focus on implementing applications in an effort to meet Meaningful Use Year 2, Stage 2 attestation. These applications include Electronic Notes, Summary of Care Transition, Quality Measures, Patient Portal and Direct Messaging. A security risk analysis was completed and the syndromic lab reporting requirement was met during the year. The District received approximately $727 thousand from Medicare in Meaningful Use payments during 2015.

- The District implemented its response to healthcare reform legislation in 2012 by forming its own Accountable Care Organization ("ACO"). As provisions of Patient Protection and Affordable Care Act have become effective, the ACO provides the infrastructure and contracting mechanisms required to align physician and hospital efforts. It also provides a contracting and a physician engagement mechanism to align with anticipated changes in future reimbursement methodologies. Since its formation in 2012, the ACO has been profitable each year of its existence.

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, 2015 and 2014 (in Thousands)

ASSETS

	2015	2014
Current assets	$ 125,599	$ 125,580
Capital assets - net	109,059	114,380
Non-current assets	21,763	16,238
Total	$ 256,421	$ 256,198

LIABILITIES AND NET POSITION

	2015	2014
Current liabilities	$ 122,369	$ 122,790
Long-term debt - net of current portion	28,358	30,608
Workers' compensation and comprehensive liability - net of current portion	7,966	8,176
Total liabilities	158,693	161,574
Net investment in capital assets	77,480	79,665
Unrestricted	18,545	13,390
Restricted, non-expendable	1,703	1,569
Total net position	97,728	94,624
Total	$ 256,421	$ 256,198

2015 Analysis of Changes in the Consolidated Statement of Net Position

- Current assets totaling approximately $125.6 million in 2015 remain consistent with the prior year. Included in the $125.6 million is an increase of approximately $1.8 million in cash and cash equivalents, and a decrease in estimated net third-party payor settlements of approximately $1.8 million.

- Cash on hand and unused availability from the revolving credit facility provide liquidity to the District. Cash and cash equivalents totaled approximately $15.7 million and the unused available revolving line of credit was approximately $19.6 million at June 30, 2015.

- Noncurrent assets increased approximately $5.5 million primarily due to a $4.7 million deposit with the State of California Treasurer related to eminent domain proceedings to acquire an on-campus medical office building.

- Estimated net third-party payor settlements decreased approximately $1.8 million primarily due to receipts pertaining to the Low Income Health Program, Meaningful Use, and prior year cost report settlements. The majority of third-party settlements receivable at June 30, 2015 pertains to current year cost report estimates.

- Capital assets, net of accumulated depreciation, decreased approximately $5.3 million, and totaled approximately $109.1 million as of June 30, 2015. A combination of cash payments and equipment financing were utilized to acquire approximately $6.4 million in equipment, software, and other capital improvement projects during the year.

- Current liabilities totaled approximately $122.4 million at year end. Long-term debt totaling approximately $28.4 million at June 30, 2015 reflects a decrease of approximately $2.3 million compared to June 30, 2014.

- Workers' compensation and comprehensive liability insurance reserves classified as long term liabilities decreased by $210 thousand, 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, 2015 and 2014 (In Thousands)

	2015	2014
Operating revenue	$ 337,195	$ 319,743
Operating expenses	336,771	325,398
Net income (loss) from operations	424	(5,655)
Non-operating revenue	4,010	10,040
Excess of revenue over expenses	4,434	4,385
Minority interest distributions - net	(1,330)	(1,637)
Change in net position	3,104	2,748
Beginning net position	94,624	91,876
Ending net position	$ 97,728	$ 94,624
Average daily census	191.0	193.1
Emergency room visits	70,090	69,357

2015 Analysis of the Consolidated Statement of Revenues, Expenses and Changes in Net Position

- The District experienced a slight decrease in inpatient volume in 2015. Total average daily census was 191 for the current year compared to 193 in the prior year. Total hospital outpatient visits increased approximately 4.2% compared to 2014, emergency treat and release visits increased approximately 1.1%, home health visits increased approximately 16.6% and OP Infusion Center visits increased 18.1% in 2015.

- Operating revenues increased by approximately $17.5 million in 2015 compared to 2014. This increase is due to multiple factors including increased acuity of inpatients, payor mix changes and increased outpatient volumes. Net revenue in both years was reduced by sequestration, resulting in a 2% reduction in Medicare reimbursement, approximating $2.4 million in the year ended June 30, 2015 and $2.4 million in the year ended June 30, 2014.

