



BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combined Financial Statements and Schedules

December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

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KPMG LLP
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Independent Auditors' Report

The Board of Trustees
BayCare Health System, Inc. and Affiliates:

We have audited the accompanying combined financial statements of BayCare Health System, Inc. and Affiliates (the Organization), which comprise the combined balance sheets as of December 31, 2013 and 2012, and the related combined statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined 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 audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined 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 combined financial statements referred to above present fairly in all material respects, the financial position of BayCare Health System, Inc. and Affiliates as of December 31, 2013 and 2012, and the changes in their net assets, and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Other Matters

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The combining information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated in all material respects in relation to the combined financial statements as a whole.

KPMG LLP

Tampa, Florida
March 10, 2014
Certified Public Accountants

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combined Balance Sheets

December 31, 2013 and 2012

(In thousands)

Assets	2013	2012
Current assets:		
Cash and cash equivalents	\$ 50,705	56,839
Collateral received for securities lending transactions	348,453	278,732
Investments held on behalf of others	27,656	23,929
Assets limited as to use	2,415	2,422
Accounts receivable, less allowance for uncollectible accounts of approximately \$275,152 and \$228,577, respectively	322,416	268,161
Inventories	59,776	48,434
Prepaid and other current assets	46,963	41,436
Total current assets	858,384	719,953
Investments	2,493,551	2,105,614
Assets limited as to use	192,743	240,421
Property and equipment, net	1,804,338	1,485,205
Beneficial interest in net assets of foundations	150,704	120,563
Other assets	99,928	78,851
Total assets	\$ 5,599,648	4,750,607
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 174,288	150,287
Employee compensation and benefits	184,366	158,395
Estimated third-party settlements	99,463	74,513
Short-term debt	77,600	—
Current portion of long-term debt	27,694	25,293
Long term debt, subject to short-term put arrangements	108,465	108,465
Liabilities for investments held on behalf of others	27,656	23,929
Liabilities under securities lending transactions	348,453	278,732
Total current liabilities	1,047,985	819,614
Long-term debt, less current portion	778,006	801,992
Other liabilities	269,749	286,907
Total liabilities	2,095,740	1,908,513
Net assets:		
Unrestricted	3,394,127	2,743,330
Temporarily restricted	80,993	72,501
Permanently restricted	28,788	26,263
Total net assets	3,503,908	2,842,094
Total liabilities and net assets	\$ 5,599,648	4,750,607

See accompanying notes to combined financial statements.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2013 and 2012

(In thousands)

	2013	2012
Operating revenues:		
Patient service revenue (net of contractual adjustments and discounts)	\$ 2,646,373	2,458,236
Provision for bad debts	(164,165)	(137,826)
Net patient service revenue less provision for bad debts	2,482,208	2,320,410
Other revenues	86,232	105,400
Total operating revenues	2,568,440	2,425,810
Operating expenses:		
Salaries and benefits	1,334,808	1,244,716
Supplies	451,928	417,272
Other expenses	403,646	359,290
Depreciation and amortization	165,304	162,097
Interest	27,905	29,149
Loss on impairment of long-lived assets	669	14,120
Total operating expenses	2,384,260	2,226,644
Operating income	184,180	199,166
Nonoperating gains, net:		
Investment income, net	257,129	217,334
Gain on interest rate swaps	45,042	591
Gain (loss) on extinguishment of debt	1,559	(6,641)
Contribution received from business acquisition	131,189	—
Other nonoperating gains, net	12,739	12,228
Total nonoperating gains, net	447,658	223,512
Excess of revenues and gains over expenses	631,838	422,678

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u>
Unrestricted net assets:		
Excess of revenues and gains over expenses	\$ 631,838	422,678
Net unrealized gains (losses) on other-than-trading securities	174	(207)
Contributions for capital equipment	1,779	2,565
Net assets released from restrictions for purchase of property and equipment	100	93
Amortization of accumulated hedge accounting losses	458	458
Pension-related changes other than net periodic pension cost	16,815	2,212
Winter Haven pension-related changes other than net periodic pension cost	2,197	—
Other	(2,564)	(2,015)
	<u>650,797</u>	<u>425,784</u>
Increase in unrestricted net assets		
Temporarily restricted net assets:		
Contributions	782	824
Change in beneficial interest in net assets of foundations	7,453	(761)
Net assets released from restrictions for purchase of property and equipment	(100)	(93)
Net assets released from restrictions for operations	(663)	(1,564)
Contribution received from business acquisition	1,117	—
Other	(97)	—
	<u>8,492</u>	<u>(1,594)</u>
Increase (decrease) in temporarily restricted net assets		
Permanently restricted net assets:		
Change in beneficial interest of net assets of foundations	1,560	1,033
Contribution received from business acquisition	966	—
Other	(1)	—
	<u>2,525</u>	<u>1,033</u>
Increase in permanently restricted net assets		
Increase in net assets	<u>661,814</u>	<u>425,223</u>
Net assets at beginning of year	<u>2,842,094</u>	<u>2,416,871</u>
Net assets at end of year	<u>\$ 3,503,908</u>	<u>2,842,094</u>

See accompanying notes to combined financial statements.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Cash Flows

