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

Tri-City Healthcare District

June 30, 2013

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

CONTENTS

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
Tri-City Healthcare District:

Report on 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, 2013, and the related consolidated statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 audit. We conducted our audit 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, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

MOSS-ADAMS LLP

Emphasis of Matter

As more fully described in Note 2, Tri-City Healthcare District has restated its net position as of June 30, 2012 to correct certain errors.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-12 be presented to supplement the basic 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 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
November 26, 2013

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"), and the Tri-City Real Estate Holding and Management Company, LLC ("Real Estate Holding and Management Company").

Ambulatory Surgery Center Operators, the Cardiovascular Institute, the Orthopedic Institute and Real Estate Holding and Management Company 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 as management of the District have 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, 2013 and 2012. 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, 2013, the District reported consolidated loss from operations of $14,354,232 and deficiency of revenues over expenses of $11,360,429.

The 2013 (deficiency) excess of revenues over expenses by entity was as follows:

Tri-City Medical Center	$	(13,615,081)
Ambulatory Surgery Center Operators		3,041,423
Cardiovascular Institute		218,474
Orthopedic Institute		180,091
Real Estate Holding and Management Company		195,370
		(9,979,723)
Less: Intercompany eliminations		(1,380,706)
Total deficiency of revenues over expenses	$	(11,360,429)

Contributing to the 2013 results were the following significant issues:

- The District recorded revenue totaling $2.7 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 $2.8 million from the Low Income Health Provider ("LIHP") program, a five-year 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 participates in this program through a relationship with the County of San Diego Department of Health and Human Services.

- The District recorded revenue and received payments of $2.8 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 District's strategic partnership in Ambulatory Surgery Center Operators resulted in an excess of revenues over expenses of over $3 million in fiscal 2013. 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 earning's was approximately $1 million.

Executive Summary (continued)

Contributing to the 2013 results were the following significant issues: (continued)

- The decrease in the District's revenue related to prior years' cost report settlements totaled $700,000. 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 $3.7 million and the related mortgages on those properties with an aggregate balance of $1.8 million as of June 30, 2013.

The District entered into an agreement with a local developer to construct an on-campus, three-story medical office building adjacent to the hospital. As of June 30, 2013, the construction project was still in process. The District has an agreement with the developer to lease approximately 25,000 square feet in the building for its own purposes. The District has pre-paid approximately $5.0 million of future rental payments.

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

- During the year, the District acquired a second piece of equipment designed to provide robotic spine surgery capabilities. This technology continues to move the hospital forward as a leader in robotic surgery procedures in the area.

- The District continued to recruit physicians to improve medical coverage for the communities it serves. Among the specialties recruited, and incurred physician costs for, since inception of the recruitment process are wound care, colon/rectal, pulmonary and family practice. Loans to physicians accrue interest during the draw period and during the forgiveness period. During the three years ended June 30, 2013, a total of $4.1 million has been loaned to physicians, of which $650,000 has been forgiven.

- Development of the District's EHR continued during 2013. Major portions of the application were made operational during 2012, with one of the most important applications, the computerized physician order entry system ("CPOE") becoming operational in June 2012. The District received $1,009,000 from Medi-Cal and $1,828,000 from Medicare in Meaningful Use payments during 2013.

Executive Summary (continued)

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

- 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.

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.

Prior to issuance of final consolidated financial statements as of and for the year ended June 30, 2013, information regarding errors and irregularities came to the attention of the District and during the compliance investigation described in Note 18 - Subsequent Events, the District's former Chief Financial Officer made statements regarding the overstatement of the excess of revenues over expenses for the year ended June 30, 2012 and interim periods during the year ended June 30, 2013 prior to his departure. The following accounts have been restated as of June 30, 2012:

Patient accounts receivable, net - The District analyzed the methodology utilized in estimating the collectability of patient accounts receivable at June 30, 2012. The analysis of data available as of June 30, 2012 indicated $2 million less than originally reported as a reasonable estimate for patient accounts receivable.

Capital assets, net - The June 30, 2012 consolidated financial statements included the capitalization of approximately $961,000 of salaries and benefits to the District's computerized physician order entry system ("CPOE") for which inadequate support was included with the capitalization entry. Further analysis did not produce proper supporting documentation for the capitalization of expenses.

Required Consolidated Financial Statements (continued)

Accounts payable and accrued liabilities and Accrued payroll and related liabilities - Accounts payable and accrued liabilities and Accrued payroll and related liabilities were under-stated by approximately $807,000 at June 30, 2012. The financial statements did not properly reflect a $500,000 legal settlement, and workers' compensation and professional liability reserves were previously reported at approximately $307,000 less than discounted actuarial values. In addition, the effect of a change in accounting principle from reflecting workers' compensation and professional liability reserves at undiscounted values in prior years to discounted values at June 30, 2012 was previously reported as a decrease in expense during the fiscal year ended June 30, 2012, resulting in an understatement of expense amounting to approximately $1.2 million.

