Tulare Local Health Care District
dba Tulare Regional Medical Center

Financial Statements and Supplementary Information

June 30, 2015 and 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Tulare Local Health Care District's (the "District") discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, identify changes in the District's financial position, and identify any material deviations from the financial plan (the approved budget). Unless otherwise noted, all discussion and analysis pertains to the District's financial condition, results of operations and cash flows as of and for the year ended June 30, 2015. Please read it in conjunction with the financial statements in this report.

FINANCIAL HIGHLIGHTS

- The District's net position increased by $16.5 million, or 27.7%, primarily attributable to the year's net income (income before contributions). Total assets increased by $15.3 million, or 7.9%. Cash and investments increased by $7.5 million, or 71.4%, resulting from an increase in cash generated from operations. Capital assets increased $8.7 million to $157.4 million with $4.3 million in net additions to buildings, equipment, and construction in progress, and a net increase in accumulated depreciation.

- For the year, the District's total operating revenues increased to $78.7 million, a 16.9% increase from the prior year, while total operating expenses increased to $71.2 million, an increase of 1.3%. The current year increase in total operating revenues was attributable to decreases in bad debt and charity allowances and increases in supplemental funding.

- During the fiscal year, the District made the following significant capital expenditures:

  - ✓ General construction and equipment for the new tower expansion
  - ✓ Acquisition of the Cerner CommunityWorks system
  - ✓ Synergy HD3 arthroscopy system
  - ✓ Stryker critical care beds and Centurion Vision System

The source of funding for these projects was derived from operations, capital contributions, bond and lease project funds, funds reserved for capital acquisition, and benevolent contributions.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District include: (a) a statement of net position, (b) a statement of revenues, expenses, and changes in net position, and (c) a statement of cash flows. The statement of net position includes information about the nature of the District's assets and liabilities and classifies them as current or non-current. It also provides the basis for evaluation of the capital structure of the District and for assessing the liquidity and financial flexibility of the District. The District's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the District's operations and can be used to determine whether the District has been able to recover all of its operating costs from patient services and other operating revenue sources. The primary purpose of the statement of cash flows is to provide information about the District's cash from operating, non-capital financing, capital and related financing, and investing activities. It provides answers to such questions as what were the District's sources of cash, what was cash used for, and what was the change in cash balances during the reporting period.

TABLE 1
Financial Analysis of the District

Condensed Statements of Net Position
(In Thousands)

A summary of the District's statements of net position is presented in Table 1 below:

	June 30, 2015	June 30, 2014	Dollar Change	Total % Change
Current and other assets	$ 50,000	$ 43,402	$ 6,598	15.2%
Capital Assets	157,408	148,754	8,654	5.8%
Total assets	207,408	192,156	15,252	7.9%
Current and other Liabilities	26,179	28,685	(2,506)	-8.7%
Long-term debt outstanding	105,078	103,854	1,224	1.2%
Total liabilities	131,257	132,539	(1,282)	-1.0%
Invested in capital assets-net of debt	52,329	46,076	6,253	13.6%
Restricted	2,927	2,258	669	29.6%
Unrestricted	20,895	11,283	9,612	85.2%
Total net position	76,151	59,617	16,534	27.7%
Total liabilities and net position	$ 207,408	$ 192,156	$ 15,252	7.9%

As reflected in Table 1, net position increased $16.5 million to $76.2 million for the year ended June 30, 2015, primarily attributable to the District's $7.5 million income from operations.

TABLE 2
Financial Analysis of the District

Condensed Statements of Net Position
(In Thousands)

A summary of the District's statements of net position is presented in Table 2 below:

	June 30, 2014	June 30, 2013	Dollar Change	Total % Change
Current and other assets	$ 43,402	$ 51,168	$ (7,766)	-15.2%
Capital Assets	148,754	133,694	15,060	11.3%
Total assets	192,156	184,862	7,294	3.9%
Current and other Liabilities	28,685	24,662	4,023	16.3%
Long-term debt outstanding	103,854	104,955	(1,101)	-1.0%
Total liabilities	132,539	129,617	2,922	2.3%
Invested in capital assets-net of debt	46,076	40,622	5,454	13.4%
Restricted	2,258	2,144	114	5.3%
Unrestricted	11,283	12,479	(1,196)	-9.6%
Total net position	59,617	55,245	4,372	7.9%
Total liabilities and net position	$ 192,156	$ 184,862	$ 7,294	3.9%

As reflected in Table 2, net position increased $4.4 million to $59.6 million for the year ended June 30, 2014, primarily attributable to the District's $6.1 million income from GO bond tax revenue.

TABLE 3
Financial Analysis of the District (continued)

Condensed Statements of Revenues, Expenses, and Changes in Net position
(In Thousands)

The following table presents a summary of the District's revenues, expenses, and changes in net position:

	June 30, 2015	June 30, 2014	Dollar Change	Total % Change
Net patient services revenue	$ 76,390	$ 64,164	$ 12,226	19.1%
Other operating revenue	2,298	3,128	(830)	-26.5%
Total operating revenue	78,688	67,292	11,396	16.9%
				0.0%
Salaries and benefits	11,956	31,459	(19,503)	-62.0%
Medical and other supplies	10,111	8,738	1,373	15.7%
Medical and other fees and services	39,884	20,922	18,962	90.6%
Maintenance, utilities, and rent	3,010	2,803	207	7.4%
Depreciation and amortization	4,128	4,402	(274)	-6.2%
Other	2,110	1,941	169	8.7%
Total operating expense	71,199	70,265	934	1.3%
				0.0%
Operating Income	7,489	(2,973)	10,462	351.9%
				0.0%
Non-operating revenues & expenses	2,962	1,227	1,735	141.4%
Income before taxes for GO bond debt	10,451	(1,746)	12,197	698.6%
District taxes for GO bond debt	6,084	6,117	(33)	-0.5%
Change in net position	$ 16,535	$ 4,371	$ 12,164	278.3%
				0.0%
Net position - beginning of year	$ 59,617	$ 55,245	$ 4,372	7.9%
Net position - end of year	$ 76,152	$ 59,616	$ 16,536	27.7%

TABLE 4
Financial Analysis of the District (continued)

Condensed Statements of Revenues, Expenses, and Changes in Net position
(In Thousands)

The following table presents a summary of the District's revenues, expenses, and changes in net position:

	June 30, 2014	June 30, 2013	Dollar Change	Total % Chg
Net patient services revenue	$ 64,164	$ 67,625	$ (3,461)	-5.1%
Other operating revenue	3,128	7,302	(4,174)	-57.2%
Total operating revenue	67,292	74,927	(7,635)	-10.2%
Salaries and benefits	31,459	36,200	(4,741)	-13.1%
Medical and other supplies	8,738	11,633	(2,895)	-24.9%
Medical and other fees and services	20,922	22,504	(1,582)	-7.0%
Maintenance, utilities, and rent	2,803	2,658	145	5.5%
Depreciation and amortization	4,402	4,026	376	9.3%
Other	1,941	922	1,019	110.5%
Total operating expense	70,265	77,943	(7,678)	-9.9%
Operating Income	(2,973)	(3,016)	43	-1.4%
Non-operating revenues & expenses	1,227	1,707	(480)	-28.1%
Income before taxes for GO bond debt	(1,746)	(1,309)	(437)	33.4%
District taxes for GO bond debt	6,117	6,039	78	1.3%
Change in net position	$ 4,371	$ 4,730	$ (359)	-7.6%
Net position - beginning of year	$ 55,245	$ 50,514	$ 4,731	9.4%
Net position -end of year	$ 59,616	$ 55,244	$ 4,372	7.9%

SOURCES OF REVENUE

Operating revenues – For fiscal year 2015, the District derived 90.0% of its total revenues from operations. Operating revenues include, among other items, patient care revenue from Medicare, Medi-Cal, and other federal, state, and local government programs, and commercial insurance payers and patients; cafeteria sales; membership sales and dues from a District-owned health and fitness center; and rental revenue from medical office buildings leased by the District.