Years ended December 31, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Increase in net assets	\$ 661,814	425,223
Adjustments to reconcile increase in net assets to net cash provided by operating activities and nonoperating gains:		
Provision for bad debts	164,165	137,826
Depreciation and amortization	165,304	162,097
Amortization of bond premiums and discounts, net	(2,141)	(2,066)
Amortization of bond issue costs	824	945
Loss on impairment of long-lived assets	669	14,120
(Gain) loss on extinguishment of debt	(1,559)	6,641
Loss on sale of business and other property and equipment	1,071	2,060
Contribution received from business acquisition	(131,189)	—
Restricted net assets acquired from business acquisition	(2,083)	—
Change in net unrealized gains on investments	(127,918)	(146,447)
Change in realized gains on investments	(81,320)	(28,853)
Gain on interest rate swaps	(36,835)	(1,049)
Change in beneficial interest in net assets of foundations	(13,770)	(6,688)
Restricted contributions	(782)	(824)
Pension-related changes other than net periodic pension cost	(16,815)	(2,212)
Curtailment of Winter Haven pension	(4,617)	—
Changes in:		
Accounts receivable, net	(183,466)	(141,739)
Inventories	(3,876)	507
Prepaid expenses and other current assets	1,181	4,641
Accounts payable and accrued expenses	2,850	11,016
Employee compensation and benefits	9,076	10,696
Estimated third-party settlements	16,406	(24,530)
Other liabilities	(8,140)	(25,571)
Net cash provided by operating activities and nonoperating gains	<u>408,849</u>	<u>395,793</u>
Cash flows from investing activities:		
Purchases of property and equipment	(324,776)	(212,227)
Proceeds from sales of property and equipment	534	990
Payment for acquired businesses	—	(51)
Cash received from business acquisition	15,667	—
Purchases of assets limited as to use and investments	(1,540,932)	(2,755,991)
Proceeds from sales of assets limited as to use and investments	1,461,688	2,413,338
(Decrease) increase in other assets	(4,442)	1,141
Net cash used in investing activities	<u>(392,261)</u>	<u>(552,800)</u>
Cash flow from financing activities:		
Restricted contributions	782	824
Restricted net assets acquired from business acquisition	2,083	—
Payment of debt issue costs	(65)	(3,098)
Proceeds from the issuance of debt	97,761	454,877
Proceeds from contributed capital	243	—
Repayments of long-term debt	(123,526)	(276,144)
Net cash (used in) provided by financing activities	<u>(22,722)</u>	<u>176,459</u>
(Decrease) increase in cash and cash equivalents	(6,134)	19,452
Cash and cash equivalents at beginning of year	<u>56,839</u>	<u>37,387</u>
Cash and cash equivalents at end of year	\$ <u><u>50,705</u></u>	\$ <u><u>56,839</u></u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 32,917	31,170
Purchase of equipment under capital lease obligation	504	1,129
Acquisition of property and equipment through accrued expenses	9,212	12,827

See accompanying notes to combined financial statements.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2013 and 2012

(1) Organization

BayCare Health System, Inc. (BayCare), a not-for-profit corporation exempt from state and federal income taxes, was formed effective July 1, 1997, pursuant to a joint operating agreement (JOA) among CHE Trinity, Inc. BayCare participants, Morton Plant Mease Health Care, Inc. (MPMHC), South Florida Baptist Hospital, Inc. (SFB) (collectively, the Members), and BayCare.

The Members executed the JOA to develop a regional healthcare network providing for a collaborative effort in the areas of community healthcare delivery, enhanced access to healthcare services for the poor, and the sharing of other common goals. The JOA is effective for a period of 50 years.

The JOA provides for the Members to maintain ownership of their assets while agreeing to operate as one organization with common governance and management. All entities managed by BayCare are included in these combined financial statements. Terms of the JOA provide that residual free cash flow, as defined, and funding for capital expenditures are allocated among the Members based on predetermined percentages. Such allocations are eliminated in combination.

The Members' entities operate a number of acute care hospital facilities in the Tampa Bay, Florida area, as well as a rehabilitation facility, a life care facility, home health agency, ambulatory care sites, and physician practices. The accompanying combined financial statements include the Members and various entities controlled by the Members, a wholly owned insurance company and other related entities, hereafter referred to as the Organization.

Effective August 30, 2013, the Organization became the sole member of Winter Haven Hospital, Inc. (WHH) and Mid-Florida Physician Services, LLC (MFPS) (collectively referred to as Winter Haven). MFPS is the sole-member of Mid-Florida Interventional Cardiology Physician Services, LLC, Mid-Florida Urology Physician Services, LLC, and Mid-Florida Oncology Physician Services, LLC. Winter Haven has a 529-bed hospital and more than 300 board-certified physicians on its medical staff. The acquisition allows the Organization to advance its not-for-profit mission to improve the health of its communities and enable the continued expansion of patient-centered care models in and around Polk County, Florida. Winter Haven is not a member of the JOA. The financial results reported for Winter Haven covers the period from August 30, 2013 through December 31, 2013 (see note 6).

All significant intercompany transactions among these entities and other wholly owned subsidiaries have been eliminated from the combined financial statements.

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

The preparation of these combined financial statements, in conformity with U.S. generally accepted accounting principles, 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 combined financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2013 and 2012

(b) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid instruments with a maturity of three months or less when purchased, except those classified as assets limited as to use and as investments that are held in the Organization's investment management program (Investment Pool).

(c) Securities Lending Transactions

The Organization participates in securities lending transactions whereby a portion of investments and assets limited as to use are loaned to various brokers in return for cash and securities from the brokers as collateral for the securities loaned. Pursuant to these arrangements, the collateral received must always equal at least 102% of the market value of the securities loaned, which is determined at the end of each business day. Collateral received for securities lending transactions and the related liabilities are considered Level 1 investments (see note 2(p) for discussion of Level 1, Level 2, and Level 3 valuation methods). The collateral held for the securities loaned and related payable of equal value at December 31, 2013 and 2012 have been reflected in the accompanying combined balance sheets.

The securities on loan are included in the following classifications (in thousands):

		December 31	
		2013	2012
Equity securities:			
U.S.	\$	38,616	40,297
Global		18,666	18,802
Fixed income securities			
U.S.		282,727	213,559
Global		334	—
Total	\$	340,343	272,658

The Organization recorded net investment income of approximately \$464,000 and \$414,000 on these transactions for the years ended December 31, 2013 and 2012, respectively. Net investment income represents the amount received as investment income on the securities received as collateral, offset by the fees paid to the various brokers, and the investment earnings on the securities loaned to the brokers.