The misstatements described above were corrected and the consolidated financial statements have been restated. The following sets forth the previously reported and restated amounts of selected items within the Statement of Net Position as of June 30, 2012:

	As Previously Reported	Restatement	As Restated
Selected Statement of Net Position Data as of June 30, 2012:			
Patient accounts receivable, net	$ 44,679,519	$ (2,000,000)	$ 42,679,519
Capital assets, net	$ 113,424,613	$ (960,661)	$ 112,463,952
Accounts payable and accrued liabilities	$ 27,743,378	$ 500,000	$ 28,243,378
Accrued payroll and related liabilities	$ 17,970,988	$ 307,330	$ 18,278,318
Net position (net investment in capital assets)	$ 69,489,718	$ (960,661)	$ 68,529,057
Net position (unrestricted)	$ 39,330,565	$ (2,807,330)	$ 36,523,235

The following sets forth the previously reported and restated amounts of selected items within the Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2012:

	As Previously Reported	Restatement	As Restated
Selected Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2012:			
Net patient service revenue	$ 281,607,391	$ (2,000,000)	$ 279,607,391
Salaries and related expenses	$ 182,800,310	$ 2,096,876	$ 184,897,186
Other operating expense	$ 15,518,824	$ 376,739	$ 15,895,563
Professional and medical fees	$ 14,119,706	$ 500,000	$ 14,619,706
Excess of revenues over expense	$ 8,185,807	$ (4,973,615)	$ 3,212,192

Condensed Consolidated Statements of Net Position as of June 30, 2013 and 2012 (as restated) (in Thousands)

ASSETS

	2013	2012 (as restated)
Current assets	$ 75,292	$ 134,933
Capital assets -- net	107,878	112,464
Noncurrent assets	73,528	15,882
	$ 256,698	$ 263,279

LIABILITIES AND NET POSITION

Current liabilities	$ 63,388	$ 106,493
Long-term debt -- net of current portion	93,536	41,680
Workers' compensation and comprehensive liability -- net of current portion	7,898	8,298
Total liabilities	164,822	156,471
Net investment in capital assets	63,326	68,529
Unrestricted	26,729	36,523
Restricted	115	115
Restricted, nonexpendable	1,706	1,641
Total net position	91,876	106,808
Total	$ 256,698	$ 263,279

2013 Analysis of Changes in the Consolidated Statement of Net Position

- Current assets totaling $75.3 million reflect a decrease in 2013 of $59.7 million from prior year. The decrease is a combination of $51.0 million of restricted cash moving to non-current assets, and a decrease of $3.8 million in patient accounts receivable.

- Noncurrent assets increased $51 million as a result of the reclassification of restricted assets from current assets.

- Estimated net third-party payor settlements increased $3.3 million. The majority of third-party settlements at June 30, 2013 relates to the 2013 Low Income Health Provider ("LIHP") accrual and the 2013 inter-governmental transfers ("IGT") program.

- Capital assets, net of accumulated depreciation, decreased $4.6 million, and totaled $107.9 million net of accumulated depreciation as of June 30, 2013. A combination of cash payments and equipment financing were utilized to acquire $10 million in land, equipment, software and other improvement projects during the year.

- Other assets totaling $18.5 million, increased $6.7 million in 2013. The District recorded $4.6 million of goodwill related to the purchase of the oncology infusion practice. See Note 4 for further information regarding the acquisition. Other assets also increased $2.7 million because of additional prepaid rent for the medical office building on campus.

- Current liabilities decreased $43.1 million, and totaled $63.4 million at year end. Long-term debt totaling $93.5 million at year end reflects an increase of $51.9 million compared to the June 2012 ending balance. The decrease in current liabilities and increase in long-term debt is related to a term loan being reclassified from short term debt to long term debt as of June 2013.

- Workers' compensation and comprehensive liability insurance reserves classified as long term liabilities decreased 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, 2013 and 2012 (as restated) (In Thousands)

	2013	2012 (as restated)
Operating revenues	$ 308,193	$ 315,471
Operating expenses	$ 322,547	314,491
(Loss) Income from operations	(14,354)	980
Nonoperating revenue (expense)	2,994	2,232
(Deficiency) Excess of revenues over expenses	(11,360)	3,212
Distributions to minority owners	(3,572)	(2,387)
Contributions from minority owners	-	34
Change in restricted net position	-	19
Change in net position	(14,932)	878
Impact of change in accounting principle	-	1,206
Beginning net position	106,808	104,724
Ending net position	$ 91,876	$ 106,808
Average daily census	188.2	198.2
Emergency room visits	66,019	67,303

2013 Analysis of the Consolidated Statement of Revenues, Expenses and Changes in Net Position

- The District experienced an overall decline in volume in 2013. Total average daily census was 188 for the year compared to 198 in the prior year. Hospital outpatient visits declined 7.3% compared to 2012, hospital surgeries decreased 3.7%, emergency treat and release visits decreased 0.6% compared to the prior year, and the number of patients admitted for overnight care through the Emergency Department ("ED") also decreased 8.5%.

- Operating revenues decreased by $7.3 million in 2013 compared to 2012. The overall decline in patient volume is the primary reason for the revenue decrease.

2013 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 $8.1 million. The largest single increase was experienced in salaries and related expenses, which increased $3.8 million due to several factors including union and non-union wage increases, hiring of staff to support new and/or expanded clinical programs, and additions to staff to meet clinical and regulatory requirements.

- Non-operating income and expense consists of interest earned on invested monies, the District's share of property tax revenue collected by the County, interest expense, and gains or losses due to changes in the fair market value of the District's investments. The resulting non-operating revenue totaled $3.0 million in 2013 compared to $2.2 million in 2012.