Non-operating revenues – For fiscal year 2015, the District derived 10.0% of its total revenues from investment income and property tax revenue including that associated with the 2005 general obligation bonds as well as an allocation of general property taxes assessed by the County of Tulare on properties residing within the District's geographical boundaries.

OPERATING AND FINANCIAL PERFORMANCE

The following summarizes the District's statements of revenues, expenses, and changes in net position between 2015 and 2014: (Refer to Table 3)

Acute admissions decreased by 50, or 1.3%, to 3,736, while acute patient days increased by 311, or 2.2%, to 14,677. Outpatient visits (ER visits, home health visits, outpatient surgeries, referred visits for diagnostic services and clinic visits) were 2,069, or 2.0%, above 2014 levels. ER visits alone were up 4,657, or 13.4%.

Net patient services revenue increased $12.2 million, or 19.1%, in 2015. The increase in net patient services revenue can be attributed to significant decreases in bad debt and charity allowances, as well as an increase in supplemental funding. The District recognized $11.3 million of supplemental state funding for MediCal in 2015.

Net patient services revenue per adjusted patient day (the amount of patient services revenue actually collected per equivalent patient encounter) increased from $2,057 to $2,212, or 7.5%, from 2014 to 2015, primarily due to the factors stated above as well as continued momentum from the clinical documentation improvement program.

Other operating revenue consists primarily of cafeteria sales, health and fitness center membership sales and dues, and rental revenue from medical office buildings leased by the District. Other operating revenue decreased by $831,000, or 26.6%. This significant decrease came as a result of repaying the federal government $1.1 million in meaningful use funding.

Salaries and benefits expense decreased $19.5 million, or 62%. In November 2014 all district employees were terminated and subsequently rehired by the management company, HCCA. The labor cost became a purchased service and will be covered below under that line item.

Medical and other supplies increased $1.4 million, or 15.7%, from 2014. This increase can almost all be accounted for in cardiac cath lab implantable devices and their related supplies.

OPERATING AND FINANCIAL PERFORMANCE (CONTINUED)

Medical and other fees and services increased $19 million, or 90.6%, primarily due to the outsourcing of all labor to the management company, HCCA, which accounted for $17.2 million of the increase.

Maintenance, utilities, and rent increased by $207,000, or 7.4%, during 2015 primarily due to increase in general utility costs throughout all district buildings.

Depreciation and amortization expense decreased $274,000, or 6.2%. Most capital acquisitions remained in active Construction In Progress accounts.

Other expenses increased by $169,000, or 8.7%. The increase was primarily due to increased insurance costs.

Total operating expenses increased by $935,000, or 1.3%, essentially unchanged from the prior year.

Non-operating revenues of $3.8 million for the current fiscal year are comprised of $1.7 million of tax revenue received from the County of Tulare, $2 million in grants & contributions, and an $8,000 loss in investment income on cash and investments. Tax revenue increased by $145,000 in 2015. Investment income represents interest income and realized and unrealized gains and losses on District investments. District investments by law may only be invested in high-grade, governmental and commercial fixed income securities, and money market funds. Investment income for 2015 decreased by $104,000 from 2014 due to a decrease in available cash and a decrease in investment yields, as well as an increase in bond maintenance costs.

Non-operating expenses represent interest expense paid during 2015 on the District's short- and long-term debt consisting of revenue bonds and capital leases. Total interest expense of $799,000 decreased by $10,000, or 1.2%, from the prior year.

For fiscal year 2015, district taxes for general obligation bond debt remained steady at $6.1 million. This restricted revenue is managed by the County of Tulare.

OPERATING AND FINANCIAL PERFORMANCE (CONTINUED)

The following summarizes the District's statements of revenues, expenses, and changes in net position between 2014 and 2013: (Refer to Table 4)

Acute admissions decreased by 941, or 20.0%, to 3,786, while acute patient days decreased by 3,944, or 21.5%, to 14,366. Outpatient visits (ER visits, home health visits, outpatient surgeries, referred visits for diagnostic services and clinic visits) were 10,264, or 9.1%, below 2013 levels. Although ER visits were up slightly, the remaining outpatient services all experienced declines, contributing to the overall decrease in outpatient activity for 2014.

Net patient services revenue decreased $3.5 million, or 5.1%, in 2014. The decrease in net patient services revenue can be attributed to lower patient volumes. The District recognized $8.7 million of supplemental state funding for MediCal in 2014.

Net patient services revenue per adjusted patient day (the amount of patient services revenue actually collected per equivalent patient encounter) increased from $1,739 to $2,057, orf18.3%, from 2013 to 2014, primarily due to two factors: the clinical documentation improvement program, which impacts the case mix index and therefore Medicare inpatient reimbursement; and the change in MediCal inpatient reimbursement from a per-diem methodology to a California DRG methodology.

Other operating revenue consists primarily of cafeteria sales, health and fitness center membership sales and dues, and rental revenue from medical office buildings leased by the District. Other operating revenue decreased by $4.2 million, or 57.2%. This significant decrease came as a result of the closure and sale of the retail pharmacy business in May 2013.

Salaries and benefits expense decreased $4.7 million, or 13.1%. While salaries and wages decreased by $3.6 million, or 16% over prior year, employee benefits expense decreased $1.1 million, or 12.9%, from 2013. This decrease was a result of reduction of paid FTEs to 380 in June 2014, compared to 431 in the prior year. The decrease in patient volume combined with efforts at becoming more efficient with staffing combined to achieve this result.

Medical and other supplies decreased $2.9 million, or 24.9%, from 2013 due to the aforementioned decrease in patient volumes, and the related cost of medical surgical supplies and pharmaceuticals.

Medical and other fees and services decreased $1.6 million, or 7.0%, primarily due to the reduction of legal fees.

Maintenance, utilities, and rent increased by $145,000, or 5.5%, during 2014 primarily due to an increase in general utility cost throughout the plant, as well as increased telecom costs managed by the IT department.

Depreciation and amortization expense increased $376,000, or 9.3%, as several completed projects were added to the depreciation schedule.

OPERATING AND FINANCIAL PERFORMANCE (CONTINUED)

Other expenses increased by $1 million, or 110.5%, resulting mainly from an increase in professional liability expense.

Total operating expenses decreased by $7.7 million, or 9.9%, primarily due to salaries and benefits, and medical and other supplies.

Non-operating revenues of $2.0 million for fiscal year 2014 are comprised of $1.6 million of tax revenue received from the County of Tulare, $295,000 in grants & contributions, and $86,000 in investment income on cash and investments. Tax revenue increased by $71,000 in 2014. Investment income represents interest income and realized and unrealized gains and losses on District investments. District investments by law may only be invested in high-grade, governmental and commercial fixed income securities, and money market funds. Investment income for 2014 decreased by $13,000 from 2013 due to a decrease in available cash and a decrease in investment yields.

Non-operating expenses represent interest expense paid during 2014 on the District's short- and long-term debt consisting of revenue bonds and capital leases. Total interest expense of $808,000 decreased by $24,000, or 2.9%, from 2013.

For fiscal year 2014, district taxes for general obligation bond debt remained steady at $6.1 million. This restricted revenue is managed by the County of Tulare.

