



Continuing Disclosure

Quarterly Financial Report

Six Months Ended June 30, 2014

(Unaudited)

**TEXAS HEALTH RESOURCES
SYSTEM REVENUE BONDS**

**TARRANT COUNTY CULTURAL EDUCATION FACILITIES
FINANCE CORPORATION**

**TEXAS HEALTH RESOURCES SYSTEM REVENUE BONDS,
(TAXABLE) SERIES 2012A**

Term Bonds

| <u>Maturity</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>CUSIP</u> |
|-----------------|-------------------------|----------------------|--------------|
| 11/15/2047 | \$100,000,000 | 4.366% | 87638T EG4 |

**TEXAS HEALTH RESOURCES SYSTEM REVENUE BONDS,
SERIES 2012B**

Variable Rate Demand Bonds

| <u>Maturity</u> | <u>Principal Amount</u> | <u>CUSIP</u> |
|-----------------|-------------------------|--------------|
| 11/15/2047 | \$50,000,000 | 87638T EH2 |

**TEXAS HEALTH RESOURCES SYSTEM REVENUE BONDS,
SERIES 2010**

Term Bonds

| <u>Maturity</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>CUSIP</u> |
|-----------------|-------------------------|----------------------|--------------|
| 11/15/2037 | \$20,220,000 | 5.000% | 87638T EF6 |
| 11/15/2040 | 137,330,000 | 5.000% | 87638T EE9 |

**TEXAS HEALTH RESOURCES TAX-EXEMPT BANK LOANS
2010**

Variable Rate

| <u>Bank</u> | <u>Maturity</u> | <u>Principal Amount</u> |
|------------------------------|-----------------|-------------------------|
| Bank of America, N.A. | 12/1/2035 | \$67,500,000 |
| Compass Mortgage Corporation | 12/1/2033 | 67,500,000 |

**TEXAS HEALTH RESOURCES
SYSTEM REVENUE BONDS**

**TARRANT COUNTY CULTURAL EDUCATION FACILITIES
FINANCE CORPORATION**

**TEXAS HEALTH RESOURCES SYSTEM REVENUE BONDS,
SERIES 2008**

Variable Rate Demand Bonds

| | Series 2008A CUSIP No. 87638T CG6 | Series 2008B CUSIP No. 87638T CH4 | Series 2008C CUSIP No. 87638T CJ0 |
|------------|---|---|---|
| Maturity | Principal Amount | Principal Amount | Principal Amount |
| 11/15/2027 | \$8,420,000 | \$6,475,000 | \$7,790,000 |
| 11/15/2028 | 8,670,000 | 6,695,000 | 8,050,000 |
| 11/15/2029 | 8,960,000 | 6,950,000 | 8,340,000 |
| 11/15/2030 | 9,275,000 | 7,140,000 | 8,660,000 |
| 11/15/2031 | 9,560,000 | 7,435,000 | 8,960,000 |
| 11/15/2032 | 9,890,000 | 7,650,000 | 9,335,000 |
| 11/15/2033 | 10,225,000 | 7,940,000 | 9,635,000 |

**TEXAS HEALTH RESOURCES SYSTEM REVENUE BONDS,
SERIES 2007A**

Serial Bonds

| Maturity | Principal Amount | Interest Rate | CUSIP |
|-----------|------------------|---------------|------------|
| 2/15/2015 | \$14,230,000 | 5.000% | 87638T AF0 |
| 2/15/2016 | 21,335,000 | 5.000% | 87638T AG8 |
| 2/15/2017 | 22,235,000 | 5.000% | 87638T AH6 |
| 2/15/2018 | 23,090,000 | 5.000% | 87638T AJ2 |
| 2/15/2019 | 24,105,000 | 5.000% | 87638T AK9 |
| 2/15/2020 | 29,145,000 | 5.000% | 87638T AL7 |
| 2/15/2021 | 30,850,000 | 5.000% | 87638T AM5 |
| 2/15/2022 | 32,430,000 | 5.000% | 87638T AN3 |
| 2/15/2023 | 34,095,000 | 5.000% | 87638T AP8 |
| 2/15/2024 | 35,845,000 | 5.000% | 87638T AQ6 |