2015 Analysis of the Consolidated Statement of Revenues, Expenses and Changes in Net Position (continued)

- Operating expenses, which include patient care expenses and overhead and administrative expenses, increased approximately $11.4 million. The largest single increase was experienced in supplies expense, which increased approximately $5.1 million primarily due to an increase in the volume and complexity of orthopedic and spine surgeries and pharmaceutical costs.

- Although salaries and related expenses increased by approximately $6.5 million, a continued focus on increased productivity reduced salaries and related expenses from approximately 57% of total operating revenue in 2014 to approximately 56% in 2015.

- Non-operating income and expense is comprised of the District's share of property tax revenue collected by the County, interest earned on invested monies, interest expense, and other non-operating items. The resulting net non-operating revenue totaled approximately $4.0 million in 2015 compared to approximately $10.0 million in 2014. The $6.0 million decrease in non-operating revenue is primarily due to the receipt of approximately $5.5 million in legal settlement income in 2014.

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

	Years Ended June 30,	
	2015	2014
Net cash provided by (used in)		
Operating activities	$ 9,586	$ 11,894
Noncapital financing activities	6,865	12,497
Capital and related financing activities	(14,713)	(27,897)
Investing activities	45	4,186
Net change in cash and cash equivalents	1,783	680
Beginning cash and cash equivalents	13,928	13,248
Ending cash and cash equivalents	$ 15,711	$ 13,928

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").

2015 Analysis of the Consolidated Statement of Cash Flows

Cash and cash equivalents totaled approximately $15.7 million at the end of fiscal 2015 compared to approximately $13.9 million at fiscal 2014 year end. Net cash provided by operating activities in 2015 decreased approximately $2.3 million and cash provided by noncapital financing activities in 2015 decreased by approximately $5.8 million. The $4.7 million deposit to the State of California related to eminent domain proceedings in the current year and the $5.5 million legal settlement received in the prior year contributed to the decreases. Cash used in capital and related financing activities decreased approximately $13.2 million from 2014 to 2015, due primarily to the purchase of the Tri-City Wellness Center in 2014. The District received approximately $1.0 million from the Foundation and Auxiliary during 2015.

2015 Capital Assets

During 2015 the District invested approximately $6.4 million in new equipment and building improvements. Major acquisitions during 2015 included the design and build out of the Tri-City Primary Care physician clinic, continued development of the hospital electronic health record, two fluoroscopy C-arm systems, a cardiac mapping system, several hospital remodel projects and a number of surgical equipment upgrades.

Capital lease payments 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,	
	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 15,711,112	$ 13,928,158
Restricted cash and investments	51,418,000	51,426,000
Patient accounts receivable - net of estimated uncollectible accounts of $23,096,486 and $24,655,998 in 2015 and 2014, respectively	43,587,397	43,086,341
Other receivables	1,972,226	2,672,642
Supplies inventory	7,401,180	6,716,866
Prepaid expenses and other assets	2,691,937	3,118,615
Estimated third-party payor settlements	2,817,491	4,631,305
Total current assets	125,599,343	125,579,927
NON-CURRENT CASH AND INVESTMENTS		
Board-designated	392,638	391,680
CAPITAL ASSETS - net	109,058,505	114,379,827
OTHER ASSETS		
Notes receivable	5,456,244	4,430,469
Other	15,913,884	11,416,223
Total other assets	21,370,128	15,846,692
TOTAL	$ 256,420,614	$ 256,198,126

See accompanying notes.

	JUNE 30, 2015	JUNE 30, 2014
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 40,043,691	$ 40,283,983
Accrued payroll and related expenses	21,064,762	18,755,969
Current maturities of long-term debt	3,221,570	4,106,095
Short-term debt	56,430,432	57,375,225
Other current liabilities	989,459	970,337
Estimated third-party payor settlements	618,888	1,298,780
Total current liabilities	122,368,802	122,790,389
LONG-TERM DEBT - net of current portion	28,357,448	30,608,235
WORKERS' COMPENSATION AND COMPREHENSIVE LIABILITY - net of current portion	7,966,244	8,175,504
Total liabilities	158,692,494	161,574,128
NET POSITION		
Net investment in capital assets	77,479,485	79,665,497
Unrestricted	18,545,334	13,389,770
Restricted, non-expendable	1,703,301	1,568,731
Total net position	97,728,120	94,623,998
TOTAL	$ 256,420,614	$ 256,198,126

 See accompanying notes.