(d) Investments and Investment Income

The Organization has designated substantially all of its investments as trading. Investments in debt and equity securities with readily determinable fair values are measured at fair value using quoted market prices. Investments in limited partnerships are reported using the estimated net asset value based on information provided by the respective partnership. Investments in closed end limited partnerships where capital is called over time, redemptions are limited, and the Organization does not have significant influence over the partnerships, are recorded using the cost method of accounting.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2013 and 2012

Investment income (including realized gains and losses, unrealized gains and losses on trading securities, interest, and dividends) is included in excess of revenues and gains over expenses unless such earnings are subject to donor-imposed restrictions. Investment income restricted by donor stipulations is reported as an increase in temporarily restricted net assets. Unrealized gains and losses on investments classified as other than trading are reported as a change in unrestricted net assets.

The Organization holds certain investments on behalf of others in the Investment Pool. Certain affiliated, uncombined not-for-profit foundations are participants in the Investment Pool. The combined financial statements present investments held on behalf of others, at fair value, as a current asset with a corresponding current liability representing the obligation to return the value of the investments to the foundations in the Investment Pool. The investments held and related liability of equal value at December 31, 2013 and 2012 have been reflected in the accompanying combined balance sheets.

During 2013, WHH became a participant in the investment management program managed by the Organization. WHH's investable assets are included in investments on the accompanying combined balance sheets.

(e) Assets Limited as to Use

Assets limited as to use include assets held by an independent trustee under the terms of bond indenture agreements, investments held by BCHS Insurance, Ltd. (Captive), a wholly owned insurance captive, as well as assets held by the life care facility as required under Florida Statutes, contractual obligation, or donor restrictions. Amounts required to meet current liabilities of the Organization have been classified as current assets in the combined balance sheets.

Assets limited as to use are set aside and designated as follows (in thousands):

	December 31	
	2013	2012
BCHS Insurance Captive Fund	\$ 185,041	190,887
Bond Designated Construction Fund	—	41,673
Other	10,117	10,283
	<u>195,158</u>	<u>242,843</u>
Less amount included in current assets	<u>2,415</u>	<u>2,422</u>
	<u>\$ 192,743</u>	<u>240,421</u>

(f) Inventories

Inventories consist primarily of medical and surgical supplies and pharmaceuticals and are valued at lower of cost (first-in, first-out method) or market.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2013 and 2012

(g) Property and Equipment

Property and equipment are recorded at historical cost at the date of acquisition or fair value at the date of donation.

Depreciation and amortization expense is calculated using the straight-line method over the estimated useful lives of the property and equipment or the lease term, whichever is less. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase capacities or extend useful lives are capitalized. Interest cost on borrowed funds during the construction period is capitalized as a component of the cost of the assets.

Property and equipment consist of the following (in thousands):

	December 31	
	2013	2012
Land	\$ 140,321	126,122
Land improvements	54,981	45,158
Buildings and improvements	1,898,128	1,637,063
Equipment	1,294,352	1,200,920
	<u>3,387,782</u>	<u>3,009,263</u>
Less accumulated depreciation and amortization	<u>1,846,413</u>	<u>1,685,394</u>
	1,541,369	1,323,869
Construction in progress	<u>262,969</u>	<u>161,336</u>
Property and equipment, net	<u><u>\$ 1,804,338</u></u>	<u><u>1,485,205</u></u>

Interest costs of approximately \$4,987,000 and \$3,125,000 were capitalized during the years ended December 31, 2013 and 2012, respectively. Included in buildings and equipment are assets leased under capital leases of approximately \$8,495,000 and \$9,815,000, net of accumulated amortization of approximately \$8,449,000 and \$9,260,000, at December 31, 2013 and 2012, respectively.

The Organization had construction and information technology commitments of approximately \$224,613,000 relating to various projects as of December 31, 2013. The commitments include the construction of a 90-bed satellite hospital of St. Joseph's Hospital, Inc. The organization expects to fund the commitments through operations, bond proceeds and unrestricted assets.

The Organization reviews whether events and circumstances have occurred to indicate if the remaining useful life of long-lived assets may warrant revision or that the remaining balance of an asset may not be recoverable. If such an event occurs, an assessment of possible impairment is based on whether the carrying amount of the assets exceeds the expected total undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the undiscounted cash flows are less than the net book value of the assets, an impairment loss based on the fair value of the assets is recognized.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2013 and 2012

During fiscal year 2012, a strategic decision was made to move certain medical services from Mease Dunedin Hospital, Inc. (MDH), a hospital within MPMHC, to another hospital within MPMHC. As a result of these decisions and other economic factors, MDH sustained operating losses and negative cash flows during fiscal year 2012 as well as projected future operating losses. Consequently, MPMHC determined the carrying value of the long-lived assets would not be recoverable from estimated future cash flows and an impairment loss should be recognized. MPMHC recorded an impairment loss of approximately \$14,120,000 for the write-down of buildings, equipment, and other long-lived assets to their estimated fair value.

During fiscal year 2013, leadership changes and operational modifications were undertaken at BayCare Behavioral Health, Inc. (BBH) to improve its financial operating income and cash flow position. Despite these changes, BBH determined the carrying value of their long-lived assets would not be recoverable from estimated future cash flows and an impairment loss should be recognized. A loss of approximately \$669,000 was recorded in Loss on impairment of long-lived assets for the write-down primarily of leasehold improvements and equipment to their estimated fair value for the year ended December 31, 2013.

The determination of fair value of long-lived assets involves certain judgments and estimates. These fair value estimates can change by material amounts in subsequent periods due to future financial trends, changes in healthcare trends and regulations and the nature of ultimate disposition of assets. In some cases, these fair value estimates assume the highest and best possible use of hospital assets in the future to a marketplace participant. Accordingly, the ultimate cash realized from the assets could be significantly different than their impaired value should they be sold or discontinued.