- The District recognized an increase of $1.2 million in unrestricted net position as of July 1, 2011 as a result of the impact of a change in accounting principles to record workers' compensation and comprehensive liabilities at a 4% discount instead of undiscounted.

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. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

	Years Ended June 30,	
	2013	2012 (as restated)
Cash flows from:		
Operating activities	$ 4,866	$ 12,695
Noncapital financing activities	4,361	5,160
Capital and related financing activities	(14,986)	(16,398)
Investing activities	(1,114)	10,256
Net (decrease) increase in cash and cash equivalents	(6,873)	11,713
Beginning cash and cash equivalents	20,121	8,408
Ending cash and cash equivalents	$ 13,248	$ 20,121

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 capital financing activities"), and county tax revenues ("noncapital financing activities").

2013 Analysis of the Consolidated Statement of Cash Flows

Cash and cash equivalents totaled $13.2 million at the end of 2013 compared to the 2012 ending balance of $20.1 million. Net cash provided by operating activities was down $7.9 million compared to 2012. Net cash used in noncapital and capital and related financing activities decreased by $600,000. Cash used in investing activities increased $11.4 million from 2012 to 2013, due primarily to $1.6 million cash paid for investments, including the oncology infusion practice and no sales of investments during 2013. The District received over $1.3 million from the Foundation and Auxiliary during 2013.

2013 Capital Assets

During 2013 the District invested approximately $10 million in new equipment, building improvements, and other capital projects. Major acquisitions during 2013 included a parcel of land adjacent to the hospital, continued development of the hospital electronic health record, robotic spine surgical equipment, hover/glide mats for use in moving patients, several hospital remodel projects and a number of significant surgical equipment upgrades.

The District continued to lease the property known as the Wellness Center complex. Terms of the lease agreement require that it be accounted for as a long-term asset, with a corresponding long-term obligation recorded as a liability. The lease term is 25 years. The District made monthly payments to the property owner which were recorded as interest expense. None of the payments reduced the principal amount of the lease because the required payments are not currently sufficient to pay all of the calculated interest. In July 2010, the District paid $5 million to acquire an option securing the right to purchase the leased property at a future date. The District exercised its option to purchase the Wellness Center and completed the purchase after June 30, 2013. A summary of the purchase is included in Note 18 - Subsequent Events.

All payments on capital leases were made timely. More detailed information about the District's debt is presented in Notes 10 and 11 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.

TRI-CITY HEALTHCARE DISTRICT
CONSOLIDATED STATEMENT OF NET POSITION
JUNE 30, 2013

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 13,247,831
Short-term investments	3,818,537
Patient accounts receivable — net of estimated uncollectible accounts of $40,194,229	38,918,150
Other receivables	1,344,612
Supplies inventories	6,478,260
Prepaid expenses and other assets	2,037,712
Estimated third-party payor settlements	9,447,077
Total current assets	75,292,179
NONCURRENT CASH AND INVESTMENTS	
Board-designated	386,736
Restricted certificates of deposit and other cash equivalents	54,598,287
Total noncurrent cash and investments	54,985,023
CAPITAL ASSETS — net	107,877,928
OTHER ASSETS	
Notes receivable	3,820,885
Other	14,721,563
Total other assets	18,542,448
TOTAL	$ 256,697,578

TRI-CITY HEALTHCARE DISTRICT
CONSOLIDATED STATEMENT OF NET POSITION
JUNE 30, 2013 (CONTINUED)

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$	33,000,048
Accrued payroll and related expenses		17,741,378
Current maturities of long-term debt		3,527,812
Short-term debt		6,800,000
Other current liabilities		1,238,218
Accrued interest payable		170,997
Estimated third-party payor settlements		909,239
Total current liabilities		63,387,692
LONG-TERM DEBT — net of current portion		93,535,544
WORKERS' COMPENSATION AND COMPREHENSIVE LIABILITY— net of current portion		7,898,745
Total liabilities		164,821,981
NET POSITION		
Net investment in capital assets		63,325,879
Unrestricted		26,728,323
Restricted		115,438
Restricted, nonexpendable		1,705,957
Total net position		91,875,597
TOTAL	$	256,697,578

TRI-CITY HEALTHCARE DISTRICT
CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2013

REVENUE	
Net patient service revenue	$ 275,061,850
Premium revenue	23,218,427
Other revenue	9,913,093
Total operating revenue	308,193,370
EXPENSES	
Salaries and related expenses	188,714,785
Supplies	59,684,737
Purchased services	19,040,537
Depreciation and amortization	14,165,789
Other operating expense	16,666,901
Professional and medical fees	12,302,543
Repairs and maintenance	5,407,362
Utilities	3,782,190
Rent	2,782,758
Total operating expenses	322,547,602
LOSS FROM OPERATIONS	(14,354,232)
NON-OPERATING REVENUE (EXPENSE)	
District tax revenue	7,932,675
Interest income	444,605
Interest expense	(5,507,926)
Other non-operating income	124,449
Total non-operating revenue	2,993,803
DEFICIENCY OF REVENUES OVER EXPENSES	(11,360,429)
DISTRIBUTIONS TO MINORITY OWNERS	(3,571,711)
Change in net position	(14,932,140)
NET POSITION — Beginning of year (as restated)	106,807,737
NET POSITION — End of year	$ 91,875,597