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

	YEARS ENDED JUNE 30,	
	2015	2014
REVENUE		
Net patient service revenue	$ 311,993,429	$ 290,993,376
Premium revenue	17,893,104	21,255,171
Other revenue	7,308,188	7,494,366
Total operating revenue	337,194,721	319,742,913
EXPENSES		
Salaries and related expenses	189,371,461	182,869,893
Supplies	71,529,950	66,418,086
Purchased services	18,147,963	19,863,619
Depreciation and amortization	11,724,273	13,366,473
Other operating expense	18,336,719	17,109,611
Professional and medical fees	14,646,849	14,142,515
Maintenance, rent & utilities	13,013,256	11,627,502
Total operating expenses	336,770,471	325,397,699
NET INCOME (LOSS) FROM OPERATIONS	424,250	(5,654,786)
NON-OPERATING REVENUE (EXPENSE)		
District tax revenue	8,469,927	8,021,086
Interest income	195,950	154,935
Interest expense	(4,229,852)	(4,320,644)
Other non-operating (expense) income	(426,307)	6,184,472
Total non-operating revenue	4,009,718	10,039,849
EXCESS OF REVENUE OVER EXPENSES	4,433,968	4,385,063
MINORITY INTEREST DISTRIBUTIONS - NET	(1,329,846)	(1,636,662)
Changes in net position	3,104,122	2,748,401
NET POSITION - Beginning of year	94,623,998	91,875,597
NET POSITION - End of year	$ 97,728,120	$ 94,623,998

See accompanying notes.

TRI-CITY HEALTHCARE DISTRICT
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED JUNE 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from patients, insurers, and other payors	$ 331,219,815	$ 311,957,639
Payments to vendors	(136,172,665)	(123,196,907)
Payments for salaries, wages, and related benefits	(187,062,668)	(181,855,302)
Other receipts and payments	1,601,656	4,988,790
Net cash provided by operating activities	9,586,138	11,894,220
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Minority interest distributions, net	(1,329,846)	(1,636,662)
Receipt of District taxes	8,469,927	8,021,086
Other non-operating (expense) revenue	(275,377)	6,113,198
Net cash provided by noncapital financing activities	6,864,704	12,497,622
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(6,402,951)	(6,869,678)
Wellness Center purchase/financing	-	(38,380,805)
Proceeds from Wellness Center term loan	-	26,500,000
Principal repayments on Wellness Center term loan	(445,524)	(349,035)
Proceeds from revolving line of credit	366,335,846	330,274,514
Principal repayments on revolving line of credit	(367,280,639)	(330,699,289)
Proceeds from other debt	1,050,625	986,551
Principal repayments on other debt	(3,740,412)	(5,038,745)
Interest payments on debt	(4,229,852)	(4,320,644)
Net cash used in capital and related financing activities	(14,712,908)	(27,897,131)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	-	4,117,593
Interest on investments	45,020	68,023
Net cash provided by investing activities	45,020	4,185,616
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,782,954	680,327
CASH AND CASH EQUIVALENTS - Beginning of year	13,928,158	13,247,831
CASH AND CASH EQUIVALENTS - End of year	$ 15,711,112	$ 13,928,158

See accompanying notes.

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

	YEARS ENDED JUNE 30, 2015	2014
Net income (loss) from operations	$ 424,250	$ (5,654,786)
Adjustments to reconcile net income (loss) from operations to net cash provided by operating activities:		
Provision for bad debt	48,397,226	54,765,985
Depreciation and amortization	11,724,273	13,366,473
Changes in net assets and liabilities		
Patient accounts receivable	(48,898,282)	(58,934,176)
Other receivables	700,416	(1,328,030)
Other - net	(5,964,168)	(3,825,085)
Accounts payable and accrued liabilities	(240,292)	7,283,935
Accrued payroll and related expenses	2,308,793	1,014,591
Estimated third-party payor settlements	1,133,922	5,205,313
Net cash provided by operating activities	$ 9,586,138	$ 11,894,220

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

	2015	2014
Capital assets acquired through long-term debt	$ -	$ 1,133,501

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"), the Neuroscience Institute, LLC ("Neuro"), Tri-City Real Estate Holding and Management Co, LLC ("REHM") and Tri-City Wellness, LLC ("Tri-City Wellness").

ASCO, NCSC, CVI, Ortho, Neuro, 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, California. 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, 50% of Ortho and 68% of Neuro. 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 improve financial and operational performance of the respective service lines. The District has determined blended presentation is appropriate for CVI, Ortho, and Neuro 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") and the California Code of Regulations, Title 2, Section 1131, *State Controller's Minimum Audit Requirements and Reporting Guidelines for California Special Districts*. 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)

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, 2015 and 2014. 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, 2015 and 2014.

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.

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, 2015 and 2014, 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, 2015 and 2014.

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 building improvements	10-40 years
Leasehold improvements	3-15 years

Note 2 – Summary of Significant Accounting Policies (continued)

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 $0 and $31 thousand for the years ended June 30, 2015 and 2014, 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, 2015 and 2014.