(h) *Beneficial Interest in Net Assets of Foundations*

Beneficial interest in net assets of foundations primarily represents contributions received by affiliated fund-raising foundations on behalf of the Organization, net of expenses incurred by the foundations. The beneficial interest in net assets of foundations is recorded at fair value.

(i) *Self-Insurance*

The Organization is self-insured for professional liability, automobile insurance, workers' compensation, and employee health benefits. The provisions for estimated self-insured claims include estimates of the ultimate costs for both reported claims and claims incurred, but not reported based on an evaluation of pending claims and past experience.

(j) *Temporarily and Permanently Restricted Net Assets*

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Temporarily restricted net assets are maintained primarily for the purposes of patient care related services, capital improvements, and research and education. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity, the income from which is expendable to support the Organization's operations.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2013 and 2012

(k) Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. The Organization provides discounts to uninsured patients who do not qualify for Medicaid, charity care, or county funding.

Revenue from the Medicare and Medicaid programs accounted for approximately 36% and 34% and 9% and 11%, respectively, of the Organization's net patient service revenue for the years ended December 31, 2013 and 2012, respectively. The composition of patient service revenue (net of contractual adjustments and discounts) but before the provision for bad debts recognized from these major payor sources is as follows (in thousands):

		December 31	
		2013	2012
Third-party payors	\$	2,545,287	2,377,082
Self-pay		101,086	81,154
Total all payors	\$	2,646,373	2,458,236

The Organization analyzes its past collection history and identifies trends by each of its major payor sources of patient service revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about the major payor sources of patient service revenue in evaluating the adequacy of the allowance for doubtful accounts.

The Organization analyzes contractual amounts due from patients who have third-party coverage and provides an allowance for doubtful accounts and a provision for bad debts. For self-pay patients, which includes those patients without insurance coverage and patients with deductibles and copayment balances for which third-party coverage exists for a portion of the bill, the Organization records a significant provision for bad debts for patients that are unwilling to pay for the portion of the bill representing their financial responsibility. Account balances are charged off against the allowance for doubtful accounts after all means of collection have been exhausted. The Organization follows established guidelines for placing certain past-due patient balances with a collection agency.

The Organization's allowance for uncollectible accounts for self-pay patients was 58% and 46% of self-pay accounts receivable as of December 31, 2013 and 2012, respectively. The Organization has not experienced significant changes in write-off trends and has not changed its uninsured discount or charity care policies for the year ended December 31, 2013.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2013 and 2012

associated with these programs will change by a material amount in the near term. As a result, provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined or as years are no longer subject to audits, reviews and investigations. Net patient service revenue increased approximately \$31,023,000 and \$32,318,000 during the years ended December 31, 2013 and 2012, respectively, due to final settlements on open cost report filings, specific settlement of certain appeal issues, and changes in recorded estimates for retroactive adjustments.

The Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Net patient accounts receivable included approximately \$93,484,000 or 29% and \$69,015,000 or 26% due from the Medicare program and approximately \$33,025,000 or 10% and \$28,312,000 or 11% due from the Medicaid program as of December 31, 2013 and 2012, respectively. The credit risk for other concentrations of receivables is limited due to the large number of insurance companies and other payors that provide payments for services.

(I) *Community Commitment*

The Organization exists to meet the healthcare needs of the community. Patients who are uninsured or underinsured and cannot pay for hospital services are eligible for either traditional or hardship charity consideration.

The Agency for Health Care Administration (AHCA) defines traditional charity care eligibility at 200% of the federal poverty guidelines, unless the amount due from the patient exceeds 25% of annual family income limited to four times the poverty level. In an effort to meet its mission, the Organization affords its patients a hardship charity, which is defined as 250% of the federal poverty guidelines. Accordingly, services are being provided to the community at no charge or for which costs exceed the payments received. Because payment is not pursued from patients meeting these guidelines, such amounts are not reported as net patient service revenue.

Payments received from Medicaid and other means-tested (based on patients' income level) programs are significantly less than established patient charges and are less than management's estimate of the costs of providing those services. These payments reduce the community commitment costs. An assessment of 1.0% to 1.5% of certain operating revenue earned and recorded is paid by several of the Organization's Hospitals to help fund the Florida Medicaid and indigent care program. The assessment has been included in the Medicaid and other means-tested program amounts below. Reimbursement received under the uncompensated and indigent care programs are included as subsidized costs.

Unbilled community services represent management's estimate of the cost of providing various programs to the community at no or little charge. These programs include health screenings, educational programs, sponsorships, and research.

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Notes to Combined Financial Statements

December 31, 2013 and 2012

The tables below summarize the Organization's community commitment as measured by unreimbursed costs (estimated by the Organization's cost accounting system) (in thousands):

December 31, 2013				
	Charity care	Medicaid and other means- tested programs	Unbilled community services	Total
Community commitment	\$ 110,771	133,858	11,401	256,030
Subsidized costs	—	(12,444)	(69)	(12,513)
Net community commitment	\$ 110,771	121,414	11,332	243,517
December 31, 2012				
	Charity care	Medicaid and other means- tested programs	Unbilled community services	Total
Community commitment	\$ 86,197	94,400	10,982	191,579
Subsidized costs	—	(2,884)	(36)	(2,920)
Net community commitment	\$ 86,197	91,516	10,946	188,659

(m) *Electronic Health Record Incentive Payments*

The American Recovery and Reinvestment Act of 2009 provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that adopt and use electronic health records (EHR) in a meaningful way. Meaningful use is demonstrated by meeting established criteria that focus on capturing and using electronic health information to improve health care quality, efficiency, and patient safety.

The Organization records incentive payments under the grant accounting model. Revenue is recorded at the end of the EHR reporting period when it is reasonably assured that it has met the meaningful use requirements. The Organization recognized approximately \$7,417,000 and \$33,504,000 of incentive payments in other revenues for the year ended December 31, 2013 and 2012, respectively. Incentive payment revenue is subject to change as the result of audits of compliance with meaningful use criteria and Medicare cost reports, with changes recorded in the period they occur.