Term Bonds

| Maturity | Principal Amount | Interest Rate | CUSIP |
|-----------|------------------|---------------|------------|
| 2/15/2026 | \$77,075,000 | 5.000% | 87638T AR4 |
| 2/15/2036 | 198,650,000 | 5.000% | 87638T AS2 |

**TEXAS HEALTH RESOURCES
SYSTEM REVENUE BONDS**

**TARRANT COUNTY CULTURAL EDUCATION FACILITIES
FINANCE CORPORATION**

**TEXAS HEALTH RESOURCES SYSTEM REVENUE BONDS,
SERIES 2007B**

Term Bonds

| <u>Maturity</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>CUSIP</u> |
|-----------------|-------------------------|----------------------|--------------|
| 11/15/2042 | \$47,880,000 | 5.000% | 87638T BD4 |
| 11/15/2047 | 52,120,000 | 5.000% | 87638T BE2 |

**TEXAS HEALTH RESOURCES
SYSTEM REVENUE BONDS**

WARNING

This document is marked with a dated date and speaks only as of that dated date. Readers are cautioned not to assume that any information has been updated beyond the dated date except as to any portion of the document that expressly states that it constitutes an update concerning specific recent events occurring after the dated date of the document. Any information contained in the portion of the document indicated to concern recent events speaks only as of its date. Texas Health Resources ("THR") expressly disclaims any duty to provide an update of any information contained in this document. The information contained in this document may include "forward looking statements" by using forward-looking words such as "may," "will," "should," "expects," "believes," "anticipates," "estimates," or others. You are cautioned that forward-looking statements are subject to a variety of uncertainties that could cause actual results to differ from the projected results. Those risks and uncertainties include general economic and business conditions, receipt of funding grants, and various other factors which are beyond our control. Because we cannot predict all factors that may affect future decisions, actions, events, or financial circumstances, what actually happens may be different from what THR includes in forward-looking statements.

THR is obligated to provide certain updated financial information and operating data quarterly as specified in the Master Indenture. This document is designed to fulfill that obligation. It does not represent a complete set of financial statements as stipulated by U.S. generally accepted accounting principles.

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TEXAS HEALTH RESOURCES
QUARTERLY CONSOLIDATED CONDENSED FINANCIAL INFORMATION
(Dollars in Thousands)

| | Mar 31 | Jun 30 | Sep 30 | Dec 31 | Total Year |
|---|------------|------------|------------|------------|--------------|
| Fiscal Year 2014 | | | | | |
| (Unaudited) | | | | | |
| Net patient service revenue | \$ 900,025 | \$ 975,576 | \$ - | \$ - | \$ 1,875,601 |
| Other operating revenue | 42,002 | 47,456 | - | - | 89,458 |
| Total operating revenue | 942,027 | 1,023,032 | - | - | 1,965,059 |
| Operating expenses | 907,661 | 949,610 | - | - | 1,857,271 |
| Operating income | 34,366 | 73,422 | - | - | 107,788 |
| Nonoperating gains, net | 38,928 | 75,078 | - | - | 114,006 |
| Revenue and gains in excess of expenses and losses before income taxes | 73,294 | 148,500 | - | - | 221,794 |
| Less: Income tax expense (benefit) ¹ | 1,616 | (17,328) | - | - | (15,712) |
| Revenue and gains in excess of expenses and losses | 71,678 | 165,828 | - | - | 237,506 |
| Less: Revenue and gains in excess of expenses and losses attributable to non-controlling interest | 10,595 | 12,651 | - | - | 23,246 |
| Revenue and gains in excess of expenses and losses from continuing operations attributable to THR | \$ 61,083 | \$ 153,177 | \$ - | \$ - | \$ 214,260 |
| Fiscal Year 2013 | | | | | |
| (Unaudited) | | | | | |
| Net patient service revenue | \$ 869,259 | \$ 907,462 | \$ 931,082 | \$ 935,512 | \$ 3,643,315 |
| Other operating revenue | 43,951 | 46,307 | 51,504 | 61,170 | 202,932 |
| Total operating revenue | 913,210 | 953,769 | 982,586 | 996,682 | 3,846,247 |
| Operating expenses | 871,672 | 884,057 | 869,392 | 901,847 | 3,526,968 |
| Operating income | 41,538 | 69,712 | 113,194 | 94,835 | 319,279 |
| Nonoperating gains, net | 129,518 | 22,487 | 148,622 | 157,115 | 457,742 |
| Revenue and gains in excess of expenses and losses before income taxes | 171,056 | 92,199 | 261,816 | 251,950 | 777,021 |
| Less: Income tax expense | 2,346 | 2,663 | 3,190 | 1,094 | 9,293 |
| Revenue and gains in excess of expenses and losses | 168,710 | 89,536 | 258,626 | 250,856 | 767,728 |
| Less: Revenue and gains in excess of expenses and losses attributable to non-controlling interest | 14,230 | 14,732 | 14,001 | 20,201 | 63,164 |
| Revenue and gains in excess of expenses and losses from continuing operations attributable to THR | \$ 154,480 | \$ 74,804 | \$ 244,625 | \$ 230,655 | \$ 704,564 |