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, Neuro, 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.

Note 2 – Summary of Significant Accounting Policies (continued)

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 July 2015 have exceeded net patient accounts receivable reflected as of June 30, 2014 by approximately $2.9 million, and have exceeded net patient accounts receivable reflected as of June 30, 2013 by approximately $1.3 million.

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 14). IBNR liabilities of approximately $1.9 million and $1.7 million are included in accounts payable and accrued liabilities in the accompanying consolidated statements of net position as of June 30, 2015 and 2014, respectively.

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 $8.5 million and $8.0 million for the years ended June 30, 2015 and 2014, respectively.

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

Note 2 – Summary of Significant Accounting Policies (continued)

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 at both June 30, 2015 and 2014. Sick time is also earned at a specific rate per qualified-service hour. However, no payment is made for accrued sick time when employment is terminated.

Note 3 – 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.

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 case-based reimbursement 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 66% and 60% of the District's gross patient service revenue in the years ended June 30, 2015 and 2014, 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 2012. Results of cost report settlements, as well as the District's estimates for settlements, of all fiscal years through 2015 are reflected in the accompanying consolidated financial statements.

Estimated net third-party settlements consisted of a net receivable of approximately $2.2 million and $3.3 million as of June 30, 2015 and 2014, respectively. During fiscal year 2015, 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 $2.1 million and $517 thousand of additional net patient service revenue in the years ended June 30, 2015 and 2014, respectively, and are included in net patient service revenue in the accompanying consolidated statements of revenue, expenses, and changes in net position.

Note 3 – Patient Service Revenue, Third-Party Reimbursement Programs and Non-Operating Revenue (continued)

The hospital recorded net patient service revenue of approximately $2.0 million during the year ended June 30, 2014 from the Low Income Health Program ("LIHP"), 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, 2015 and 2014 were as follows:

	2015	2014
Medicare plans	36 %	30 %
Medi-Cal plans	17	20
HMO/PPO	34	35
Others	13	15
Total	100 %	100 %

Non-operating revenue includes District tax revenue and other non-patient service revenue. District tax revenue totaled approximately $8.5 million and $8.0 million for the years ended June 30, 2015 and 2014, respectively. Other non-operating income includes approximately $325 thousand and $5.5 million in legal settlements in 2015 and 2014, respectively.

Note 4 – 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 investments may be purchased only in limited amounts, as defined in the Code.

Note 4 – Cash and Cash Equivalents and Investments (continued)

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, 2015 and 2014 the District held approximately $393 thousand and $392 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, 2015 and 2014 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.

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, 2015 and 2014, the District's bank balances totaled approximately $67.1 million and $65.4 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.

Note 4 – Cash and Cash Equivalents and Investments (continued)

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:

	2015	2014
Cash and cash equivalents	$ 15,711,112	$ 13,928,158
Restricted cash	51,418,000	51,426,000
Board-designated	392,638	391,680
Total	$ 67,521,750	$ 65,745,838

Note 5 – Restricted Cash and Investments

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

	2015	2014
Workers' compensation letters of credit	$ 418,000	$ 426,000
Term loan collateral	51,000,000	51,000,000
Total	$ 51,418,000	$ 51,426,000

Note 6 – Capital Assets

Property, plant, and equipment as of June 30, 2015 and 2014 consisted of the following:

2015	Beginning Balance June 30, 2014	Additions	Deletions	Transfers	Ending Balance June 30, 2015
Land and land improvements	$ 19,877,710	$ -	$ -	$ -	$ 19,877,710
Buildings and improvements	200,915,689	187,075	-	2,185,600	203,288,364
Equipment	142,397,349	2,869,310	-	6,249,975	151,516,634
	363,190,748	3,056,385	-	8,435,575	374,682,708
Assets under lease	9,244,706	-	-	(5,337,119)	3,907,587
Less accumulated depreciation and amortization	(259,935,809)	(11,768,771)	-		(271,704,580)
Construction in progress	1,880,182	3,391,064	-	(3,098,456)	2,172,790
Total capital assets	$ 114,379,827	$ (5,321,322)	$ -	$ -	$ 109,058,505

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

Note 7 – Other Assets

Other assets consisted of the following as of June 30:

	2015	2014
Goodwill	$ 4,629,430	$ 4,629,430
Medical office building deposits	9,704,692	5,004,692
Other	1,579,762	1,782,101
Total	$ 15,913,884	$ 11,416,223

Note 7 – Other Assets (continued)

As of June 30, 2015 and 2014, approximately $9.7 million and $5.0 million is reflected in other assets in the accompanying consolidated statements of net position pertaining to payments to the developer of an on-campus medical office building and to the State of California Treasurer related to eminent domain proceedings to acquire 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. In July 2014, the District commenced eminent domain proceedings to acquire the medical office building and accordingly deposited approximately $4.7 million during 2015 with the State of California Treasurer.