(n) *Excess of Revenues and Gains over Expenses and Changes in Unrestricted Net Assets*

Activities deemed by the Organization to be a provision of healthcare services are reported as operating revenues and expenses. Other activities that are peripheral to providing healthcare services

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are reported as nonoperating gains and losses. Consistent with industry practice, other changes in unrestricted net assets are excluded from excess of revenues and gains over expenses.

(o) *Income Taxes*

The majority of the affiliates within the Organization are not-for-profit organizations described in Section 501(c)(3) of the Internal Revenue Code, and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code, and are also exempt from state income taxes. Management believes that the unrelated business income generated by the Organization and its exempt affiliates is not material to the combined financial statements.

(p) *Fair Value Measurements*

Fair value guidance defines fair value as the exit price that would be received to sell an asset or paid to transfer a liability under current market conditions, in the principal or most advantageous market to the asset or liability, in an orderly transaction between market participants on the measurement date. It requires assets and liabilities to be grouped into three categories based on certain criteria as noted below:

- Level 1: Fair value is determined by using quoted prices for identical assets or liabilities in active markets.

The Organization's Level 1 assets and liabilities include cash, trading and other-than-trading investments in U.S. and international equities, mutual funds and valued at quoted market prices.

- Level 2: Fair value is determined by using quoted prices for identical assets or liabilities in inactive markets, quoted prices for similar assets or liabilities in active markets, observable inputs other-than-quoted prices, and market corroborated inputs.

The Organization's Level 2 assets include trading investments valued using the estimated net asset value per share of the investments (see note 3) and U.S. and International equities, U.S. Treasuries, treasury inflation-protected securities, other government securities, corporate debt securities, global securities, derivatives, equity swaps, and asset-backed securities with fair values modeled by external pricing vendors. Level 2 liabilities include the Organization's interest rate swaps valued using widely accepted models that incorporate readily observable inputs in active markets (see note 5).

- Level 3: Fair value is determined by using inputs based on various assumptions that are not directly observable.

The Organization's Level 3 assets include international equities and fixed income investments, and beneficial interest in net assets of foundations.

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(3) Assets Limited as to Use, Investments, and Investments Held on Behalf of Others

The table below summarizes the fair values of assets limited as to use, investments and investments held on behalf of others as of December 31, 2013 (in thousands). See note 2(p) for a discussion of valuation methodologies.

	December 31, 2013	Fair value measurements at reporting date		
		Level 1	Level 2	Level 3
Asset class:				
Cash	\$ 4,808	4,808	—	—
Equity securities:				
U.S.	672,252	395,667	276,585	—
International	436,958	105,473	331,461	24
Fixed income securities:				
Core holdings	789,088	11,303	763,931	13,854
Treasury Inflation (TIPS)	198,366	624	197,116	626
Global	125,344	—	125,344	—
High yield	121,148	—	121,148	—
Other types of investments:				
Hedge funds	162,050	—	162,050	—
Real assets	132,292	—	132,292	—
	2,642,306	\$ 517,875	2,109,927	14,504
Accrued income	5,722			
Recorded at cost basis	68,337			
	2,716,365			
Less amount included in current assets	30,071			
	\$ 2,686,294			

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The table below summarizes the changes in Level 3 assets for the year ended December 31, 2013 (in thousands):

	Level 3		
	Fixed income securities	Other	Total
Beginning balance	\$ 1,535	—	1,535
Total gains (realized/unrealized) included in excess of revenues and gains over expenses	(107)	24	(83)
Purchases	15,039	—	15,039
Sales	(3,090)	—	(3,090)
Settlements	(11)	—	(11)
Transfers within Level 3	1,114	—	1,114
Ending balance	<u>\$ 14,480</u>	<u>24</u>	<u>14,504</u>

During 2013, approximately \$1,437,000 of securities held within the actively managed core fixed income account was transferred from Level 2 to Level 3 during the year due to pricing being no longer available from an industry vendor. Approximately \$323,000 of cash collateral was transferred from Level 3 to Level 1 during the year as pricing became available from an industry vendor. Transfers between Level 1 and Level 2 during the year are considered insignificant to the financial statements as a whole.

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The table below summarizes the fair values of assets limited as to use, investments and investments held on behalf of others as of December 31, 2012 (in thousands).

	December 31, 2012	Fair value measurements at reporting date		
		Level 1	Level 2	Level 3
Asset class:				
Cash	\$ 28,127	28,127	—	—
Equity securities:				
U.S.	533,486	317,254	216,232	—
International	397,520	182,290	215,230	—
Fixed income securities:				
Core holdings	700,274	30,464	668,740	1,070
Treasury Inflation (TIPS)	193,676	—	193,211	465
Global	103,000	—	103,000	—
High yield	99,630	—	99,630	—
Other types of investments:				
Hedge funds	133,707	—	133,707	—
Real assets	114,869	42,217	72,652	—
	<u>2,304,289</u>	<u>\$ 600,352</u>	<u>1,702,402</u>	<u>1,535</u>
Accrued income	6,045			
Recorded at cost basis	<u>62,052</u>			
	2,372,386			
Less amount included in current assets	<u>26,351</u>			
	<u>\$ 2,346,035</u>			

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The table below summarizes the changes in Level 3 assets for the year ended December 31, 2012 (in thousands):

	Level 3		
	Fixed income securities	Other	Total
Beginning balance	\$ 1,141	14	1,155
Total losses (realized/unrealized) included in excess of revenues and gains over expenses	(2,465)	—	(2,465)
Purchases	10,036	—	10,036
Sales	(7,920)	—	(7,920)
Settlements	(1,721)	(14)	(1,735)
Transfers within Level 3	2,464	—	2,464
Ending balance	<u>\$ 1,535</u>	<u>—</u>	<u>1,535</u>

During 2012, approximately \$2,464,000 of swaps held within the actively managed core fixed income account were transferred from Level 2 to Level 3 during the year due to pricing being no longer available from an industry vendor. Transfers between Level 1 and Level 2 during the year are considered insignificant to the financial statements as a whole.