¹ THR takes certain positions regarding the taxable nature of earnings from its for-profit joint ventures and carries a reserve for tax positions when there is uncertainty the position will be sustained on examination. In June 2014, THR received notification that the Internal Revenue Service had upheld THR's position on one such joint venture, and THR therefore released the reserve for this tax position of approximately \$19,410,000.

TEXAS HEALTH RESOURCES
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

| | December 31, 2013 | June 30, 2014 |
|---|------------------------------|----------------------------|
| | (Audited) | (Unaudited) |
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 334,539 | \$ 407,040 |
| Short-term investments | 1,436 | 1,436 |
| Receivables - | | |
| Patient, net | 402,477 | 387,327 |
| Other, net | 131,665 | 126,649 |
| Assets limited as to use | 226,762 | 214,652 |
| Other current assets | 106,870 | 114,805 |
| Total current assets | <u>1,203,749</u> | <u>1,251,909</u> |
| Assets Limited as to Use | 2,778,059 | 2,899,583 |
| Property and Equipment, net | 1,781,225 | 1,774,677 |
| Investments in Unconsolidated Affiliates | 142,001 | 171,850 |
| Goodwill and Intangible Assets, net | 163,708 | 164,328 |
| Other Assets, net | 34,336 | 35,759 |
| Total assets | <u><u>\$ 6,103,078</u></u> | <u><u>\$ 6,298,106</u></u> |
| Liabilities and Net Assets | | |
| Current Liabilities: | | |
| Current portion of long-term debt | \$ 214,839 | \$ 215,703 |
| Accounts payable | 186,843 | 141,284 |
| Estimated third-party payor settlements | 39,790 | 36,580 |
| Accrued salaries, wages, and employee benefits | 225,313 | 237,603 |
| Other accrued liabilities | 163,985 | 174,623 |
| Total current liabilities | <u>830,770</u> | <u>805,793</u> |
| Long-Term Debt, net of current portion | 1,281,952 | 1,270,195 |
| Other Noncurrent Liabilities | 63,379 | 66,955 |
| Total liabilities | <u>2,176,101</u> | <u>2,142,943</u> |
| Net Assets: | | |
| Net assets of THR: | | |
| Unrestricted | 3,692,334 | 3,919,308 |
| Temporarily restricted | 94,454 | 93,567 |
| Permanently restricted | 63,398 | 64,240 |
| Total net assets of THR | <u>3,850,186</u> | <u>4,077,115</u> |
| Noncontrolling ownership interest in equity of consolidated affiliates - unrestricted | 76,791 | 78,048 |
| Total net assets | <u>3,926,977</u> | <u>4,155,163</u> |
| Total liabilities and net assets | <u><u>\$ 6,103,078</u></u> | <u><u>\$ 6,298,106</u></u> |