Note 8 – 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 May 28, 2016, after which the District anticipates extending the maturity to December 31, 2016.

Line of credit – In July 2013, a new revolving line of credit was obtained from Mid Cap, LLC. 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 initial term of this line of credit was three years. Subsequent to year-end the revolving line of credit agreement was amended, extending the term maturity date to August 31, 2017. See Note 16 – Subsequent Events. 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. The District is in compliance with debt covenants included in the amended revolving line of credit.

Note 8 – Short-Term Debt (continued)

A schedule of changes in the District's short-term debt as of June 30, 2015 and 2014 is as follows:

2015	Beginning Balance	Additions	Payments	Other Classification	Ending Balance
Term loan	$ 51,000,000	$ -	$ -	$ -	$ 51,000,000
Line of credit	6,375,225	366,335,847	(367,280,640)	-	5,430,432
Total short-term debt	$ 57,375,225	$ 366,335,847	$ (367,280,640)	$ -	$ 56,430,432

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

Note 9 – 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 $821 thousand and $871 thousand at June 30, 2015 and 2014, 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 $650 thousand and $750 thousand at June 30, 2015 and 2014, 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 $25.7 million and $26.2 million at June 30, 2015 and 2014, respectively. Principal and interest payments of approximately $185 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. Subsequent to year-end, the Wellness Center Term loan was amended, extending the maturity date to August 31, 2017. See Note 16 – Subsequent Events.

Note 9 – Long-Term Debt (continued)

- Bank of the West note payable, interest rate of 2.89%, with principal balance outstanding of approximately $444 thousand and $657 thousand at June 30, 2015 and 2014, respectively. Principal and interest payments of approximately $19 thousand are due monthly commencing June 2012 with the remaining aggregate unpaid amount due June 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 $483 thousand and $667 thousand at June 30, 2015 and 2014, 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 $1.0 million and $2.2 million at June 30, 2015 and 2014, 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.

- Bank of the West note payable, interest rate of 2.95%, with principal balance outstanding of approximately $1.0 million at June 30, 2015. Principal and interest payments of approximately $30 thousand are due monthly commencing June 2015 with the remaining aggregate unpaid amount due May 2018. The note is collateralized by certain capital assets of the District.

- Various capital equipment leases with interest rates varying between 2.31% and 6.40%. Principal and interest payments due monthly commencing various dates and expiring on various dates ranging from August 2016 through March 2019. Principal balances due totaled approximately $1.4 million and $3.4 million as of June 30, 2015 and 2014, respectively.

Note 9 – Long-Term Debt (continued)

A schedule of changes in the District's long-term debt (including current portion) as of June 30, 2015 and 2014 is as follows:

2015	Beginning Balance	Additions	Payments	Other Classification	Ending Balance	Due Within 1 Year
REHM notes payable	$ 1,620,833	$ -	$ (150,000)	$ -	$ 1,470,833	$ 150,000
Wellness Center term loan	26,150,965		(445,524)	-	25,705,441	420,580
Bank of the West notes payable	1,323,894	1,050,625	(424,330)	-	1,950,189	748,808
Promissory note payable (infusion)	2,208,691	-	(1,180,916)	-	1,027,775	1,027,775
Other	3,813	-	(3,813)	-	-	
Total long-term debt	31,308,196	1,050,625	(2,204,583)	-	30,154,238	2,347,163
Capital lease obligations	3,406,134	-	(1,981,353)	-	1,424,780	874,408
Total long-term debt	$ 34,714,330	$ 1,050,625	$ (4,185,936)	$ -	$ 31,579,018	$ 3,221,570

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

A schedule, by year, of future minimum payments under long-term debt and capital lease obligations as of June 30, 2015, is as follows:

Years Ending June 30,	Principal	Interest	Total
2016	$ 3,221,570	$ 1,910,031	$ 5,131,601
2017	27,631,503	205,199	27,836,702
2018	608,765	12,704	621,469
2019	117,180	1,372	118,552
Total	$ 31,579,018	$ 2,129,306	$ 33,708,323

Note 9 – Long-Term Debt (continued)

Assets acquired through capital leases as of June 30, 2015 and 2014 are as follows:

	2015	2014
Equipment under capital lease	$ 3,907,588	$ 3,907,588
Software under capital lease	-	5,337,119
Subtotal	3,907,588	9,244,707
Accumulated amortization	(2,492,988)	(1,711,583)
Total	$ 1,414,600	$ 7,533,124

Note 10 – 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, 2015, there were a total of 1,328 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 $5.9 million and $4.7 million for the years ended June 30, 2015 and 2014, respectively.