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The fair values of the following investments have been estimated using the net asset value per share of the investments as of December 31, 2013 and 2012 (in thousands). There are no unfunded commitments on any of these funds at December 31, 2013 and 2012.

	December 31		Redemption frequency	Redemption notice period
	2013	2012		
Asset category:				
U.S. equity index funds (a)	\$ 276,585	215,598	Daily	None
International small cap equity partnership (b)	103,743	92,603	Monthly	15 days
International emerging markets equity partnership (c)	98,276	95,622	Monthly	10 days
International equity commingled funds (d)	21,720	27,006	Daily	None
International equity partnership (e)	107,722	—	Monthly	15 days
Fixed income high yield bond partnership (f)	121,148	99,630	Monthly	10 days
Fixed income bond index fund (g)	336,593	276,693	Daily	None
Hedge fund of funds (h)	162,051	133,707	Semiannually	95 days
Real asset partnership (i)	25,019	24,202	Monthly	30 days
Global fixed income partnership (j)	125,344	103,000	Monthly	15 days
Private real estate investment trust (k)	54,161	48,450	Quarterly	90 days
Master limited partnership (MLP) (l)	53,112	—	Monthly	30 days
	<u>\$ 1,485,474</u>	<u>1,116,511</u>		

- (a) The primary objective of the U.S. equity index funds is to match the risk and return characteristics of the S&P 500 Index. Funds that participate in the securities lending program have a twice per month redemption restriction, and a total redemption would require the Organization to fund its portion of any collateral shortfall.
- (b) The international small cap equity partnership's investment objective is to outperform the MSCI EAFE Small Cap Market Index by investing in a portfolio of non-U.S. small cap equities. Full redemptions from these funds may be paid out over the course of time to prevent large withdrawals from having adverse impacts on the partnership.
- (c) The investment objective of the international emerging markets equity partnership is to outperform the MSCI Emerging Markets Index, net of dividend withholding taxes, by investing in a portfolio of

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non-U.S. emerging market equities. Full redemptions from these funds may be paid out over the course of time to prevent large withdrawals from having adverse impacts on the partnership.

- (d) The primary objective of the international equity commingled funds is to provide a rate of return prudently achievable from investments in non-U.S. common stocks and other equity-related investments in common stocks and other equity-related markets.
- (e) The primary objective of the international equity partnership is to achieve long-term total return by investing in value equity securities of non-U.S. issuers, including emerging markets.
- (f) The fixed income high yield bond partnership's primary investment objective is to achieve a high total return as compared to both the relevant high yield bond indices and the investment grade bond market by investing in high yield fixed income securities and/or debt of issuers who are organized or have a substantial portion of their assets or business located in the United States and Canada. As a secondary objective, the fund seeks to provide high current income consistent with moderate risk. Minimum redemptions from this fund are \$100,000. In the case of a redemption of 90% or more of the net asset value of a partner's units as determined by the general partner, the partnership will distribute 90% of the estimated net asset value within two business days following the valuation date on which such withdrawal was made and the balance on or before 10 business days following such withdrawal.
- (g) The primary objective of the fixed income bond index fund is to hold a portfolio representative of the overall U.S. bond and debt market, as characterized by the Barclays Aggregate Bond Index. Funds that participate in the securities lending program have a twice per month redemption restriction, and a total redemption would require the Organization to fund its portion of any collateral shortfall.
- (h) The hedge fund of funds' objective is to develop and actively maintain an investment portfolio of long-term returns, with low volatility and downside protection qualities.
- (i) The real asset partnership seeks to generate a total return in the long-term through investments in commodity-related instruments globally.
- (j) The investment objective of the global fixed income partnership is to outperform the Barclays Capital Multiverse Index by including exposure to the emerging market debt plus the ability to invest in other markets.
- (k) The private real estate investment trust's primary objective is to invest in established core real estate with a diversified portfolio of high quality buildings in the most liquid markets in the United States.
- (l) The master limited partnership investment objective is to seek absolute total return by investing directly or via long only equity swaps without leverage in income-producing publicly traded MLPs, with a particular focus on energy sector MLPs.

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Investment income and gains and losses on assets limited as to use and investments comprise the following (in thousands):

	Year ended December 31	
	2013	2012
Investment income:		
Interest and dividends	\$ 48,260	41,861
Realized gains, net	85,027	28,845
Change in unrealized gains on trading investments	123,842	146,628
	<u>257,129</u>	<u>217,334</u>
Other changes in net assets:		
Changes in net unrealized gains (losses) on other-than-trading securities	174	(207)
	<u>174</u>	<u>(207)</u>
Total investment return	<u>\$ 257,303</u>	<u>217,127</u>

Investment income is recorded net of investment expense, which was approximately \$7,323,000 and \$6,710,000 during the years ended December 31, 2013 and 2012, respectively.

(4) Debt and Capital Leases

BayCare has \$25,000,000 available under a line of credit with a bank. At December 31, 2013, none of the available line of credit had been drawn. Interest on the line of credit is based on the LIBOR daily floating rate plus a spread and is payable monthly.

The Organization has a BayCare Obligated Group, which consists of certain members of the Organization (collectively, the Obligated Entities). The BayCare Obligated Group includes BayCare; St. Joseph's Health Care Center, Inc.; St. Joseph's Hospital, Inc.; St. Anthony's Hospital, Inc.; MPMHC; Morton Plant Hospital Association, Inc.; Trustees of Mease Hospital, Inc.; SFB; and WHH. WHH became a member of the BayCare Obligated Group as of the date of acquisition. All of the outstanding bonds of the Obligated Entities are subject to the Master Trust Indenture and constitute BayCare Obligated Group indebtedness. The covenants in connection with the long-term debt agreements described below provide for the maintenance of certain levels of debt coverage and working capital, certain restrictions on additional indebtedness, and certain types and amounts of insurance protection.