TEXAS HEALTH RESOURCES
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
(Dollars in Thousands)

| | Six Months Ended June 30, | |
|---|----------------------------------|--------------|
| | 2013 | 2014 |
| | (Unaudited) | (Unaudited) |
| Operating Revenue: | | |
| Net patient service revenue before provision for bad debts | \$ 1,945,995 | \$ 2,025,457 |
| Less: Provision for bad debts | 169,274 | 149,856 |
| Net patient service revenue | 1,776,721 | 1,875,601 |
| Equity in earnings of unconsolidated affiliates | 18,795 | 24,174 |
| Other operating revenue | 71,463 | 65,284 |
| Total operating revenue | 1,866,979 | 1,965,059 |
| Operating Expenses: | | |
| Salaries, wages, and employee benefits | 956,664 | 999,403 |
| Supplies | 308,293 | 308,705 |
| Other operating expenses | 369,215 | 416,297 |
| Depreciation and amortization | 94,403 | 103,183 |
| Interest expense | 27,154 | 29,683 |
| Total operating expenses | 1,755,729 | 1,857,271 |
| Operating Income | 111,250 | 107,788 |
| Nonoperating Gains (Losses): | | |
| Net realized investment income and gains | 124,976 | 124,775 |
| Net unrealized gains (losses) on investments | 25,095 | (13,318) |
| Equity in earnings of unconsolidated affiliates, nonoperating | 1,241 | 2,059 |
| Other, net | 693 | 490 |
| Total nonoperating gains, net | 152,005 | 114,006 |
| Revenue and Gains In Excess of Expenses and Losses before Income Taxes | 263,255 | 221,794 |
| Less: Income Tax Expense (Benefit) ¹ | 5,009 | (15,712) |
| Revenue and Gains In Excess of Expenses and Losses | 258,246 | 237,506 |
| Less: Revenue and Gains in Excess of Expenses and Losses Attributable to Non-Controlling Interest | 28,962 | 23,246 |
| Revenue and Gains In Excess of Expenses and Losses from Continuing Operations Attributable to THR | 229,284 | 214,260 |

(Continued)

¹ Refer to Note 1 on Page 1.
August 15, 2014

TEXAS HEALTH RESOURCES
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS, Continued
(Dollars in Thousands)

| | Six Months Ended June 30, | |
|---|----------------------------------|-------------------|
| | 2013 | 2014 |
| | (Unaudited) | (Unaudited) |
| Other Changes in Unrestricted Net Assets: | | |
| Net unrealized gains (losses) on investments, other than trading securities | \$ (22,300) | \$ 7,169 |
| Net assets released from restrictions used for purchase of property and equipment | 290 | 7,244 |
| Change in fair value of interest rate swap agreements | 2,411 | 213 |
| Transfers to permanently restricted net assets | (200) | - |
| Other changes, net | 370 | (1,912) |
| | <u>209,855</u> | <u>226,974</u> |
| Increase in Unrestricted Net Assets | | |
| Changes in Temporarily Restricted Net Assets: | | |
| Contributions received for purchase of property and equipment | 707 | 360 |
| Contributions received for operations | 5,104 | 7,498 |
| Net realized investment income | 3,738 | 3,467 |
| Net unrealized gains (losses) on investments | 910 | 121 |
| Change in value of split-interest agreements | (58) | 125 |
| Net assets released from restrictions | (4,826) | (12,458) |
| | <u>5,575</u> | <u>(887)</u> |
| Increase (Decrease) in Temporarily Restricted Net Assets | | |
| Changes in Permanently Restricted Net Assets: | | |
| Contributions | 3,540 | 771 |
| Unrealized investment losses on beneficial interest in perpetual trust, net | 250 | 71 |
| Transfers from unrestricted net assets | 200 | - |
| | <u>3,990</u> | <u>842</u> |
| Increase in Permanently Restricted Net Assets | | |
| Increase in Total Net Assets of THR | <u>\$ 219,420</u> | <u>\$ 226,929</u> |