Employees are immediately vested in their own contributions and earnings and become vested in the Employer contributions and earnings according to a five year vesting schedule. Non-vested employer contributions are forfeited upon termination of employment. The forfeitures are used to reduce employer contributions under the Plan. For the years ended June 30, 2015 and 2014, forfeitures reduced the District's expenses and contributions under the Plan by approximately $224 thousand and $1.1 million, 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 participating employee's annual compensation up to approximately $79 thousand and $78 thousand for the years ended June 30, 2015 and 2014, respectively.

The District's contributions to NSRP totaled approximately $2.7 million and $2.6 million for the years ended June 30, 2015 and 2014, respectively. 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.

Note 10 – Retirement Plans (continued)

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, 2015.

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, 2015 and 2014, the balance of capital accumulation funds was approximately $194 thousand and $286 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 for both 2015 and 2014 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 11 – Operating Leases

The District leases certain building space and equipment under non-cancelable operating leases expiring between July 2015 and October 2022. Operating lease expense for all operating leases totaled approximately $2.4 million and $2.3 million for the years ended June 30, 2015 and 2014, respectively. As of June 30, 2015, future minimum lease payments under non-cancelable operating leases are as follows:

Years Ending June 30,	
2016	$ 2,335,923
2017	2,150,236
2018	1,900,907
2019	1,130,764
2020	615,765
Thereafter	618,300
Total	$ 8,751,895

Note 12 – 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 $1.0 million and $1.1 million in the years ended June 30, 2015 and 2014, respectively. The Auxiliary donated $39 thousand and $138 thousand in the years ended June 30, 2015 and 2014, respectively.

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 $580 thousand and $597 thousand in the years ended June 30, 2015 and 2014, respectively.

A summary of the organizations' assets, liabilities and net assets (unaudited) as of June 30, 2015 and 2014 is as follows:

	2015	2014
Tri-City Hospital Foundation		
Assets	$ 3,770,627	$ 3,603,943
Liabilities	$ 25,569	$ -
Net Assets	$ 3,745,058	$ 3,603,943
Tri-City Hospital Auxiliary		
Assets	$ 1,446,824	$ 1,305,094
Liabilities	$ 776,113	$ 780,261
Net Assets	$ 670,711	$ 524,833

Note 13 – 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.

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.

During the year ended June 30, 2015, the District formed the Tri-City Medical Center Neuroscience Institute, LLC ("Neuro"), a California Limited Liability Company. The purpose of the Neuro Institute is to further the District's mission and commitment to promote neuroscience health and provide quality neurological, neurosurgical and non-invasive services for the residents of the District. The District and the Neuro Institute, entered into a co-management agreement under which the Neuro Institute provides certain services to meet this mission.

The portion of consolidated excess of revenues over expenses attributable to minority interests in these entities for the years ended June 30, 2015 and 2014 is approximately $1.4 million and $1.5 million, respectively.

Note 14 – Commitments and Contingencies

Legal actions – The District is involved in various legal matters arising from time to time in the ordinary course of business. 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. Pursuant to ongoing discussions with the OIG and DOJ, during July 2015 the District increased its offer for settlement. See Note 16 – Subsequent Events. The District has yet to receive an acceptance or counter offer to the increased offer for settlement.

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

Note 14 – Commitments and Contingencies (continued)

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, 2015, the District maintains letters of credit totaling $102 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 analyses of policy years prior to 1999, and 2002 through 2015. Such reserves were approximately $8.6 million and $7.8 million as of June 30, 2015 and 2014, 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 IBNR claims through 2015. Such reserves were approximately $3.0 million and $3.8 million as of June 30, 2015 and 2014, respectively.

The following is a summary of the changes in the self-insured and claims-made plan liabilities for the years ended June 30, 2014 and 2015:

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
Additions	3,286,658
Payments	(3,219,265)
Balance as of June 30, 2015	$ 11,608,874

Note 14 – Commitments and Contingencies (continued)

Medical services IBNR – The following is a summary of the changes in the medical services IBNR claims for the years ended June 30, 2014 and 2015:

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
Additions	7,677,929
Payments	(7,495,735)
Balance as of June 30, 2015	$ 1,875,427

Physician loan agreements – Physician Recruitment Agreements are those under which the District has elected to loan 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), as long as the physician continues to practice in the defined service area. Loans to physicians accrue interest during the draw period and during the forgiveness period. The loan balances outstanding totaled approximately $5.5 million and $4.4 million as of June 30, 2015 and 2014, respectively. The balance is included in other long-term assets in the accompanying consolidated statements of net position.