TRI-CITY HEALTHCARE DISTRICT
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from patients, insurers, and other payors	$ 300,196,396
Payments to vendors	(119,153,822)
Payments for salaries, wages, and related benefits	(186,183,983)
Other receipts and payments	10,007,563
Net cash provided by operating activities	4,866,154
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Distributions to minority owners	(3,571,711)
Receipt of District taxes	7,932,675
Net cash provided by noncapital financing activities	4,360,964
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(8,913,714)
Principal repayments on long-term debt	(2,923,521)
Principal repayments on short-term debt	(1,262,507)
Proceeds from revolving line of credit	19,000,000
Proceeds from short-term debt	1,262,507
Principal repayments on line of credit	(17,000,000)
Interest payments on long-term debt	(5,290,415)
Receipt of other non-operating revenues	141,651
Net cash used in capital and related financing activities	(14,985,999)
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash paid for acquisition of oncology infusion practice and interest in OPS Enterprise, LLC (see Note 4)	(1,558,996)
Interest received on investments	444,605
Net cash used in investing activities	(1,114,391)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,873,272)
CASH AND CASH EQUIVALENTS - Beginning of year	20,121,103
CASH AND CASH EQUIVALENTS - End of year	$ 13,247,831

RECONCILIATION OF LOSS FROM OPERATIONS

TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Loss from operations	$ (14,354,232)
Adjustments to reconcile loss from operations to net cash provided by operating activities:	
Provision for bad debts	62,900,616
Depreciation and amortization	14,165,789
Changes in assets and liabilities:	
Patient accounts receivable	(59,139,247)
Other receivables	469,443
Other — net	(790,945)
Accounts payable and accrued liabilities	5,478,415
Accrued payroll and related expenses	(536,940)
Estimated third-party payor settlements	(3,326,745)
Net cash provided by operating activities	$ 4,866,154

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Capital assets acquired through long-term debt	$ 932,460
Promissory note issued for purchase of oncology infusion practice (see Note 4)	$ 3,517,500

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"), and Tri-City Real Estate Holding and Management Co, LLC ("REHM").

ASCO, NCSC, CVI, Ortho, and REHM 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. All intercompany transactions have been eliminated in the District's consolidated financial statements.

Note 2 - Restatement

Prior to issuance of final consolidated financial statements as of and for the year ended June 30, 2013, information regarding errors and irregularities came to the attention of the District and during the compliance investigation described in Note 18 - Subsequent Events, the District's former Chief Financial Officer made statements regarding the overstatement of the excess of revenues over expenses for the year ended June 30, 2012 and interim periods during the year ended June 30, 2013 prior to his departure. The following accounts have been restated as of June 30, 2012:

Patient accounts receivable, net - The District analyzed the methodology utilized in estimating the collectability of patient accounts receivable at June 30, 2012. The analysis of data available as of June 30, 2012 indicated $2 million less than originally reported as a reasonable estimate for patient accounts receivable.

Capital assets, net - The June 30, 2012 consolidated financial statements included the capitalization of approximately $961,000 of salaries and benefits to the District's computerized physician order entry system ("CPOE") for which inadequate support was included with the capitalization entry. Further analysis did not produce proper supporting documentation for the capitalization of expenses.

Note 2 - Restatement (continued)

Accounts payable and accrued liabilities and Accrued payroll and related liabilities - Accounts payable and accrued liabilities and Accrued payroll and related liabilities were under-stated by approximately $807,000 at June 30, 2012. The financial statements did not properly reflect a $500,000 legal settlement, and workers' compensation and professional liability reserves were previously reported at approximately $307,000 less than discounted actuarial values. In addition, the effect of a change in accounting principle from reflecting workers' compensation and professional liability reserves at undiscounted values in prior years to discounted values at June 30, 2012 was previously reported as a decrease in expense during the fiscal year ended June 30, 2012, resulting in an understatement of expense amounting to approximately $1.2 million.

The misstatements described above were corrected and the consolidated financial statements have been restated. The following sets forth the previously reported and restated amounts of selected items within the Statement of Net Position as of June 30, 2012:

	As Previously Reported	Restatement	As Restated
Selected Statement of Net Position Data as of June 30, 2012:			
Patient accounts receivable, net	$ 44,679,519	$ (2,000,000)	$ 42,679,519
Capital assets, net	$ 113,424,613	$ (960,661)	$ 112,463,952
Accounts payable and accrued liabilities	$ 27,743,378	$ 500,000	$ 28,243,378
Accrued payroll and related liabilities	$ 17,970,988	$ 307,330	$ 18,278,318
Net position (net investment in capital assets)	$ 69,489,718	$ (960,661)	$ 68,529,057
Net position (unrestricted)	$ 39,330,565	$ (2,807,330)	$ 36,523,235

The following sets forth the previously reported and restated amounts of selected items within the Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2012:

	As Previously Reported	Restatement	As Restated
Selected Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2012:			
Net patient service revenue	$ 281,607,391	$ (2,000,000)	$ 279,607,391
Salaries and related expenses	$ 182,800,310	$ 2,096,876	$ 184,897,186
Other operating expense	$ 15,518,824	$ 376,739	$ 15,895,563
Professional and medical fees	$ 14,119,706	$ 500,000	$ 14,619,706
Excess of revenues over expense	$ 8,185,807	$ (4,973,615)	$ 3,212,192

Note 3 - 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.

Note 3 - Summary of Significant Accounting Policies (continued)

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.

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.