BUDGET RESULTS

The Board of Directors approves the annual operating budget of the District. The budget remains in effect the entire year but is updated as needed for internal management use to reflect changes in activity and approved variances. A fiscal year 2015 budget comparison and analysis is presented below.

TABLE 5
Actual income and expenses vs. Budget
(In Thousands)

	Actual FY15	Budget FY15	$ Variance	Total % Var.
Net patient services revenue	$ 76,390	$ 62,281	$ 14,109	22.7%
Other operating revenue	2,298	3,921	(1,623)	-41.4%
Total operating revenue	78,688	66,202	12,486	18.9%
Salaries and benefits	11,956	32,120	(20,164)	-62.8%
Medical and other supplies	10,111	9,615	496	5.2%
Medical and other fees and services	39,884	18,530	21,354	115.2%
Maintenance, utilities, and rent	3,010	2,426	584	24.1%
Depreciation and amortization	4,128	4,192	(64)	-1.5%
Other	2,110	1,688	422	25.0%
Total operating expense	71,199	68,571	2,628	3.8%
Operating Income	7,489	(2,369)	9,858	416.1%
Non-operating revenues & expenses	2,962	1,023	1,939	189.5%
Income before taxes for GO bond debt	10,451	(1,346)	11,797	-876.4%
District taxes for GO bond debt	6,084	4,397	1,687	38.4%
Change in net position	$ 16,535	$ 3,051	$ 13,484	442.0%

In comparing actual versus budgeted results, the following is noted:

The District completed its fiscal year 2015 $13.5 million, or 442%, in excess of budgeted increase in net position. It should be noted that the 2015 budget was a repeat of the 2014 budget; this decision was based upon the arrival of the management company, HCCA, and its intent to assess and potentially redesign all processes.

The District's operating income surpassed budget expectations by $9.9 million, or 416.1%. Net patient services revenue exceeded budget by $14.1 million, or 22.7%, due to large decreases in bad debt and charity resulting from MediCal expansion, as well as increases in supplemental funding, also tied to MediCal expansion. Other operating revenue fell short of budget by $1.6 million, or 41.4%.

The District fell short of the operating expense budget by $2.6 million, or 3.8%. This variance was primarily due to increases in pay rates to employees, an increase in high dollar cardiac cath lab procedures, and the normal inflationary factors.

CAPITAL ASSETS

At June 30, 2015, the District had $157.4 million invested in a variety of capital assets, as reflected in the following schedule (in thousands), which represents a net increase (additions less retirements and depreciation) of $8.7 million from the prior year.

TABLE 6
Comparison of capital assets year over year

	June 30,2015	June 30, 2014	Dollar Change	Total % Change
Land and Improvements	$ 3,302	$ 3,302	$ -	0.0%
Buildings and improvements	43,403	43,025	378	0.9%
Leasehold improvements	29	29	-	0.0%
Equipment	33,587	31,706	1,881	5.9%
Construction in progress	136,424	124,622	11,802	9.5%
Gross Capital assets	216,745	202,684	14,061	6.9%
Less Accumulated depreciation	(59,337)	(53,930)	(5,407)	10.0%
Net capital assets	$ 157,408	$ 148,754	$ 8,654	5.8%

Current year activity was predominantly focused upon the new tower expansion. General obligation bond funds were exhausted in September 2014. Additional expenditures have been funded with operating cash.

Capital expenditures for purposes other than the tower expansion were held to urgent and critical needs. This consisted of the Cerner Community Works system as well as equipment used for surgical procedures.

LONG-TERM DEBT

At June 30, 2015, the District had approximately $105,078,000 in capital lease obligations and revenue and general obligation bonds outstanding.

Principal balance in thousands

Revenue bond issuance of 2007	14,725
GO bond series A issuance	14,910
GO bond series B issuance	69,900
Bank of America capital equipment lease	1,861
IBM Financing capital equipment lease	423
Cerner CommunityWorks	3,257

The revenue bonds are secured by the assets of the District, and are subject to maintaining minimum liquidity and minimum debt service coverage. The District complied with these requirements in fiscal 2015.

In August 2015, Fitch Ratings upgraded the District's $14.9 million revenue bonds from 'B' to 'BB-'. Fitch noted, "The upgrade to 'BB-' from 'B' reflects sustained evidence of operational and financial turnaround and stabilization. Following three years of large operating losses, TRMC posted positive monthly operating income since April 2014. Operating margin of 10.6% in fiscal 2015 (unaudited interim results; June 30 year-end) was supported by volume growth, improved payor mix, enhanced revenues, and expense control, the benefits of which are likely to be ongoing."

The general obligation bonds represent the general obligation of the District's property tax base. The District has the power and is obligated to cause annual ad valorem taxes to be levied upon all property within the District, subject to taxation by the District, and collected by the County of Tulare for payment, when due, of the principal and interest on the bonds. In September 2015, Moody's Investors Services affirmed the District's $85 million general obligation bond rating at Baa3. According to Moody's, "The affirmation reflects the district's pending hospital expansion construction project. At this point, the project requires an additional $55 million for completion and management has not been able to secure financing. The district will seek voter authorization in early 2016 for additional general obligation debt to complete the project. Despite improved finances, operating margins are insufficient to support material, if any, pay-go funding, and the district's balance sheet is weak making a general obligation financing essential. The affirmation also reflects the district's effective new management team that has made notable improvements to the hospital's financial operations. The rating also incorporates the district's large and growing tax base and below average residential wealth levels."

The Bank of America equipment lease was entered into in 2012 and is payable over 48 months. The purpose of the lease was to purchase a surgical robot, and a variety of pieces of movable equipment for the Tower 1 expansion.

In May 2014, the District entered into a $598,000 master lease agreement for the purpose of acquiring the IBM Pureflex server system. The lease is payable over 48 months at an interest rate of 2.94%.

In June 2014, the District entered into a $3.3 million master agreement with Cerner for the purpose of a complete conversion and integration of District IT systems into Cerner CommunityWorks. The debt is payable over approximately 14 months, depending upon project progress.

ECONOMIC OUTLOOK

In January 2014 the District's Board brought in a new management company, Healthcare Conglomerate Associates (HCCA). Since then, HCCA has steadily led the District in improving the finances and operations. HCCA strategically brought in key interim leadership, with specific expertise in hospital turnarounds, in different phases to guide the District through an extensive financial turnaround, which is on-going. This strategy has proved quite successful as the District's operating results have significantly improved since January 2014.

Over the last year, the District, under HCCA's leadership, has seen an upgraded bond rating from Fitch Ratings and an affirmation of the rating from Moody's.

The 2016 budget as approved by the District Board shows a continued improvement both in operating income and cash. That budget indicates an 8.5% operating income and 120 Days Cash on Hand at the end of 2016.

A public vote to complete the financing for the new patient tower is anticipated in the spring of 2016. The District board voted unanimously to request the community's support and passage of a public financing measure to complete the new Tower. A polling company has been retained to assess the community's potential response to this and the polling is coming back favorably. A bond election consultant has also been retained and is helping to coordinate the process. A May 3, 2016 bond election date has been set. Ballots are slated to be released to the eligible property owners in the District on April 5, 2016. This funding should allow the construction to be completed 12-18 months later. This can be expected to generate increased patient volume and additional revenue.

The economic future of the District can also expect to be bolstered by HCCA continuing to expand patient access through strategically adding medical office locations in appropriate areas of the Central Valley over the next several years.