Note 15 – Intergovernmental Transfer Program

The Non-designated Public Intergovernmental Transfer Program ("IGT) was established under AB 113 in 2011 to allow non-designated public hospitals to access additional federal funds. There are two supplemental payment methodologies under the IGT program: a fee-for-service methodology and a managed care plan methodology. Under this legislation, net intergovernmental transfers of approximately $8.9 million and $4.0 million were recorded by the District during the years ended June 30, 2015 and 2014, respectively. IGT income is reflected in net patient service revenue in the accompanying consolidated financial statements.

Note 16 – Subsequent Events

Pursuant to ongoing discussions with the OIG and DOJ, during July 2015 the District increased its offer for settlement related to the voluntary self-disclosure program to resolve a previously self-disclosed matter. See Note 14 – Commitments and Contingencies. The financial impact of the increased offer for settlement is reflected in the financial statements. The District has yet to receive an acceptance or counter offer to the increased offer for settlement.

During September 2015, amendments to the revolving line of credit agreement and the Wellness Center term loan agreement were executed, extending the maturity dates on both credit agreements to August 31, 2017. See Note 8 – Short Term Debt and Note 9 – Long Term Debt.

SUPPLEMENTAL SCHEDULES

TRI-CITY HEALTHCARE DISTRICT
CONSOLIDATING STATEMENT OF NET POSITION
JUNE 30, 2015

	TCMC	ASCO	REHM	WC	CVI	Ortho	Neuro	Eliminations	Consolidated
ASSETS									
CURRENT ASSETS									
Cash and cash equivalents	$ 14,717,561	$ 573,169	$ 171,216	$ 44,453	$ 100,074	$ 59,348	$ 45,291	$ -	$ 15,711,112
Restricted cash and investments	51,418,000	-	-	-	-	-	-	-	51,418,000
Patient accounts receivable - net of estimated uncollectible accounts of $23,096,486 and $24,655,998 in 2015 and 2014, respectively	42,525,583	1,061,814	-	-	-	-	-	-	43,587,397
Other receivables	1,791,877	-	8,474	1,217,803	318,750	81,737	144,401	(1,590,816)	1,972,226
Supplies inventory	7,399,699	1,481	-	-	-	-	-	-	7,401,180
Prepaid expenses and other assets	1,937,396	123,094	-	631,447	-	-	-	-	2,691,937
Estimated third-party payor settlements	2,817,491	-	-	-	-	-	-	-	2,817,491
Total current assets	122,607,607	1,759,558	179,690	1,893,703	418,824	141,085	189,692	(1,590,816)	125,599,343
NON-CURRENT INVESTMENTS									
Board-designated	392,638	-	-	-	-	-	-	-	392,638
CAPITAL ASSETS - net	67,673,734	860,116	3,697,475	36,827,180	-	-	-	-	109,058,505
OTHER ASSETS									
Notes receivable	5,456,244	-	-	-	-	-	-	-	5,456,244
Other	30,912,738	-	-	-	118,654	53,901	46,267	(15,217,676)	15,913,884
Total other assets	36,368,982	-	-	-	118,654	53,901	46,267	(15,217,676)	21,370,128
TOTAL	$ 227,042,961	$ 2,619,674	$ 3,877,165	$ 38,720,883	$ 537,478	$ 194,986	$ 235,959	$ (16,808,492)	$ 256,420,614

