



Continuing Disclosure

Quarterly Financial Report

Six Months Ended June 30, 2014

(Unaudited)

August 15, 2014

**TEXAS HEALTH RESOURCES
SYSTEM REVENUE BONDS**

**TARRANT COUNTY CULTURAL EDUCATION FACILITIES
FINANCE CORPORATION**

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

Term Bonds

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

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

Variable Rate Demand Bonds

Maturity	Principal Amount	CUSIP
11/15/2047	\$50,000,000	87638T EH2

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

Term Bonds

Maturity	Principal Amount	Interest Rate	CUSIP
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

Bank	Maturity	Principal Amount
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
<u>Maturity</u>	<u>Principal Amount</u>	<u>Principal Amount</u>	<u>Principal Amount</u>
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

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP</u>
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

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP</u>
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.

CONTACT PERSON

Mr. Ronald R. Long
Executive Vice President, Resource Development and Deployment, Chief Financial Officer, and
Treasurer
Texas Health Resources
612 East Lamar Blvd., Suite 900
Arlington, Texas 76011
(682) 236-7935
(682) 236-7886 facsimile

**TEXAS HEALTH RESOURCES
INDEX**

	<u>Page</u>
Quarterly Consolidated Condensed Financial Information	1
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Changes in Net Assets	3
Consolidated Statements of Cash Flows	5
Operating and Financial Data:	
Utilization of System Facilities	7
Sources of Combined Gross Patient Service Revenues	7
Historical Liquidity – Days Cash on Hand	8
Historical Capitalization – Debt to Capitalization Ratio	9
Composition of Investments and Assets Limited as to Use	10
Supplemental Information:	
Litigation and Regulatory Matters	11

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	<u>\$ 61,083</u>	<u>\$ 153,177</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 214,260</u>
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	<u>\$ 154,480</u>	<u>\$ 74,804</u>	<u>\$ 244,625</u>	<u>\$ 230,655</u>	<u>\$ 704,564</u>

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,	June 30,
	2013	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	1,203,749	1,251,909
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	\$ 6,103,078	\$ 6,298,106
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	830,770	805,793
Long-Term Debt, net of current portion	1,281,952	1,270,195
Other Noncurrent Liabilities	63,379	66,955
Total liabilities	2,176,101	2,142,943
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	3,850,186	4,077,115
Noncontrolling ownership interest in equity of consolidated affiliates - unrestricted	76,791	78,048
Total net assets	3,926,977	4,155,163
Total liabilities and net assets	\$ 6,103,078	\$ 6,298,106

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	<u>1,776,721</u>	<u>1,875,601</u>
Equity in earnings of unconsolidated affiliates	18,795	24,174
Other operating revenue	<u>71,463</u>	<u>65,284</u>
Total operating revenue	<u>1,866,979</u>	<u>1,965,059</u>
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	<u>27,154</u>	<u>29,683</u>
Total operating expenses	<u>1,755,729</u>	<u>1,857,271</u>
Operating Income	<u>111,250</u>	<u>107,788</u>
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	<u>693</u>	<u>490</u>
Total nonoperating gains, net	<u>152,005</u>	<u>114,006</u>
Revenue and Gains In Excess of Expenses and Losses before Income Taxes	263,255	221,794
Less: Income Tax Expense (Benefit) ¹	<u>5,009</u>	<u>(15,712)</u>
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	<u>28,962</u>	<u>23,246</u>
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
	<u>157,549</u>	<u>225,690</u>
Net cash provided by operating activities		
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	(15,196)	(4,762)
	<u>(141,906)</u>	<u>(121,081)</u>
Net cash used in investing activities		

(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>707</u>	<u>360</u>
Net cash used in financing activities	<u>(34,232)</u>	<u>(32,108)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(18,589)	72,501
Cash and Cash Equivalents, beginning of year	<u>448,503</u>	<u>334,539</u>
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		<u>\$ 1,454,815</u>	<u>\$ 1,496,791</u>	<u>\$ 1,485,898</u>
Unrestricted Net Assets of THR		<u>\$ 3,013,216</u>	<u>\$ 3,692,334</u>	<u>\$ 3,919,308</u>
Debt to Capitalization Ratio ⁹		<u>32.6%</u>	<u>28.8%</u>	<u>27.5%</u>

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.