On August 30, 2013, in connection with the acquisition of Winter Haven (see note 6), the Organization borrowed \$77,600,000 in the form of a taxable bridge loan. The bridge loan was used to refund Winter Haven's outstanding bonds and matures on August 29, 2014. The entire amount of the loan is classified as short-term debt in the accompanying combined financial statements. Interest expense incurred was approximately \$113,000 for the year ended December 31, 2013.

A net gain on early extinguishment of WHH debt of approximately \$1,559,000 was recorded during 2013, and is included in other nonoperating gains, net in the accompanying combined statements of operations and changes in net assets.

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The Organization is obligated under long-term debt as follows (in thousands):

	December 31	
	2013	2012
City of Tampa, Florida, Health System Revenue Bonds, Series 2012A, at rates from 3.25% to 5%, payable through 2033 (net of unamortized premium)	\$ 199,364	199,928
City of Tampa, Florida, Health System Revenue Bonds, Series 2012B, interest rate determined on a weekly basis (approximately 0.19% at December 31, 2013) payable through 2033	77,215	77,215
City of Tampa, Florida, Health System Revenue Bonds, Series 2012 C, D, E, interest rate determined on a monthly basis (approximately 0.86% at December 31, 2013) payable through 2034	177,215	177,215
City of Tampa, Florida, Health System Revenue Bonds, Series 2010, at rates from 3.25% to 5.00%, payable through 2023 (net of unamortized premium)	179,127	180,326
Pinellas County Health Facilities Authority Revenue Bonds, Series 2009A, interest rate determined on a weekly basis (approximately 0.08% at December 31, 2013) payable through 2038	200,000	200,000
Pinellas County Health Facilities Authority Revenue Bonds, Series 2003A, at rates from 0.30% to 5.00%, payable through 2033 (net of unamortized premium)	48,517	56,786
City of Tampa, Florida, Health System Revenue Bonds, Series 1998A-1, interest at 5.50%, payable through 2014 (net of unamortized premium)	15,682	30,643
Other	17,045	13,637
	<u>914,165</u>	<u>935,750</u>
Less current portion of long-term debt	(27,694)	(25,293)
Less long term debt subject to short-term put arrangements	<u>(108,465)</u>	<u>(108,465)</u>
Long-term debt, less current portion and debt subject to short-term put arrangements	<u>\$ 778,006</u>	<u>801,992</u>

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Aggregate maturities of long-term debt and capital lease obligations as of December 31, 2013 follow (in thousands):

2014	\$	27,694
2015		23,635
2016		22,941
2017		23,552
2018		23,843
Thereafter		<u>775,600</u>
		897,265
Unamortized premium, net		<u>16,900</u>
	\$	<u><u>914,165</u></u>

In May 2012, the Organization issued \$265,840,000 of City of Tampa, Florida Health System Revenue Bonds, comprised \$188,625,000 of Series 2012A Bonds (the Series 2012A Bonds) and \$77,215,000 of Series 2012B Bonds (the Series 2012B Bonds). The Series 2012A Bonds were partially used to refund the Series 2000 Bonds and a portion of the Series 2006B Bonds. The remaining \$14,205,000 of the Series 2012A Bonds were used for the principal purpose of financing and reimbursing the costs of renovation of existing health care facilities of the Organization. The Series 2012B Bonds were used to refund a portion of the Series 2006B Bonds. The 2012B Bonds were issued as window variable rate demand bonds. These bonds are subject to long-term amortization periods and may be put to the Organization at the option of the bondholders in connection with certain remarketing arrangements. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after December 31, 2013, the principal amount of such bonds has been classified as a current obligation in the accompanying financial statements. In addition to the above bonds, the Organization issued \$177,215,000 of Direct Bank Placement Debt comprised \$77,215,000 of Series 2012C Bonds (the Series 2012C Bonds), \$50,000,000 of Series 2012D Bonds (the Series 2012D Bonds) and \$50,000,000 of Series 2012E Bonds (the Series 2012E Bonds). The Series 2012C Bonds, Series 2012D Bonds, and Series 2012E Bonds were used for the principal purpose of financing and reimbursing the costs of renovation and construction of existing and additional health care facilities of the Organization.

The principal and interest payments on the Series 2009A Bonds are secured by credit facilities with "banks," which expire in 2016 and 2018, unless extended by agreement between the banks and the Organization. Amounts drawn on the 2009A1 credit facility agreement are payable by the Organization in 8 equal quarterly installments commencing on the three hundred sixty-seventh (367th) day following the date on which amounts are drawn. Amounts drawn on the 2009A2 and 2009A3 credit facility agreements are payable by the Organization in 12 equal quarterly installments commencing on the first day of the fourth month following the date on which amounts are drawn. These amounts have been classified as a current obligation in the accompanying financial statements.

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The table below summarizes the carrying amount and fair value of the Organization's debt as of December 31, 2013 and 2012 (in thousands):

	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Debt	\$ 991,765	990,999	935,750	963,233

Fair values of the Organization's debt are based upon the quoted market prices for the same or similar issues or on the current rates offered to the Organization for debt and capital lease obligations of the same remaining maturities.

Debt issue costs, net of accumulated amortization, are included in other assets and are being amortized utilizing methods that approximate the effective interest method over the life of the debt. Amortization of debt issuance costs is included in interest expense.

Bond discounts and premiums are being amortized using the effective interest method over the life of the related debt. Amortization of bond discounts and premiums is included in interest expense. Unamortized bond discounts and unamortized bond premiums are included with the related debt in the combined balance sheets.