TRI-CITY HEALTHCARE DISTRICT
CONSOLIDATING STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2015

	TCMC	ASCO	REHM	WC	CVI	Ortho	Neuro	Eliminations	Consolidated
LIABILITIES AND NET POSITION									
CURRENT LIABILITIES									
Accounts payable and accrued liabilities	$ 40,959,194	$ 288,328	$ -	$ 545,544	$ 238,116	$ 98,406	$ 5,950	$ (2,091,847)	$ 40,043,691
Accrued payroll and related expenses	20,901,826	162,936	-	-	-	-	-	-	21,064,762
Current maturities of long-term debt	2,650,990	-	150,000	420,580	-	-	-	-	3,221,570
Short-term debt	56,430,432	-	-	-	-	-	-	-	56,430,432
Other current liabilities	768,592	76,274	-	144,593	-	-	-	-	989,459
Estimated third-party payor settlements	618,888	-	-	-	-	-	-	-	618,888
Total current liabilities	122,329,922	527,538	150,000	1,110,717	238,116	98,406	5,950	(2,091,847)	122,368,802
LONG-TERM DEBT - net of current position	1,751,755	-	1,320,832	25,284,861	-	-	-	-	28,357,448
WORKERS' COMPENSATION AND COMPREHENSIVE LIABILITY - net of current portion	7,966,244	-	-	-	-	-	-	-	7,966,244
Total liabilities	132,047,921	527,538	1,470,832	26,395,578	238,116	98,406	5,950	(2,091,847)	158,692,494
NET POSITION									
Net investment in capital assets	63,270,988	860,116	2,226,642	11,121,739	-	-	-	-	77,479,485
Unrestricted	31,724,052	(197,327)	155,628	1,191,241	183,689	48,290	156,406	(14,716,645)	18,545,334
Restricted, non-expendable	-	1,429,347	24,063	12,325	115,673	48,290	73,603	-	1,703,301
Total net position	94,995,040	2,092,136	2,406,333	12,325,305	299,362	96,580	230,009	(14,716,645)	97,728,120
TOTAL	$ 227,042,961	$ 2,619,674	$ 3,877,165	$ 38,720,883	$ 537,478	$ 194,986	$ 235,959	$ (16,808,492)	$ 256,420,614

TRI-CITY HEALTHCARE DISTRICT
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

	TCMC	ASCO	REHM	WC	CVI	Ortho	Neuro	Eliminations	Consolidated
REVENUE									
Net patient service revenue	$ 303,971,711	$ 8,021,718	$ -	$ -	$ -	$ -	$ -	$ -	$ 311,993,429
Premium revenue	17,893,104	-	-	-	-	-	-	-	17,893,104
Other revenue	7,328,658	4,969	253,685	2,780,619	514,812	254,399	180,600	(4,009,554)	7,308,188
Total operating revenue	329,193,473	8,026,687	253,685	2,780,619	514,812	254,399	180,600	(4,009,554)	337,194,721
EXPENSES									
Salaries and related expenses	187,056,515	2,246,772	-	-	27,543	21,608	19,023	-	189,371,461
Supplies	69,703,139	1,826,811	-	-	-	-	-	-	71,529,950
Purchased services	18,526,322	555,055	-	-	2,029	1,729	1,522	(938,694)	18,147,963
Depreciation and amortization	10,553,091	346,001	-	809,452	8,885	6,844	-	-	11,724,273
Other operating expense	17,831,451	463,756	3,640	21,543	4,819	9,832	1,678	-	18,336,719
Professional and medical fees	14,412,444	48,218	-	-	110,073	57,779	18,335	-	14,646,849
Maintenance, rent & utilities	14,564,642	783,241	-	-	-	-	-	(2,334,627)	13,013,256
Total operating expenses	332,647,604	6,269,854	3,640	830,995	153,349	97,792	40,558	(3,273,321)	336,770,471
NET INCOME (LOSS) FROM OPERATIONS	(3,454,131)	1,756,833	250,045	1,949,624	361,463	156,607	140,042	(736,233)	424,250
NON-OPERATING REVENUE (EXPENSE)									
District tax revenue	8,469,927	-	-	-	-	-	-	-	8,469,927
Interest income	195,915	35	-	-	-	-	-	-	195,950
Interest expense	(2,403,232)	(213)	(52,948)	(1,773,459)	-	-	-	-	(4,229,852)
Other non-operating (expense) revenue	(1,120,912)	(5,340)	-	-	-	-	-	699,945	(426,307)
Total non-operating revenue (expense)	5,141,698	(5,518)	(52,948)	(1,773,459)	-	-	-	699,945	4,009,718
EXCESS OF REVENUE OVER EXPENSES	1,687,567	1,751,315	197,097	176,165	361,463	156,607	140,042	(36,288)	4,433,968
Minority interest distributions - net	-	(1,123,495)	-	-	(114,618)	(118,333)	26,600	-	(1,329,846)
Contributions (distributions) between consolidating entities	-	(522,105)	-	-	(177,885)	(118,334)	63,367	754,957	-
Changes in net position	1,687,567	105,715	197,097	176,165	68,960	(80,060)	230,009	718,669	3,104,122
NET POSITION - Beginning of year	93,307,474	1,986,451	2,209,235	12,149,141	230,403	176,638	-	(15,435,344)	94,623,998
NET POSITION - End of year	$ 94,995,041	$ 2,092,166	$ 2,406,332	$ 12,325,306	$ 299,363	$ 96,578	$ 230,009	$ (14,716,675)	$ 97,728,120