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 - Term loan is fully collateralized by restricted cash of $51 million at June 30, 2013. The custodians of the restricted cash are the financial institutions that have provided the term loan. Term loan collateral is included within other restricted assets in the consolidated statement of net position at June 30, 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, is reported in non-operating income (expense) in the statements of revenues, expenses, and changes in net position.

Note 3 - 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 acquired businesses over the net tangible and identifiable intangible assets acquired and liabilities assumed in connection with the acquisition of the oncology infusion practice (see Note 4). At June 30, 2013, goodwill associated with this transaction was approximately $4,629,000, which is included in Other assets in the consolidated statement of net position of June 30, 2013. The Company evaluates goodwill for impairment at least annually or whenever events or changes in circumstances require an interim impairment assessment. The Company 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, 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 building improvements	10-40 years
Leasehold improvements	3-15 years
Equipment	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 $102,880 for the year ended June 30, 2013.

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. There were no impairment losses recorded in the year ended June 30, 2013.

Note 3 - Summary of Significant Accounting Policies (continued)

Net position - Net position of the District is classified in three 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. “Restricted” net position is non-capital net position that must be used for a particular purpose, as specified by contributors external to the District. “Unrestricted” net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted. “Restricted, nonexpendable” net position includes the net position of ASCO, CVI, Ortho, and REHM 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. 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 in the current period. These differences decreased net patient service revenue by approximately $2,000,000 for the year ended June 30, 2013.

Note 3 - 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. IBNR liabilities of $1,688,936 are included in accounts payable and accrued liabilities in the accompanying consolidated statement of net position as of June 30, 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 runs 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.

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 at June 30, 2013. 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 4 - Acquisition

On April 12, 2013, the District acquired an oncology infusion practice. The consolidated financial statements include the operations of the oncology practice from April 12, 2013 through June 30, 2013. The following table summarizes the consideration paid for the assets acquired and recognized at the acquisition date. No other assets were acquired nor were any liabilities assumed as a result of the acquisition.

Note 4 - Acquisition (continued)

Consideration:		
Cash	$	1,172,500
Promissory Note		3,517,500
Fair value of total consideration transferred		4,690,000
Recognized amounts of identifiable assets acquired:		
Equipment		60,570
Goodwill	$	4,629,430

On August 3, 2012, the District also 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 statement of net position at June 30, 2013.

Note 5 - Patient Service Revenue and Third-Party Reimbursement Programs

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. The Medi-Cal program provides for payment at a prospectively negotiated contractual rate per day for services to Medi-Cal inpatients. Revenue from the Medicare and Medi-Cal programs accounted for approximately 40.8% of the District's net patient service revenue in the year ended June 30, 2013.

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 2008. Results of cost report settlements, as well as the District's estimates for settlements, of all fiscal years through 2013 have been reflected in the accompanying consolidated financial statements.

Estimated net third-party settlements consisted of a net receivable of $8,537,838 as of June 30, 2013. During fiscal year 2013, the District settled various prior-year cost reports, appeal issues and changed prior-year settlement estimates. These prior year settlements and changes in estimates resulted in approximately $1,145,000 of additional net patient service revenue in the year ended June 30, 2013, and are included in net patient service revenue in the accompanying consolidated statement of revenue, expenses, and changes in net position.

Note 5 - Patient Service Revenue and Third-Party Reimbursement Programs (continued)

The hospital also recorded net patient service revenue of approximately $2,763,000 during the year ended June 30, 2013, from the Low Income Health Provider ("LIHP") program, a five-year 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 participates in this program through a relationship with the County of San Diego Department of Health and Human Services.

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, 2013 were as follows:

Medicare	21 %
Medicare - senior plans	9
Medi-Cal	7
HMO	33
Others	30
Total	100 %

Note 6 - Cash and Cash Equivalents and Investments

The State of California Government 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 State of California Government 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 $40,000,000 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.

Note 6 - Cash and Cash Equivalents and Investments (continued)

As of June 30, 2013 the District held the following investments and maturities:

		Investment Maturities (In Years)		
	Fair Value	Less Than 1	1-5	More Than 5
LAIF	$ 4,205,273	$ 4,205,273	$ -	$ -

The District has $51 million held as collateral for a $51 million term loan, which is held in a pledged cash account classified as restricted certificates of deposit and other cash equivalents at June 30, 2013, in the accompanying consolidated statement 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.

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.

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 6 - 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, 2013, the District's bank balances totaled $67,846,118, 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.

The carrying amount of deposits and investment are included in the District's consolidated statements of net position as follows at June 30, 2013:

Carrying amount		
Deposits	$	67,846,118
Investments		4,205,273
	$	72,051,391

The carrying amount of deposits and investments are included in the following statements of net position captions at June 30, 2013:

Cash and cash equivalents	$	13,247,831
Short-term investments		3,818,537
Board-designated		386,736
Restricted certificates of deposit and other cash equivalents		54,598,287
	$	72,051,391

Note 7 - Non-Current Cash and Investments

Board-designated - As of June 30, 2013, the District's Board had designated cash and investments to be set aside for the following purposes, as follows:

Funded depreciation	$ 386,736

Other - As of June 30, 2013, the District held other cash and investments that are restricted by external parties for the following purposes:

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

Note 8 - Capital Assets

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

	Beginning Balance June 30, 2012 (as restated)	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
	$ 112,463,952	$ (4,548,528)	$ (37,496)	$ -	$ 107,877,928