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Tulare Regional Medical Center
Tulare, California

Report on the Financial Statements

We have audited the accompanying financial statements of Tulare Local Health Care District, (dba Tulare Regional Medical Center, or the District) which comprise the statements of net position as of June 30, 2015 and 2014, and the related statements of revenues, expenses and 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 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements referred to above present fairly, in all material respects, the financial position of the Tulare Local Health Care District as of June 30, 2015 and 2014, and changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Uncertainties

As more fully described in Note 12 to the financial statements, the District has exhausted the existing bond funds, and may not be able to secure the required financing to complete the tower project. The District's plans in regard to this matter are also described in Note 13. The financial statements do not include any adjustments to reflect the possible impairment of this asset. Our opinion is not modified with respect to that matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 - 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The accompanying supplementary information related to charity care and community support on page 38 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of Tulare Local Health Care District's management. The information has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Armanino LLP

Armanino[LLP]
San Ramon, California

December 8, 2015

TULARE REGIONAL MEDICAL CENTER
Statements of Net Position
June 30, 2015 and 2014

ASSETS

	2015	2014
Current assets		
Cash and cash equivalents	$ 18,113,754	$ 10,568,946
Assets limited as to use available for current debt service	7,631,447	7,389,395
Patient accounts receivable, net of allowances	10,561,556	7,033,711
Other receivables and physician advances	5,373,060	9,743,501
Inventories	1,083,317	961,953
Estimated current third party payor settlements	244,404	-
Prepaid expenses and deposits	580,517	422,634
Total current assets	43,588,055	36,120,140
Assets limited as to use, long term	5,445,832	6,153,681
Capital assets, net of accumulated depreciation	157,407,524	148,753,523
Bond issuance costs, net of accumulated amortization	966,442	1,128,068
Total assets	$ 207,407,853	$ 192,155,412

LIABILITIES AND NET POSITION

Current liabilities		
Current maturities of debt borrowings	$ 4,526,662	$ 2,036,139
Accounts payable and accrued expenses	16,568,754	14,134,570
Accrued payroll and related liabilities	-	2,068,077
Estimated current third party payor settlements	-	1,976,974
Self-insurance program accrual	191,246	1,039,656
Total current liabilities	21,286,662	21,255,416
Deferred revenue	9,418,650	9,464,703
Debt borrowings, net of current maturities	100,551,494	101,818,427
Total liabilities	131,256,806	132,538,546
Net position		
Net investment in capital assets	52,329,368	46,076,431
Restricted, by bond indenture for debt service	2,926,703	2,258,443
Unrestricted	20,894,976	11,281,992
Total net position	76,151,047	59,616,866
Total liabilities and net position	$ 207,407,853	$ 192,155,412

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

TULARE REGIONAL MEDICAL CENTER
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2015 and 2014

	2015	2014
Operating revenues		
Net patient service revenue	$ 76,389,646	$ 64,164,408
Other operating revenue	2,297,694	3,128,424
Total operating revenues	78,687,340	67,292,832
Operating expenses		
Salaries and wages	7,838,622	22,982,604
Employee benefits	4,117,365	8,476,407
Purchased labor	17,197,442	-
Professional fees	10,339,870	7,821,892
Contract labor and registry	390,400	397,725
Supplies	10,110,872	8,738,478
Purchased services	11,957,410	12,701,563
Repairs and maintenance	333,049	354,568
Utilities and phone	1,886,790	1,645,543
Building and equipment rent	789,962	802,268
Insurance	1,006,918	790,171
Depreciation and amortization	4,127,841	4,402,184
Other operating expenses	1,103,264	1,150,970
Total operating expenses	71,199,805	70,264,373
Operating income (loss)	7,487,535	(2,971,541)
Nonoperating income (loss)		
District tax revenues	1,729,343	1,584,532
Investment income (loss), net of expenses	(7,918)	104,281
Interest expense	(798,678)	(808,491)
Grants and contributions	894,565	295,404
Other income	107	51,120
Total nonoperating income	1,817,419	1,226,846
Capital contributions	1,144,963	-
Excess of revenues over expenses (expenses over revenues)	10,449,917	(1,744,695)
District taxes related to general obligation bonds debt service	6,084,264	6,116,695
Increase in net position	16,534,181	4,372,000
Net position at beginning of the year	59,616,866	55,244,866
Net position at end of the year	$ 76,151,047	$ 59,616,866

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

TULARE REGIONAL MEDICAL CENTER
Statements of Cash Flows
For the Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Cash received from patients and third-parties on behalf of patients	$ 75,010,864	$ 63,331,959
Cash received from operations, other than patient services	2,297,694	3,128,424
Cash payments to suppliers and contractors	(36,554,316)	(30,386,398)
Cash payments to HCCA for personnel services	(17,197,442)	-
Cash payments to employees and benefit programs	(14,081,756)	(31,773,525)
Net cash provided by operating activities	9,475,044	4,300,460
Cash flows from noncapital financing activities		
District tax revenues	1,729,343	1,584,532
Non-capital grants, contributions and other	886,754	450,805
Net cash provided by noncapital financing activities	2,616,097	2,035,337
Cash flows from capital and related financing activities		
Net purchase of capital assets	(9,408,785)	(18,317,096)
District tax revenues for debt service	6,084,264	6,116,695
Contributions for capital asset acquisition	1,144,963	-
Principal payments on debt borrowings	(2,033,894)	(1,698,151)
Interest payments on debt borrowings, net of capitalization	(798,678)	(808,491)
Net cash used in capital financing activities	(5,012,130)	(14,707,043)
Cash flows from investing activities		
Net (purchase) or sale of investments	473,715	10,178,298
Interest and dividends received, net of expenses	(7,918)	104,281
Net cash provided by investing activities	465,797	10,282,579
Net increase in cash and cash equivalents	7,544,808	1,911,333
Cash and cash equivalents at beginning of year	10,568,946	8,657,613
Cash and cash equivalents at end of year	$ 18,113,754	$ 10,568,946
Non-cash activity:		
Acquisition of equipment through capital lease obligation	$ 3,257,484	$ 597,899

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

TULARE REGIONAL MEDICAL CENTER
Statements of Cash Flows (continued)
For the Years Ended June 30, 2015 and 2014

	2015	2014
Reconciliation of operating loss to net cash provided by operating activities		
Operating income (loss)	$ 7,487,535	$ (2,971,541)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation and amortization	4,127,841	4,402,184
Changes in operating assets and liabilities		
Patient accounts receivables	3,527,845	729,967
Other receivables	(2,685,249)	(2,437,562)
Inventories	(121,364)	387,664
Prepaid expenses and deposits	(157,885)	553,395
Accounts payable and accrued expenses	2,491,878	2,954,065
Accrued payroll and related liabilities	(2,125,769)	(314,514)
Estimated third party payor settlements	(2,221,378)	875,146
Self-insured program accrual	(848,410)	121,656
Net cash provided by operating activities	$ 9,475,044	$ 4,300,460

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

1. Organization and Significant Accounting Policies

Reporting entity

Tulare Local Health Care District (dba Tulare Regional Medical Center, e.g. the District) is a public entity organized under Local Hospital District Law as set forth in the Health and Safety Code of the State of California. The District is a political subdivision of the State of California and is generally not subject to federal or state income taxes. The District is governed by a five-member Board of Directors, elected from within the District's geographical political divisions to specified terms of office. The District is located in Tulare, California and operates a 112 bed general acute care hospital facility, a home health agency, several rural health care clinics and other patient service programs. The District provides health care services primarily to individuals who reside in the local geographic area.