TEXAS HEALTH RESOURCES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

| | Six Months Ended June 30, | |
|--|----------------------------------|------------------|
| | 2013 | 2014 |
| | (Unaudited) | (Unaudited) |
| Cash Flows From Operating Activities: | | |
| Increase in net assets of THR | \$ 219,420 | \$ 226,929 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities - | | |
| Release of income tax liability | - | (19,410) |
| Net unrealized (gains) losses on investments | (3,955) | 5,957 |
| Net realized gains on investments | (109,698) | (110,484) |
| Change in value of split-interest agreements | 58 | (125) |
| Provision for bad debts | 170,274 | 149,832 |
| Restricted contributions received for purchase of property and equipment | (707) | (360) |
| Depreciation and amortization | 94,403 | 103,183 |
| Amortization of bond premiums/discounts | (693) | (656) |
| Net (gain) loss on impairment and disposal of property and equipment | (71) | 302 |
| Equity in earnings of unconsolidated affiliates | (18,795) | (24,174) |
| Distributions from unconsolidated affiliates | 11,900 | 18,408 |
| Equity in earnings of unconsolidated affiliates, nonoperating | (1,241) | (2,059) |
| Change in fair value of interest rate swap agreements | (2,411) | (213) |
| Revenue and gains in excess of expenses and losses attributable to non-controlling interest | 28,962 | 23,246 |
| (Increase) decrease in: | | |
| Receivables, patient, net | (180,398) | (134,706) |
| Receivables, other, net | (26,196) | 5,040 |
| Goodwill & intangible assets, net | (2,735) | (3,262) |
| Other assets, net | (14,270) | (9,737) |
| Increase (decrease) in: | | |
| Accounts payable and accrued liabilities | (5,869) | (6,333) |
| Other noncurrent liabilities | (429) | 4,312 |
| Net cash provided by operating activities | <u>157,549</u> | <u>225,690</u> |
| Cash Flows From Investing Activities: | | |
| Purchases of property and equipment, net | (124,311) | (94,758) |
| Proceeds from disposal of property and equipment | 818 | 463 |
| Investment in unconsolidated affiliates, net | (3,217) | (22,024) |
| Purchases of short-term investments and assets limited as to use, net | <u>(15,196)</u> | <u>(4,762)</u> |
| Net cash used in investing activities | <u>(141,906)</u> | <u>(121,081)</u> |

(Continued)

TEXAS HEALTH RESOURCES
CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
(Dollars in Thousands)

| | Six Months Ended June 30, | |
|--|----------------------------------|-------------------|
| | 2013 | 2014 |
| | (Unaudited) | (Unaudited) |
| Cash Flows From Financing Activities: | | |
| Proceeds from issuance of long-term debt | \$ 11,334 | \$ 13,672 |
| Debt issuance costs | (311) | - |
| Principal payments on capital lease obligations | (754) | (276) |
| Principal payments on long-term debt, net | (20,944) | (23,633) |
| Contributions from non-controlling interest holders | 873 | 2,912 |
| Distributions to non-controlling interest holders | (25,137) | (25,143) |
| Proceeds from restricted contributions received for purchase of property and equipment | 707 | 360 |
| | <u>(34,232)</u> | <u>(32,108)</u> |
| Net cash used in financing activities | (34,232) | (32,108) |
| Net Increase (Decrease) in Cash and Cash Equivalents | (18,589) | 72,501 |
| Cash and Cash Equivalents, beginning of year | 448,503 | 334,539 |
| Cash and Cash Equivalents, current | <u>\$ 429,914</u> | <u>\$ 407,040</u> |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid for interest | <u>\$ 28,352</u> | <u>\$ 27,733</u> |

**TEXAS HEALTH RESOURCES
OPERATING AND FINANCIAL DATA**

UTILIZATION OF SYSTEM FACILITIES

| Statistic | Six Months Ended June 30, | |
|---|----------------------------------|-------------|
| | 2013 | 2014 |
| Licensed Beds (at month-end) | 3,890 | 3,877 |
| Operated Beds in Service (at month-end) | 3,191 | 3,201 |
| Patient Days (inpatient) | 363,789 | 362,286 |
| Discharges (inpatient) | 76,861 | 76,496 |
| Average Length of Stay (days) | 4.7 | 4.7 |
| Average Daily Census ¹ | 2,010 | 2,002 |
| Percent Occupancy | 63.0% | 62.5% |
| Hospital Based Outpatient/Clinic Visits ² | 631,574 | 710,284 |
| Outpatient Gross Patient Service Revenue to Total Gross Patient Service Revenue ³ | 40.9% | 42.2% |

¹ Average Daily Census is calculated using 181 days for the six months ended June 30, 2013 and 2014.