Note 9 - Other Assets

Other assets as of June 30, 2013 consisted of the following:

Goodwill	$ 4,629,430
Wellness Center purchase option	5,000,000
Medical office building prepaid rent	5,004,692
Other	87,441
Total	$ 14,721,563

Note 10 - Short-Term Debt

Term loan - In February 2010, the District entered into a term loan, with $51 million principal amount, due March 31, 2011, and collateralized by $51 million in a pledged cash account with the term loan bank. In March 2011, the District renewed the term loan for an additional 14 months, with a new due date of May 31, 2012. Interest was charged at 4.9% plus the interest rate on the pledged cash account. The remaining related unamortized premium, discount, and deferred loss were amortized over the life of the new term loan.

In April 2012, the District replaced the 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 million and existing collateral of $51 million with new lenders. The new term loan has an interest rate of 0.75% plus the interest rate of the collateral of the term loan plus LIBOR. During the year ended June 30, 2013, the District extended the term loan maturity to September 26, 2014. As a result, the term loan is included in long-term debt at June 30, 2013.

Line of credit - In April 2012, the District entered into a revolving facility, available for borrowings of up to $25,000,000, with a due date of February 28, 2015. Interest on the line of credit is 1.75% plus LIBOR. The combined interest rate was 1.95% at June 30, 2013. At June 30, 2013, $6,800,000 was outstanding on the line of credit. The borrowings on the credit facility are fully collateralized by certain assets of the District.

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

	Beginning Balance	Additions	Payments	Other Allocation	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 11 - Long-Term Debt

The terms and due dates of the District's long-term debt as of June 30, 2013 are as follows:

- REHM term note, interest rate of 3.25%, with principal balance outstanding of $925,000 at June 30, 2013. Principal payments of $4,167 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 $858,333 at June 30, 2013. Principal payments of $8,333 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.

- Bank of the West note payable, interest rate of 2.89%, with principal balance outstanding of $863,768 at June 30, 2013. Principal and interest payments of $19,077 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 $845,194 at June 30, 2013. Principal and interest payments of $16,718 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.

- Term loan for $51 million, interest rate of 0.75% plus term loan collateral interest rate plus LIBOR (1.04% at June 30, 2013). Interest payments are due monthly, with principal due upon maturity on September 26, 2014. The note is fully collateralized.

  The District's term loan is subject to compliance with certain debt covenants, including restrictions on additional indebtedness, maintenance of minimum days cash on hand, maintenance of minimum quick ratio, maximum debt to capitalization ratio, and a minimum fixed charge coverage ratio. As of June 30, 2013, the District was in compliance with the minimum quick ratio and the maximum debt to capitalization ratio, and has obtained a waiver for the minimum days cash on hand and minimum fixed charge coverage ratio covenants.

- Wellness Complex capital lease obligation, at imputed interest rate of 11.5% with principal amount of $34.9 million as of June 30, 2013, with annual payments of principal and interest ranging from $3,601,749 in 2013 to $6,450,183 in 2033. Payments are made monthly.

- Various capital equipment leases with interest rates varying between 4.62% and 9.8%. Principal and interest payments due monthly commencing various dates and expiring on various dates ranging from January 2013 through September 2016. Principal balances due totaled $4,294,136 as of June 30, 2013.

Note 11 - Long-Term Debt (continued)

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

	Beginning Balance	Additions	Payments	Other Allocation	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

Assets acquired through the capital lease as of June 30, 2013 are as follows:

Land and buildings under capital lease	$ 32,645,716
Equipment under capital lease	3,561,613
Software under capital lease	5,337,117
Total	41,544,446
Accumulated amortization	(8,817,610)
	$ 32,726,836

A schedule, by year, of future minimum payments under long-term debt obligations as of June 30, 2013, is as follows:

Years Ending June 30,	Principal	Interest	Total
2014	$ 1,727,105	$ 178,572	$ 1,905,677
2015	52,727,299	647,777	53,375,076
2016	1,585,805	44,018	1,629,823
2017	1,740,853	9,521	1,750,374
2018	99,462	846	100,308
Total	$ 57,880,524	$ 880,734	$ 58,761,258

Note 11 - Long-Term Debt (continued)

A schedule, by year, of future minimum lease payments under capital lease obligations as of June 30, 2013, is as follows:

Years Ending June 30:	
2014	$ 5,787,198
2015	5,621,107
2016	4,555,335
2017	4,159,125
2018	4,144,677
Thereafter	81,536,687
Total minimum lease payments	105,804,129
Less amount representing interest	(66,621,297)
Present value of net minimum lease payments	$ 39,182,832

Note 12 - 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, 2013, there were a total of 1,902 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 for the year ended June 30, 2013 totaled $5,504,952.

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 $76,138 for the year ended June 30, 2013.

The District's contributions to NSRP for the year ended June 30, 2013 totaled $2,552,407. 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 12 - 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, 2013.