In January 2014 the District retained the services of HealthCare Conglomerates Associates ("HCCA") to manage and operate the healthcare services of the District. The agreement with HCCA requires that HCCA recruit and provide senior leadership. That agreement was replaced in May 2014 by a new long-term agreement with HCCA. The new 15-year agreement specifically named HCCA to manage the operations of the District. The agreement includes the obligation for HCCA to recruit and provide senior leadership to the District. On November 9, 2014, all District employees transitioned to HCCA employment. The District now leases the employees from HCCA. Transitioning to a private employer has provided an enhanced level of professionalism, efficiency, and overall improved labor productivity for the workforce serving the District.

Basis of preparation

The District's financial statements are presented in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operational revenues and expenses. The financial statement presentation, required by GASB Statements No. 34, 37 and 38 provides a full accrual basis, comprehensive, entity-wide perspective of the District's assets, results of operations and cash flows. The District follows the "business-type activities" reporting requirements of GASB Statement No. 34.

Effective July 1, 2012, the District adopted GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which brings the top category of authoritative governmental accounting and financial reporting literature together into a single publication

Management's discussion and analysis

GASB Statement 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the District's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis provided in the annual reports of organizations in the private sector.

1. Organization and Significant Accounting Policies (continued)

Use of estimates

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

Cash and cash equivalents

The District considers cash and cash equivalents to include certain investments in highly liquid debt instruments, when present, with an original maturity of a short-term nature or subject to withdrawal upon request.

Investments

Investments in participating interest-earning investment contracts are recorded at amortized cost, which approximates fair value for these investments, and all other investments are stated at fair value in the statements of net assets based upon published market quotations, where available. Investment income or loss (including realized gains and losses on investments, interest and dividends) and unrealized gains and losses on investments are reported in the statement of revenues, expenses and changes in net assets.

Investments held by the District are included within assets limited as to use as of June 30, 2015.

The District invests in various investment securities including corporate bonds, government securities and US treasury notes. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the accompanying financial statements.

Patient accounts receivable

Patient accounts receivable consist of amounts owed by various governmental agencies, insurance companies and private patients. The District manages its receivables by regularly reviewing the accounts, inquiring with respective payer's as to collectability and providing for allowances on their accounting records for estimated contractual adjustments and uncollectible accounts.

Inventories

Inventories are consistently reported from year to year at cost determined by average costs and replacement values which are not in excess of market. The District does not maintain levels of inventory values such as those under a first-in, first out or last-in, first out method.

1. Organization and Significant Accounting Policies (continued)

Assets limited as to use

Assets limited as to use include amounts designated by the Board of Directors for the replacement or purchases of capital assets, amounts required for future bond obligations and other specific purposes, and amounts held by trustees under specified agreements. See Footnote 7 for the composition of assets limited as to use at June 30, 2015 and 2014.

Capital assets

Capital assets are stated at cost when purchased or constructed, or, for donated property, at the asset's estimated fair value at the time the donated property is received. Depreciation is provided using the straight-line method over the assets' estimated useful lives ranging from 5 to 30 years. Depreciation for tenant improvements is provided using the straight-line method over the shorter of the assets estimated useful life or the lease term. Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered, the District, using its best estimates and projections, reviews for impairment the carrying value of long-lived identifiable assets to be held and used in the future. Any impairment losses identified are recognized when determined. Recoverability of assets is measured by comparison of the carrying amount of the asset to the net undiscounted future cash flows expected to be generated from the asset. If the future undiscounted cash flows are not sufficient to recover the carrying value of the assets, the assets carrying value is adjusted to fair value. As of June 30, 2015, the District determined that two capital assets were significantly impaired. The District purchased a surgical robot that was permanently removed from service as of March 2014. The District is seeking to sell the equipment and thus far has received one offer of $300,000. An impairment loss of $1,154,491 was required to adjust the value of the robot to its net realizable value. The District permanently closed the Woodville clinic in early 2015. The older modular building has little or no resale value, and the District is seeking to donate it to charity. An impairment loss of $211,539 was recorded related to this clinic building.

Depreciation and amortization expense was $4,127,841 and $4,402,184 for the years ending June 30, 2015 and 2014, respectively.

Bond issue costs

Bond issue costs are comprised of deferred financing cost of the issuance of revenue and general obligation bonds. Amortization of these issuance costs is computed by the straight-line method over the life of the repayment agreements. For current and advance refundings which result in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt, together with any unamortized deferred financing costs, is deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, in accordance with GASB 23. Amortization expense was $161,626 for both years ended June 30, 2015 and 2014.

1. Organization and Significant Accounting Policies (continued)

Compensated absences

The District's employees earn paid-time-off benefits at varying rates depending on years of service; Paid-time-off ("PTO") benefits accumulate up to a specified maximum level. Employees are paid for both accumulated vacation and other accumulated paid time off benefits if they leave either upon termination or before retirement. As of November 8, 2014, all district employees (with the exception of an ongoing severance arrangement) were terminated and all PTO benefits cashed out. Former district employees were hired by HCCA, who assumed responsibility for salaries, wages and benefits. The District is contractually obligated to reimburse HCCA for benefits, which includes PTO.

Risk management

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

Net position

Net position is comprised of the following three components:

Net investment in capital assets: consists of capital assets (both restricted and unrestricted), net of accumulated depreciation and reduced by the outstanding principal balances of any debt borrowings that were attributable to the acquisition, construction, or improvement of those capital assets.

Restricted net assets: consist of externally designated constraints placed on those net assets by creditors (such as through debt covenants), grantors, contributors, law or regulations of other governments or government agencies, or law or constitutional provisions or enabling legislation.

Unrestricted net assets: consists of net assets that do not meet the definition or criteria of the previous two categories.

Net patient service revenues

Net patient service revenues are reported in the period at the estimated net realized amounts from patients, third-party payors and others including estimated retroactive adjustments under reimbursement agreements with third-party programs. Normal estimation differences between final reimbursement and amounts accrued in previous years are reported as adjustments of current year's net patient service revenues.

1. Organization and Significant Accounting Policies (continued)

Charity care

The District accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the District. Essentially, these policies define charity services as those services for which no payment is anticipated. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenues. Services provided are recorded as gross patient service revenues and then written off entirely as an adjustment to net patient service revenues.

District tax revenues

The District receives approximately 2% of its financial support from property taxes. These funds are used to support operations and meet required debt service agreements. They are classified as non-operating revenue as the revenue is not directly linked to patient care. Property taxes are levied by the County on the District's behalf during the year, and are intended to help finance the District's activities during the same year. Amounts are levied on the basis of the most current property values on record with the County. The County has established certain dates to levy, lien, mail bills, and receive payments from property owners during the year. Property taxes are considered delinquent on the day following each payment due date.

Deferred revenue

The District records property tax revenues received in support of its general obligation bonds to the extent of the current year's debt service associated with these bonds. Property taxes and other funds received on behalf of the general obligation bonds that exceed the current year's debt service payments are recorded as deferred revenue, to be recognized in future years as the debt service payments become due.

Grants and contributions

From time to time, the District receives grants from various governmental agencies and private organizations. The District also receives contributions from related foundation and auxiliary organizations, as well as from individuals and other private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or capital acquisitions. These amounts, when recognized upon meeting all requirements, are reported as components of the statement of revenues, expenses and changes in net position.

1. Organization and Significant Accounting Policies (continued)

Operating revenues and expenses

The District's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the District's principal activity. Operating expenses are all expenses incurred to provide health care services, other than financing costs. Nonoperating revenues and expenses are those transactions not considered directly linked to providing health care services.