² Includes hospital based outpatient clinic visits and other outpatient facilities' visits. Excludes physician office visits.

³ Excludes physician activities, which represent 10.8% and 10.0% of THR's consolidated net patient service revenue for the six months ended June 30, 2013 and 2014, respectively.

**SOURCES OF COMBINED GROSS PATIENT SERVICE REVENUES
(Excludes Physician Activities)**

| Payer Type | Fiscal Years Ended December 31, | | Six Months Ended |
|----------------------|--|---------------|-------------------------|
| | 2012 | 2013 | June 30, 2014 |
| Managed Care | 39.4% | 38.8% | 38.3% |
| Medicare | 29.7% | 28.5% | 28.6% |
| Medicare Managed | 12.4% | 14.3% | 15.3% |
| Medicaid | 2.4% | 2.4% | 2.7% |
| Medicaid Managed | 6.5% | 6.4% | 6.0% |
| Commercial Insurance | 0.5% | 0.6% | 0.5% |
| Uninsured | 9.1% | 9.0% | 8.6% |
| | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |

**TEXAS HEALTH RESOURCES
OPERATING AND FINANCIAL DATA
HISTORICAL LIQUIDITY – DAYS CASH ON HAND**

| | December 31, 2012 | December 31, 2013 | June 30, 2014 |
|---|------------------------------|------------------------------|--------------------------|
| | (Dollars in Thousands) | | |
| Cash and Cash Equivalents | \$ 448,503 | \$ 334,539 | \$ 407,040 |
| Short-Term Investments | 1,526 | 1,436 | 1,436 |
| Assets Limited as to Use - Internally Designated | <u>2,054,579</u> | <u>2,770,428</u> | <u>2,894,447</u> |
| Total Available Cash ¹ | <u>\$ 2,504,608</u> | <u>\$ 3,106,403</u> | <u>\$ 3,302,923</u> |
| Total Operating Expenses | \$ 3,436,015 | \$ 3,526,968 | \$ 1,857,271 |
| Plus - Income Taxes | 10,170 | 9,293 | (15,712) |
| Less - Depreciation and Amortization | <u>(185,161)</u> | <u>(192,846)</u> | <u>(103,183)</u> |
| Adjusted Total Operating Expenses | <u>\$ 3,261,024</u> | <u>\$ 3,343,415</u> | <u>\$ 1,738,376</u> |
| Average Daily Operating Expense ² | <u>\$ 8,910</u> | <u>\$ 9,160</u> | <u>\$ 9,604</u> |
| Days Cash Ratio (days) ³ | <u>281.1</u> | <u>339.1</u> | <u>343.9</u> |

¹ To provide for the purchase of the Series 2012B Bonds and Series 2008 A&B Bonds that are tendered and not remarketed, THR maintains a combination of unrestricted cash, cash equivalents, and high grade fixed income securities that may be sold for same day settlement in an amount (value at market) sufficient to purchase the entire principal amount of such bonds, if all tendered for purchase.

² Average Daily Operating Expense is calculated using 366 days for fiscal year ended December 31, 2012, 365 days for the fiscal year ended December 31, 2013, and 181 days for the six months ended June 30, 2014.

³ Total Available Cash divided by Average Daily Operating Expense.