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, 2013, the District has invested $247,544, which is included in other long-term assets on the accompanying consolidated statement of net position. The corresponding compensation liabilities of $157,213 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 13 - Operating Leases

The District leases certain building space and equipment under non-cancelable operating leases expiring between December 2013 and July 2016. Operating lease expense for all operating leases totaled approximately $2,657,000 for the year ended June 30, 2013. As of June 30, 2013, future minimum lease payments under non-cancelable operating leases are as follows:

Years Ending June 30,		
2014	$	2,513,499
2015		2,481,060
2016		906,908
2017		731,982
2018		577,591
Thereafter		1,092,650
Total	$	8,303,690

Note 14 - 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 $1,308,828 in the year ended June 30, 2013. The Auxiliary 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 $783,659 in the year ended June 30, 2013.

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

Tri-City Hospital Foundation	
Assets	$ 4,297,968
Net Assets	$ 4,297,968
Tri-City Hospital Auxilliary	
Assets	$ 1,292,080
Liabilities	$ 783,645
Net Assets	$ 508,435

Note 15 - 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.

Note 15 - Partnerships (continued)

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.

The portion of Consolidated Excess of Revenues Over Expenses attributable to these minority interests for the year ended June 30, 2013 is $2,254,652.

Note 16 - 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. Management believes that the District is in compliance with current laws and regulations.

Note 16 - 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 has elected to self-insure for unemployment benefits and was self-insured for dental benefits through December 31, 2005.

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 $250,000. 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 $350,000. Under this insurance arrangement, as of June 30, 2013, the District maintains letters of credit totaling $125,000 for calendar year 2003 and $605,000 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 2010. Such reserves were approximately $7,399,000 as of June 30, 2013.

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 $1,000,000 effective July 1, 2009. The District has reserved for estimated claims through 2013, including an estimate of IBNR. Such reserves were approximately $3,482,000 as of June 30, 2013.

Note 16 - Commitments and Contingencies (continued)

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

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

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

Balance, as of June 30, 2011	$	2,505,877
Additions		7,159,287
Payments		(7,814,018)
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

Physician loan agreements - The District has sixteen Physician Recruitment Agreements in effect as of June 30, 2013 under which the District is required 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, 2013 totaled $3,803,805, and are included in other long-term assets in the accompanying consolidated statement of net position.

Note 17 - 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 $2,749,000 were recorded by the District during the year ended June 30, 2013, which increased net patient service revenue in the accompanying consolidated statement of operations.

Note 18 - Subsequent Events

Prior to July 31, 2013, the District operated the Wellness Center under a capital lease. The capital lease obligation at June 30, 2013 was $34.9 million with 2013 lease payments of $3.6 million. Tri-City Wellness, LLC was organized on May 7, 2013 in anticipation of purchasing the Wellness Center. On July 31, 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 building from the owner. The interest rate on the Mid Cap loan is LIBOR, subject to a floor of .75%, plus the applicable margin as defined in the Credit and Security Agreement. Principal and interest for the Mid Cap loan is approximately $183,000 per month. The loan has a three year term and the note is collateralized by Tri City Wellness, LLC assets. The District then entered into a lease agreement to lease the Wellness Center facilities from Tri-City Wellness LLC for approximately $225,000 per month.

Note 18 - Subsequent Events (continued)

In July 2013, a new revolving line of credit was obtained from Mid Cap, LLC and the prior line of credit was paid in full. The amount available under this new line of credit is up to $25,000,000, subject to a borrowing base calculation, as defined within the Credit and Security Agreement. The interest rate is LIBOR plus 3.50% subject to a floor on LIBOR 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.

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.

In August 2013, the Board of Directors commenced a compliance investigation. On September 5, 2013, the CEO, Larry Anderson, was placed on Administrative Leave. On October 17, 2013, the District's Board of Directors voted to terminate Mr. Anderson effective October 18, 2013. Casey Fatch, the District's Executive Vice President and Chief Operating Officer since September 2009, assumed the Interim CEO position on September 5, 2013.

SUPPLEMENTAL SCHEDULES AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

TRI-CITY HEALTHCARE DISTRICT
CONSOLIDATING STATEMENT OF NET POSITION
JUNE 30, 2013

	TCMC	ASCO	CVI	Ortho	REHM	Eliminations	Consolidated
ASSETS							
CURRENT ASSETS							
Cash and cash equivalents	$ 12,112,855	$ 911,318	$ 98,784	$ 54,038	$ 70,836	$ -	$ 13,247,831
Short-term investments	3,818,537	-	-	-	-	-	3,818,537
Patient accounts receivable - net of estimated uncollectible accounts of $40,194,229	37,737,226	1,180,924	-	-	-	-	38,918,150
Other receivables	2,297,617	-	402,488	310,515	30,569	(1,696,577)	1,344,612
Supplies inventories	6,477,099	1,161	-	-	-	-	6,478,260
Prepaid expenses and other assets	1,977,678	60,034	-	-	-	-	2,037,712
Estimated third-party payor settlements	9,447,077	-	-	-	-	-	9,447,077
Total current assets	73,868,089	2,153,437	501,272	364,553	101,405	(1,696,577)	75,292,179
NONCURRENT CASH AND INVESTMENTS							
Board-designated	386,736	-	-	-	-	-	386,736
Restricted certificates of deposit and other cash equivalents	54,598,287	-	-	-	-	-	54,598,287
Total noncurrent cash and investments	54,985,023	-	-	-	-	-	54,985,023
CAPITAL ASSETS - net	103,280,613	899,840	-	-	3,697,475	-	107,877,928
OTHER ASSETS							
Notes receivable	3,803,805	-	-	-	17,080	-	3,820,885
Other	19,305,285	(374,761)	136,257	67,593	-	(4,412,811)	14,721,563
Total other assets	23,109,090	(374,761)	136,257	67,593	17,080	(4,412,811)	18,542,448
TOTAL	$ 255,242,815	$ 2,678,516	$ 637,529	$ 432,146	$ 3,815,960	$ (6,109,388)	$ 256,697,578

See report of independent auditors.