New accounting pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application* ("GASB No. 72"), which is effective for financial statements for periods beginning after June 15, 2015. GASB No. 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The District is currently evaluating the impact of the adoption of GASB No. 72 for the fiscal year ending June 30, 2016.

In June 2015, the GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments ("GASB No. 76"), which is effective for financial statements for periods beginning after June 15, 2015. The objective of GASB No. 76 is to identify, in the context of the current governmental financial reporting environment, the hierarch of generally accepted accounting principles ("GAAP"). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statements reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The District is currently evaluating the impact of the adoption of GASB 76 for the fiscal year ending June 30, 2016.

2. Cash - Custodial Credit Risk

As of June 30, 2015 and 2014, the District had deposits invested in various financial institutions in the form of operating cash and cash equivalents amounting to $18,113,754 and $10,568,946, respectively. All of these funds were held in deposits, which are collateralized in accordance with the California Government Code (CGC), except for $250,000 per account that is federally insured.

2. Cash - Custodial Credit Risk (continued)

Under the provisions of the CGC, California banks and savings and loan associations are required to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal to at least 110% of the District's deposits. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits. The pledged securities are held by the pledging financial institution's trust department in the name of the District.

3. Investments

Interest rate risk

The District invests in various investment securities including corporate bonds, government securities and US treasury notes, which are classified as assets limited as to use.

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District does not have any policies specifically addressing interest rate risk.

Credit risk

The District's credit rating risk is governed by Section 53601 of the California Government Code, which, among others, limits investments in money market mutual funds to those funds with the highest ranking by at least one of the national rating agencies and investments in corporate bonds are limited to those with a minimum ranking of A by at least one national rating agencies. The District did not hold any investments at June 30, 2015 and 2014 that had ratings of less than A by national rating agencies. There are no investment limits on the securities of the U.S. Treasury as these investments are backed by the full faith and credit of the United States government.

4. Net Patient Service Revenues

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

4. Net Patient Service Revenues (continued)

Medicare

Payments for inpatient acute care services rendered to Medicare program beneficiaries are based on prospectively determined rates, which vary according to the patient diagnostic classification system. Outpatient services are generally paid under an outpatient classification system subject to certain limitations. The District is subject to cost reimbursable services in rural health care services. Filed cost reports are subject to final settlements determined after submission of the annual cost reports and audits thereof by the Medicare fiscal intermediary. At June 30, 2015, cost reports through June 30, 2012 have been final settled.

Medi-Cal

For traditional Medi-Cal patients, as of January 2014, the state of California reimburses based on an APR-DRG methodology, which varies according to a patient diagnostic classification system and is roughly analogous to the payment system for traditional Medicare patients. Prior to January 2014, the District was paid based on a cost reimbursement based model at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by Medi-Cal. At June 30, 2015, cost reports through June 30, 2011 have been final settled. Medi-Cal managed care services are paid on a pre-determined rate and are not subject to cost reimbursement.

Other

Payments for services rendered to other than Medicare and Medi-Cal patients are based on established rates or on agreements with certain commercial insurance companies, health maintenance organizations and preferred provider organizations which provide for various discounts from established rates.

Net patient service revenues summarized by service are as follows at June 30:

	2015	2014
Daily hospital services	$ 46,294,853	$ 40,656,736
Inpatient ancillary services	67,162,628	67,092,486
Outpatient services	139,956,455	139,135,921
Gross patient service revenues	253,413,936	246,885,143
Less deductions from revenue	(177,024,290)	(182,720,735)
Net patient service revenues	$ 76,389,646	$ 64,164,408

Medicare and Medi-Cal revenue accounts for approximately 74% and 71% of the District's gross patient revenues for 2015 and 2014, respectively. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by material amounts in the near term as final settlements are determined.

5. Patient Accounts Receivable and Concentration of Credit Risk

The District grants credit without collateral to its patients and third-party payors. Patient accounts receivable from government agencies represent the only concentrated group of credit risk for the District and management does not believe that there are any credit risks associated with these governmental agencies. Contracted and other patient accounts receivable consist of various payors including individuals involved in diverse activities, subject to differing economic conditions and do not represent any concentrated credit risks to the District.

Concentrations of patient accounts receivable are as follows at June 30:

	2015	2014
Medicare	$14,597,638	$ 8,010,169
Medi-Cal and Medi-Cal managed care	21,475,193	17,481,274
Other third party payors	11,557,063	7,231,136
Self-pay and other	1,255,972	2,374,565
Gross patient accounts receivable	48,885,866	35,097,144
Less allowances for contractual adjustments and bad debts	(38,324,310)	(28,063,433)
Net patient accounts receivable	$10,561,556	$ 7,033,711

6. Other Receivables

Other receivables as of June 30, 2015 and 2014 were comprised of the following:

	2015	2014
Advances to physicians	$1,315,615	$1,327,859
Tulare County property taxes	99,044	10,000
Net receivable from State disproportionate share and other programs	4,154,151	9,314,259
Grants receivable	656,429	169,652
Other receivables	502,865	285,020
Less allowance for doubtful accounts	(1,355,044)	(1,363,289)
	$5,373,060	$9,743,501

Advances to physicians are comprised of physician income guarantees and/or business loans to those physicians requiring assistance to begin a local practice. The District has entered into agreements with certain physicians whereby the District guarantees their income for a specified period of time. These agreements are structured so that if a physician maintains a practice in the area for a specified period of time, the income guarantee in excess of collections may be forgiven in compliance with all federal and State laws and regulations. The allowance for doubtful accounts is primarily attributed to three physician advances that are potentially uncollectible.

7. Assets Limited as to Use

Assets limited as to use as of June 30, 2015 and 2014 were comprised of the following:

	2015	2014
Assets under bond indenture agreements for construction projects		
US Treasury Notes	$ -	$ 920,848
US government agency securities	-	250,613
Money market funds	-	6,013
	-	1,177,474
Assets held under bond indenture agreements		
Money market funds	1,921,309	1,866,152
Cash in County Treasury	10,424,044	9,856,995
Bond rebate receivable	731,926	642,455
	13,077,279	12,365,602
Total	13,077,279	13,543,076
Less restricted trust funds available for current debt service	(7,631,447)	(7,389,395)
Assets limited as to use - long-term	$5,445,832	$ 6,153,681

8. Capital Assets

Capital assets as of June 30, 2015 were comprised of the following:

	Balance at June 30, 2014	Transfers / Additions	Reclasses / Retirements	Balance at June 30, 2015
Land and land improvements	$ 3,301,872	$ -	$ -	$ 3,301,872
Buildings and improvements	43,053,827	378,203	(509)	43,431,521
Equipment	31,705,626	342,816	1,538,448	33,586,890
Construction-in-progress	124,622,309	7,648,851	4,152,565	136,423,725
Totals at historical cost	202,683,634	8,369,870	5,690,504	216,744,008
Less accumulated depreciation for				
Land improvements	(816,333)	(56,195)	10,312	(862,216)
Buildings and improvements	(27,108,236)	(1,570,046)	(222,403)	(28,900,685)
Equipment	(26,005,542)	(2,413,071)	(1,154,970)	(29,573,583)
Total accumulated depreciation	(53,930,111)	(4,039,312)	(1,367,061)	(59,336,484)
Capital assets, net	$148,753,523	$(4,330,558)	$4,323,443	$157,407,524

8. Capital Assets (continued)

Capital assets as of June 30, 2014 were comprised of the following:

	Balance at June 30, 2013	Transfers / Additions	Reclasses / Retirements	Balance at June 30, 2014
Land and land improvements	$ 3,202,881	$ 234,281	$ (135,291)	$ 3,301,871
Buildings and improvements	43,536,500	-	(482,673)	43,053,827
Equipment	35,222,724	772,256	(4,289,354)	31,705,626
Construction-in-progress	106,803,093	18,589,762	(770,544)	124,622,311
Totals at historical cost	188,765,198	19,596,299	(5,677,862)	202,683,635
Less accumulated depreciation for				
Land improvements	(974,948)	(79,499)	238,114	(816,333)
Buildings and improvements	(26,624,151)	(1,445,062)	960,977	(27,108,236)
Equipment	(27,472,162)	(2,715,997)	4,182,616	(26,005,543)
Total accumulated depreciation	(55,071,261)	(4,240,558)	5,381,707	(53,930,112)
Capital assets, net	$133,693,937	$15,355,741	$ (296,155)	$148,753,523

9. Debt Borrowings

As of June 30, 2015 debt borrowings were as follows:

	2015	2014
General obligation bonds, election of 2005, series A (2007); interest at 4.00% to 4.65% due semiannually; principal due in annual amounts ranging from $15,000 on August 1, 2012 to $2,000,000 due on August 1, 2037; collateralized by tax revenues.	$14,910,000	$14,955,000
Series 2007 refunding revenue bonds; interest at 3.75% to 5.20% due semiannually; principal due in annual amounts ranging from $405,000 due on November 1, 2008 to $1,210,000 due on November 1, 2032; collateralized by District revenues.	14,725,000	15,230,000
General obligation bonds, election of 2005, series B (2009); interest at 6.45% to 8.00% due semiannually; principal due in annual amounts ranging from $100,000 on August 1, 2014 to $7,240,000 due on August 1, 2039; collateralized by tax revenues.	69,900,000	70,000,000

9. Debt Borrowings (continued)

	2015	2014
Note payable to a financial institution; interest at 1.913%; principal and interest payments of $104,938 Payable monthly through December, 2016; collateralized by equipment.	$ 1,860,586	$ 3,071,667
Equipment lease: Note payable to a financial institution; interest free; due throughout the year in amounts ranging from $593,413 on October 10, 2015 to $977,245 due on July 10, 2016; collateralized by equipment.	3,257,484	-
Equipment lease: Note payable to a financial institution; interest at 2.94%; principle and interest payments of $17,459 payable monthly through July 2017; collateralized by equipment.	425,086	597,899
Total debt borrowings	105,078,156	103,854,566
Less current maturities of debt borrowings	(4,526,662)	(2,036,139)
	$100,551,494	$101,818,427

Future interest due and principal maturities of debt borrowings, at June 30, 2015 are as follows:

	Interest	Principal	Total
2016	$ 5,168,010	$ 4,526,662	$ 9,694,672
2017	5,100,339	2,774,077	7,874,416
2018	5,045,742	1,152,417	6,198,159
2019	4,991,341	1,305,000	6,296,341
2020	4,928,113	1,500,000	6,428,113
2021 - 2025	23,224,800	10,930,000	34,154,800
2026 - 2030	19,237,968	18,740,000	37,977,968
2031 - 2035	13,079,576	28,240,000	41,319,576
2036 - 2040	4,674,803	39,910,000	40,584,803
	$85,450,692	$105,078,156	$190,528,848

The Series 2007 refunding revenue bonds require that the District maintain a long-term debt service coverage ratio of not less than 1.25 times, or 1.10 times if the District maintains 50 days or greater cash on hand. For the year ended June 30, 2015, the District did meet the debt service coverage ratio requirement.

The interest payments for the general obligation bonds issued in 2009 are subsidized over the life of the issue by a U.S. Government stimulus program entitled "Build America Bonds" by approximately 32%, leaving the tax revenues to cover approximately 68%.

9. Debt Borrowings (continued)

In August 2014, Fitch Ratings affirmed the "B" rating of the $15.2 million refunding revenue bonds, series 2007. In August 2015, Fitch Ratings upgraded the bonds' rating to "BB-", citing operational and financial turnarounds for the hospital district. "Following three years of large operating losses, TRMC posted positive monthly operating income since April 2014," states a Fitch press release, adding that the district had an operating margin of 10.6 percent in fiscal 2015, along with financial growth and better control of expenses. Fitch analysts credited the turnaround to HealthCare Conglomerate Associates contracting to take over Tulare Regional Medical Center and its related operations in January of last year.

10. Employees' Retirement Plans

The "Tulare Local Hospital District Money Purchase Pension Plan" (the Retirement Plan) is a defined contribution money purchase pension plan established by the District to provide retirement benefits for substantially all District employees. The annual contribution to the Retirement Plan by the District is determined based on a percentage of the compensation paid to eligible employees and varies for each participant based on their respective years of employment at the District. In order to be eligible to participate, the District has required that employees agree to contribute to a deferred compensation arrangement. The required employee contributions have been treated as contributed under a deferred compensation arrangement under the Internal Revenue Code Section 457.

The District has also established the "Tulare Local Hospital District Social Security Alternative Savings Plan" (the SSA Plan) to provide retirement benefits to employees as an alternate method of pension and other benefit opportunities similar to those provided by Social Security. The SSA Plan is available to all employees of the District who would otherwise have been covered by Social Security. The District and employee level of contributions to the SSA Plan depend on the employees' most recent date of employment and differentiate between those employed prior to 1987 and later years, based on certain regulations.

Originally, the employee contributions to the SSA Plan were treated as contributions to a deferred compensation arrangement under the Internal Revenue Code Section 457. Effective January 1, 1987, the employee contributions have been treated as "pick-up" contributions under the Internal Revenue Code Section 414(h)(2).

As of November 8, 2014, all district employees (with the exception of an ongoing severance arrangement) were terminated. The above-named plans have not been terminated. Former District employees may maintain their individual account enrollments, though no further contributions are being made by the District after November 8, 2014. The District's contribution to all plans for the years ended June 30, 2015 and 2014 was approximately $434,000 and $1,280,000, respectively.

11. Post -Retirement Benefits

In years past, the District's SSA Plan provided for post-retirement health care benefits for employees who retire on or after age 55 and prior to July 31, 1998, with at least five years of service at the District. Under this program, the District reimburses eligible health care expenses for the retirees. Health care benefits are provided until the retiree is eligible for the Medicare program.

The District was also required to purchase Part A coverage under the Medicare Program for those eligible retirees who were hired between January 1, 1983 and April 1, 1986. During that period, and under the conditions of the SSA Plan, the District was not required to withhold social security payroll taxes from its employees in order to fund their respective Medicare future benefit. Regulations changed effective April 1, 1986, which required the funding to commence again for any new hire after the effective date. As a result of this "three-year" period, the SSA Plan requires the District provide Part A coverage for these employees upon acceptance into the Medicare Program. The District is not required to purchase Part A coverage if the retiree is eligible for the Medicare Program either through credits gained before January 1, 1983, employment credits at another place of employment, or eligibility through the retiree's current or former spouse.

As of November 8, 2014, all District employees (with the exception of an ongoing severance arrangement) were terminated. There is no further obligation for the District to provide this benefit.

12. Commitments and Contingencies

Construction-in-progress

As of June 30, 2015, the District had recorded $133,571,803 as construction-in-progress representing cost capitalized of $129,647,955 for the "Tower Project" and $3,934,848 for other various remodeling, major repair, equipment installation and other expansion projects on the District's premises. The District capitalized related interest expense, net of interest earnings on capital related funding, to the District expansion project of approximately $5,248,000 for the year ending June 30, 2015. Estimated costs to complete all projects as of June 30, 2015 are approximately $55 million.