**TEXAS HEALTH RESOURCES
OPERATING AND FINANCIAL DATA
HISTORICAL CAPITALIZATION – DEBT TO CAPITALIZATION RATIO**

| | Fixed or Variable | December 31, | | June 30, |
|--|----------------------|--------------|--------------|--------------|
| | | 2012 | 2013 | 2014 |
| (Dollars in Thousands) | | | | |
| Debt: | | | | |
| Series 2012A Bonds | Fixed | \$ 100,000 | \$ 100,000 | \$ 100,000 |
| Series 2012B Bonds ¹ | Variable | 50,000 | 50,000 | 50,000 |
| Series 2010 Bonds ² | Fixed | 152,143 | 152,242 | 152,293 |
| Bank Loans ³ | Variable | 97,976 | 135,000 | 135,000 |
| Series 2008A & B Bonds ¹ | Variable | 115,285 | 115,285 | 115,285 |
| Series 2008C Bonds ⁴ | Variable | 60,770 | 60,770 | 60,770 |
| Series 2007A Bonds ² | Fixed | 584,754 | 569,427 | 554,702 |
| Series 2007B Bonds ² | Fixed | 102,162 | 102,129 | 102,111 |
| Other Obligated Group Debt | Fixed | 2,002 | 1,556 | 1,320 |
| FMHP Term and Revolving Loans ⁵ | Combination | 93,809 | 87,841 | 84,728 |
| RRH Term and Revolving Loans ⁶ | Combination | 50,032 | 50,313 | 47,478 |
| HIP Term and Revolving Loans ⁷ | Combination | - | 28,500 | 29,442 |
| ACL Term and Revolving Loans ⁸ | Combination | 21,700 | 20,832 | 20,180 |
| Other Non-Obligated Group Debt | Combination | 24,182 | 22,896 | 32,589 |
| Total Debt | | \$ 1,454,815 | \$ 1,496,791 | \$ 1,485,898 |
| Unrestricted Net Assets of THR | | \$ 3,013,216 | \$ 3,692,334 | \$ 3,919,308 |
| Debt to Capitalization Ratio ⁹ | | 32.6% | 28.8% | 27.5% |

¹ Series 2012B and 2008A & B Bonds are demand securities supported by self-liquidity.

² Net of premium/discounts.

³ In November, 2010, THR entered into tax-exempt loan agreements with Bank of America, N.A. and Compass Mortgage Corporation permitting THR to draw an aggregate principal amount of \$135,000,000 (the "Bank Loans"). The unpaid principal balance of the Bank Loans may come due at the option of the respective banks at the end of each respective seven and ten year term. The Bank Loans bear interest at variable rates calculated as a percentage of LIBOR plus a spread.

⁴ Series 2008C Bonds are demand securities supported by a Standby Bond Purchase Agreement with JPMorgan Chase Bank, N.A. through November, 2015. If the Series 2008C Bonds are tendered for purchase and not remarketed (and are therefore purchased with funds drawn under the Standby Bond Purchase Agreement), then THR must repay the draw in equal quarterly installments over a period of three years.

⁵ FMHP is Flower Mound Hospital Partners, LLC (d/b/a Texas Health Presbyterian Hospital Flower Mound).

⁶ RRH is Rockwall Regional Hospital, LLC (d/b/a Texas Health Presbyterian Hospital Rockwall).

⁷ HIP is Health Imaging Partners, LLC.

⁸ ACL is AMH Cath Labs, LLC (d/b/a Texas Health Heart & Vascular Hospital Arlington).

⁹ Total Debt divided by Total Debt plus Unrestricted Net Assets of THR.

Note: THR entered into credit agreements for general corporate purposes in December, 2012, with Wells Fargo Bank N.A. and U.S. Bank N.A. for lines of credit of \$75,000,000 each (the "Credit Agreements"). Under the Credit Agreements, outstanding balances under the lines of credit generally bear interest at variable rates calculated as a percentage of LIBOR plus a spread. At June 30, 2014, there were no outstanding balances under these Credit Agreements.