TRI-CITY HEALTHCARE DISTRICT
CONSOLIDATING STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2013

	TCMC	ASCO	CVI	Ortho	REHM	Eliminations	Consolidated
LIABILITIES AND NET POSITION							
CURRENT LIABILITIES							
Accounts payable and accrued liabilities	$ 34,559,597	$ 137,027	$ -	$ -	$ -	$ (1,696,576)	$ 33,000,048
Accrued payroll and related expenses	17,593,195	148,183	-	-	-	-	17,741,378
Current maturities of long-term debt	3,377,812	-	-	-	150,000	-	3,527,812
Short-term debt	6,800,000	-	-	-	-	-	6,800,000
Other current liabilities	736,487	-	333,675	168,056	-	-	1,238,218
Accrued interest payable	29,087	136,734	-	-	5,176	-	170,997
Estimated third-party payor settlements	909,239	-	-	-	-	-	909,239
Total current liabilities	64,005,417	421,944	333,675	168,056	155,176	(1,696,576)	63,387,692
LONG-TERM DEBT - Net of current portion	91,848,911	53,300	-	-	1,633,333	-	93,535,544
WORKERS' COMPENSATION AND COMPREHENSIVE LIABILITY- net of current portion	7,898,745	-	-	-	-	-	7,898,745
Total liabilities	163,753,073	475,244	333,675	168,056	1,788,509	(1,696,576)	164,821,981
NET POSITION							
Net investment in capital assets	60,565,197	846,540	-	-	1,914,142	-	63,325,879
Unrestricted	30,809,107	267,347	303,854	264,090	113,309	(5,029,384)	26,728,323
Restricted	115,438	-	-	-	-	-	115,438
Restricted, non-expendable	-	1,089,385	-	-	-	616,572	1,705,957
Total net position	91,489,742	2,203,272	303,854	264,090	2,027,451	(4,412,812)	91,875,597
TOTAL	$ 255,242,815	$ 2,678,516	$ 637,529	$ 432,146	$ 3,815,960	$ (6,109,388)	$ 256,697,578

See report of independent auditors.

TRI-CITY HEALTHCARE DISTRICT
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

	TCMC	ASCO	CVI	Ortho	REHM	Eliminations	Consolidated
REVENUE:							
Net patient service revenue	$ 265,974,306	$ 9,087,544	$ -	$ -	$ -	$ -	$ 275,061,850
Premium revenue	23,218,427	-	-	-	-	-	23,218,427
Other revenue	11,529,087	1,095	629,366	476,991	-	(2,723,446)	9,913,093
Total operating revenue	300,721,820	9,088,639	629,366	476,991	-	(2,723,446)	308,193,370
EXPENSES:							
Salaries and related expenses	186,496,748	2,130,628	43,706	43,703	-	-	188,714,785
Supplies	57,785,487	1,899,250	-	-	-	-	59,684,737
Purchased services	19,415,425	579,340	225,548	162,964	-	(1,342,740)	19,040,537
Depreciation and amortization	13,869,216	279,505	11,436	5,632	-	-	14,165,789
Other operating expense	16,148,471	484,570	19,161	14,699	-	-	16,666,901
Professional and medical fees	12,086,108	38,892	108,441	69,102	-	-	12,302,543
Repairs and maintenance	4,825,514	581,848	-	-	-	-	5,407,362
Utilities	3,782,190	-	-	-	-	-	3,782,190
Rent	3,001,079	48,104	-	-	-	(266,425)	2,782,758
Total operating expenses	317,410,238	6,042,137	408,292	296,100	-	(1,609,165)	322,547,602
(LOSS) GAIN FROM OPERATIONS	(16,688,418)	3,046,502	221,074	180,891	-	(1,114,281)	(14,354,232)
NONOPERATING REVENUE (EXPENSE):							
District tax revenue	7,932,675	-	-	-	-	-	7,932,675
Interest income	444,605	-	-	-	-	-	444,605
Interest expense	(5,432,573)	(4,298)	-	-	(71,055)	-	(5,507,926)
Other non-operating revenue (expense)	128,630	(781)	(2,600)	(800)	266,425	(266,425)	124,449
Total non-operating revenue (expense)	3,073,337	(5,079)	(2,600)	(800)	195,370	(266,425)	2,993,803
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	(13,615,081)	3,041,423	218,474	180,091	195,370	(1,380,706)	(11,360,429)
DISTRIBUTIONS TO MINORITY OWNERS	-	(3,086,101)	(310,074)	(175,536)	-	-	(3,571,711)
Change in net position	(13,615,081)	(44,678)	(91,600)	4,555	195,370	(1,380,706)	(14,932,140)
NET POSITION — Beginning of year (as restated)	105,104,823	2,247,950	395,454	259,535	1,832,081	(3,032,106)	106,807,737
NET POSITION — End of year	$ 91,489,742	$ 2,203,272	$ 303,854	$ 264,090	$ 2,027,451	$ (4,412,812)	$ 91,875,597

See report of independent auditors.