As to the ongoing construction of the four-story, 115,000 square foot "Tower Project" specifically, the District entered into a construction contract March 2010 and construction began May 2010. The original completion date was December 2012, however due to delays caused by several setbacks, the new completion date is now projected for approximately 14-16 months after additional financing is secured. The District Board has unanimously agreed to pursue a public financing to complete the tower. A general obligation bond to generate the funding to complete the tower (as anticipated in the original Official Statement) is planned to be presented for public vote in May 2016.

12. Commitments and Contingencies (continued)

Construction-in-progress (continued)

At June 30, 2015, the bond project fund was fully exhausted. As of the date of this report, the District's Board of Directors is actively reviewing various options related to securing financing to complete the "Tower Project". Management believes they will successfully obtain the necessary financing to complete the project.

Operating leases

The District leases various equipment and facilities under operating leases expiring at various dates. Total building and equipment rent expense for the year ended June 30, 2015 was $789,962. Approximate future minimum lease payments for the succeeding years under operating leases as of June 30, 2015, which have initial or remaining lease terms in excess of one year are as follows:

Year Ending June 30,	Operating Leases
2016	$289,000
2017	241,000
2018	6,000
2019	6,000
2020	3,000
Total minimum lease payments	$545,000

Employee health insurance

The District provided health benefits to employees through a self-funded plan financed by the District operations. Estimated liabilities are recorded for claims which most likely have been incurred but are not yet reported for claims processing and payment (IBNR). Commercial insurance is provided for "stop-loss" coverage for significant claims. As of November 8, 2014, all district employees (with the exception of an ongoing severance arrangement) were terminated. Former district employees were hired by HCCA, who assumed responsibility for salaries, wages and benefits. The District is contractually obligated to reimburse HCCA for benefits, which includes health insurance as expenditures occur. Therefore, as of June 30, 2015, the District has no additional IBNR liability.

12. Commitments and Contingencies (continued)

Workers compensation program

The District was a participant in the Association of California Hospital Districts Alpha Fund which administers a self-insured worker's compensation plan for participating hospital employees of its member hospitals. That participation ended June 30, 2014, at which time the District chose Berkshire Hathaway as the replacement. As of November 8, 2014, all district employees (with the exception of an ongoing severance arrangement) were terminated. Former District employees were hired by HCCA, who assumed responsibility for salaries, wages and benefits. The District is contractually obligated to reimburse HCCA for benefits, which includes workers compensation insurance as expenditures occur.

Medical malpractice coverage

The District has joined together with other providers of health care services to form Beta Healthcare Group ("Beta"), a public entity risk pool (the "Pool") currently operating as a common risk management and insurance program for its members. The District purchases medical malpractice insurance from the Pool under a claims-made policy. The District pays an annual premium to the Pool for its torts insurance coverage. The District purchases excess liability insurance through a commercial insurer for amounts in excess of the coverage provided under Beta. The Pool's governing agreements specifies that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. At June 30, 2015, the District has accrued $282,000 for estimated malpractice costs.

Health Care Reform

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, and government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with fraud and abuse as well as other applicable government laws and regulations. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

13. Litigation

Construction delays

The District entered into a construction contract with Harris Construction Co., Inc. (Harris) for the construction of the "Tower Project" (the Project) in March 2010. Construction began around May, 2010 and is presently ongoing. In early 2012, the District was informed by Harris that there were issues involving delaminated concrete within the Project that required remediation efforts. It was the position of the District that Harris was responsible for the concrete issue which has caused substantial delay to the Project. Harris contended that other delays were caused by alleged errors, omissions and deficiencies in the Project plans and drawings which have resulted in additional costs and other related impacts for Harris. The matter was settled with consideration given to both parties. The District is paying Harris approximately $6.9 million over a 48-month period, which began August 1, 2014 and incorporates a $33,750 payment each month, along with four quarterly installment payments totaling $1.0M. The settlement also required Harris to disengage from the project and dismiss all litigation against the District. Presently, the Project completion date as required by the Project is now projected for approximately 14-16 months after additional financing is secured.

Other litigation

The District is involved in numerous other litigation matters which generally arise in the normal course of doing business. After consultation with legal counsel, management estimates that these other matters existing as of June 30, 2015 will be resolved without material adverse effect on the District's future financial position, results from operations or cash flows.

14. Related Party Transactions

The Tulare Hospital Foundation (the Foundation), has been established as a nonprofit public benefit corporation under the Internal Revenue Code Section 501(c)(3) to solicit contributions on behalf of the District. Substantially all funds raised except for funds required for operation of the Foundation, are distributed to the District or held for the benefit of the District. The Foundation's funds, which represent the Foundation's unrestricted resources, are distributed to the District in amounts and in periods determined by the Foundation's Board of Trustees, who may also restrict the use of funds for District property and equipment replacement or expansion or other specific purposes. The Foundation, as specified in its mission statement, contributes annually, both in service and in funding, towards the healthcare of the residents of the Tulare healthcare service area, including the District. The Tulare District Hospital Auxiliary (the Auxiliary) is a similar non-profit organization established to help solicit contributions for the District and also donates funds towards the healthcare effort of the Tulare area, including the District.

15. Uncertainties

In previous financial statements over the last several years, the Corporate Integrity Agreement has been referenced. On October 24, 2014 the Office of Inspector General (OIG) of the Department of Health and Human Services officially notified the District that it successfully completed the five year term of the Corporate Integrity Agreement. This was originally entered into in 2009 and has now been formally lifted.

16. Management Services Agreement

As discussed further under Note 1, Reporting Entity, the District has retained the services of HealthCare Conglomerates Associates ("HCCA") to manage and operate the healthcare services of the District. In addition, all District employees are now leased from HCCA. The District paid $2,679,998 in fees to HCCA for providing management services during 2015. The District reimbursed HCCA a total of $17,197,442 for personnel costs provided during the year ending June 30, 2015.

17. Continued Hospital Operations

The District suffered operating losses from hospital operations in prior years. During the prior year, however, financial results began to turn around. This was due to the District retaining the services of HCCA in January 2014 to manage hospital operations. HCCA brought in the services of nationally recognized experts in hospital turnarounds to guide the financial and operational improvement process. Those experts developed and implemented operational improvement plans which have had a significant positive financial impact as compared to prior year results. The District anticipates the positive financial trends will continue under HCCA leadership.

18. Subsequent Events

The District has evaluated subsequent events through December 8, 2015, the date the financial statements were available to be issued. No subsequent events have occurred that would have a material impact on the presentation of the District's financial statements.

SUPPLEMENTARY INFORMATION

TULARE REGIONAL MEDICAL CENTER
Information Related to Charity Care and Community Support
June 30, 2015 and 2014

Charity Care and Community Support

The District maintains records to identify and monitor the level of charity care and community service it provides. These records include: the amount of charges foregone, (based on established rates), for services and supplies furnished under its charity care and community service policies, the estimated cost of those services and supplies, and statistics quantifying the level of charity care as a percentage of expenses of the District as a whole. The following is a summary of the District's charity care and community benefit expense for the year ended June 30, 2015, in terms of services to the poor and benefits to the broader community:

	2015	2014
Benefits for the poor		
Traditional charity care	$ 223,009	$ 960,090
Unpaid Medi-Cal and County indigent program charges	93,217,269	86,545,918
Total quantifiable benefits for the poor	93,440,278	87,506,008
Benefits for the broader community		
Unpaid Medicare program charges	60,713,966	27,887,910
Total quantifiable benefits for the broader community	60,713,966	27,887,910
Total quantifiable community benefits	$154,154,244	$115,393,918