**TEXAS HEALTH RESOURCES
OPERATING AND FINANCIAL DATA
COMPOSITION OF INVESTMENTS AND ASSETS LIMITED AS TO USE**

| | December 31, | | June 30, |
|--|------------------------|---------------------|---------------------|
| | 2012 | 2013 | 2014 |
| | (Dollars in Thousands) | | |
| Cash and cash equivalents | \$ 51,733 | \$ 23,540 | \$ 11,209 |
| Domestic equity securities: | | | |
| Cash equivalents | 23,961 | 23,704 | 25,379 |
| Mutual funds | - | 80,795 | 87,572 |
| Common collective trust | - | 233,021 | 249,677 |
| Energy | 91,964 | 127,300 | 122,213 |
| Materials | 69,540 | 64,432 | 58,447 |
| Industrials | 102,117 | 122,246 | 106,788 |
| Consumer discretionary | 229,656 | 240,133 | 225,722 |
| Consumer staples | 67,607 | 69,707 | 67,575 |
| Health care | 153,378 | 161,131 | 165,125 |
| Financials | 213,697 | 303,621 | 267,283 |
| Information technology | 202,800 | 299,975 | 283,938 |
| Telecommunication services | 30,815 | 27,987 | 32,652 |
| Utilities | 21,335 | 18,943 | 19,524 |
| Other | 21,009 | 16,745 | 18,790 |
| International equity securities: | | | |
| Mutual funds | 110,189 | 128,208 | 133,689 |
| Common collective trust | 109,593 | 130,264 | 130,517 |
| Fixed income securities: | | | |
| Cash equivalents | 26,204 | 97,031 | 57,421 |
| U.S. Government | 13,732 | 17,742 | 40,523 |
| Corporate bonds | 3,328 | 80,783 | 156,175 |
| Agency mortgages | 208,430 | 247,045 | 332,157 |
| U.S. Agencies | 482,737 | 421,256 | 451,889 |
| Other | 2,186 | 2,098 | 2,196 |
| Common collective trust (blended securities) | 46,207 | 40,610 | 38,417 |
| Mutual funds (blended securities) | 276 | 5,525 | 5,729 |
| Hedge funds | 1,570 | 1,294 | 1,351 |
| Texas Methodist Foundation | 1,151 | 1,160 | 1,165 |
| Real estate | 3,610 | 3,610 | 3,460 |
| Mineral interests | 5,473 | 6,808 | 6,827 |
| Contributions receivable from split-interest agreements | 1,803 | 1,614 | 1,123 |
| Total investments and assets limited as to use | <u>\$ 2,296,101</u> | <u>\$ 2,998,328</u> | <u>\$ 3,104,533</u> |

Note: Included in assets limited as to use in the accompanying consolidated balance sheets is approximately \$10,788,000, \$7,929,000 and \$11,138,000 of unconditional promises to give from donors at December 31, 2012, December 31, 2013, and June 30, 2014, respectively, that are excluded from the above table.

**TEXAS HEALTH RESOURCES
SUPPLEMENTAL INFORMATION**

LITIGATION AND REGULATORY MATTERS

In May 2013, THR learned sheets of microfiche containing records for patients treated at Texas Health Harris Methodist Hospital Fort Worth from 1980-1990 were not securely handled by the outside vendor with which THR contracted for all of its document destruction. THR has made all legally required notifications of the incident, including letters to the patients involved, a notice posted on THR's public website, and a press release. THR does not anticipate a material financial impact due to this incident.

In December 2010, the Department of Justice ("DOJ") issued a request for information pursuant to the False Claims Act to THR involving seven THR wholly controlled hospitals. The request involves information regarding Medicare claims submitted by the hospitals in connection with the implantation of implantable cardioverter defibrillators ("ICDs") during the period 2003 to the date of the request. The government is seeking this information to determine if ICD implantation procedures were performed in accordance with Medicare coverage requirements. Management understands that the DOJ has submitted similar requests to other hospital systems as well. The System is cooperating with the government regarding its review; to date, the DOJ has not asserted any claim against THR hospitals.

THR's Corporate Compliance Department investigates all compliance matters reported through its compliance program. As of the date of this disclosure, there was no additional pending or, to the knowledge of System management, threatened litigation, including professional liability claims, or reported compliance issues which in the opinion of System management involves any substantial risk of material liability for the System, and where applicable, in excess of available reserves and insurance coverage.