(5) Interest Rate Swap Agreements

The Organization uses interest rate swaps to manage net exposure to interest rate changes related to its borrowings and to manage its overall borrowing costs. These swaps are recorded as other liabilities and other assets at fair value.

The Organization's interest rate swap contracts are as follows (in thousands):

Expiration date	The Organization pays fixed payor rate	The Organization receives	Notional amount	
			2013	2012
November 2033	3.669%	67% of 3-month USD-LIBOR \$	77,215,000	77,215,000
November 2033	3.669	67% of 3-month USD-LIBOR	77,215,000	77,215,000
September 2034	3.476	67% of 1-month USD-LIBOR	7,049,142	—
		67% of 1-month USD-LIBOR		
September 2034	5.076	plus 160 bps	21,149,858	—
September 2034	3.457	67% of 1-month USD-LIBOR	14,101,000	—
September 2036	3.841	67% of 1-month USD-LIBOR	14,200,000	—
November 2038	2.222	67% of 3-month USD-LIBOR	75,000,000	75,000,000
November 2038	2.222	67% of 3-month USD-LIBOR	75,000,000	75,000,000
November 2038	2.222	67% of 3-month USD-LIBOR	50,000,000	50,000,000
			<u>\$ 410,930,000</u>	<u>354,430,000</u>

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An interest rate swap is an agreement in which two parties agree to exchange, at specified intervals, interest payment streams calculated on an agreed upon notional principal amount with at least one stream based upon a specified floating rate index. The differential to be paid or received as interest rates change is recognized as an adjustment to interest expense, which amounted to an increase of approximately \$10,116,000 and \$9,081,000 for the years ended December 31, 2013 and 2012, respectively.

The fair value of the interest rate swap agreements at December 31 are as follows (see note 2(p) for a discussion of valuation methodologies):

Derivatives not designated as hedging instruments	Counterparty	Balance sheet location	2013	2012
Interest rate swap contracts	Morgan Stanley	Other liabilities	\$ 28,588,000	43,178,000
Interest rate swap contracts	Goldman Sachs	Other liabilities	—	16,213,000
Interest rate swap contracts	Goldman Sachs	Other assets	6,032,000	—

During 2008, the Organization discontinued hedge accounting for all swaps previously designated as hedges as the swaps were no longer considered to be highly effective. The Organization continues to carry the swaps at fair value with the subsequent changes in fair value included in nonoperating gains (losses), net. Losses of approximately \$9,047,000 and \$9,505,000 at December 31, 2013 and 2012, respectively, that were accumulated in unrestricted net assets prior to the discontinuance of hedge accounting are being amortized in nonoperating gains (losses), net using the straight-line method over the remaining life of the swaps.

During 2013, the Organization novated swaps held by Winter Haven (see note 6) to the Organization. The notional value of these swaps as of December 31, 2013 is \$56,500,000. The Organization does not designate these interest rate swaps as hedges, and has recorded them at fair value, included in the table above.

The change in fair value of the interest rate swaps resulted in a gain of approximately \$45,500,000 and a gain of approximately \$1,049,000 for the years ended December 31, 2013 and 2012, respectively, included in nonoperating gains, net.

(6) Business Acquisitions – Winter Haven

The fair value of assets acquired exceeded liabilities assumed, resulting in an inherent contribution of \$131,189,000, which was recorded in contribution received from business acquisitions in the combined statements of operations and changes in net assets for the year ended December 31, 2013. The net assets acquired include \$1,117,000 in temporarily restricted and \$966,000 in permanently restricted. No consideration was transferred in this acquisition. Acquisition costs of \$1,113,000 are included in other expenses in the combined statements of operations and changes in net assets.

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Opening balance sheet information for Winter Haven at August 30, 2013 is shown below (in thousands):

Assets

Current assets:

Cash and cash equivalents	\$	15,667
Short-term investments		10,579
Accounts receivable, less allowance for uncollectible accounts		34,683
Inventories		7,412
Prepaid and other current assets		6,656

Total current assets 74,997

Investments	32,374
Assets limited as to use	8,817
Property and equipment	151,612
Beneficial interest in net assets of foundations	16,371
Other assets	12,119

Total assets 296,290

Liabilities and Net Assets

Current liabilities:

Accounts payable and accrued expenses	11,888
Employee compensation and benefits	16,854
Estimated third-party settlements	8,544
Current portion of long-term debt	8,006

Total current liabilities 45,292

Long-term debt, less current portion	78,187
Other liabilities	41,622

Total liabilities 165,101

Total net assets acquired \$ 131,189

The acquisition of Winter Haven added \$88,921,000 of operating revenues and \$890,000 of excess of revenues and gains over expenses to the Organization's combined results from August 30 to December 31, 2013.

On an unaudited pro forma basis, had the Organization owned WHH and MFPS at the beginning of each year presented, the Organization would have reported \$2,743,033,000 and \$2,681,389,000 of operating revenues and \$636,607,000 and \$428,419,000 of excess of revenues and gains over expenses for the years ended December 31, 2013 and 2012, respectively. However, the unaudited pro forma information is not necessarily indicative of future results or the historical results that would have been obtained had the acquisition occurred on those dates.

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(7) Goodwill

Goodwill of approximately \$25,324,000 and \$22,259,000 at December 31, 2013 and 2012, respectively, included in other assets, results from the excess of the amount paid over the fair value of tangible assets and liabilities of acquired healthcare businesses. The Organization reviews goodwill for impairment at least annually or whenever events or circumstances indicate that the carrying value may not be recoverable in accordance with the provisions of Accounting Standards Codification Topic 350, *Intangibles – Goodwill and Other*.

The annual impairment test was completed for the years ended December 31, 2013 and 2012 and it was determined that no impairment existed. No recent events or circumstances have occurred to indicate that impairment may exist.

(8) Commitments and Contingencies

(a) Professional Liability

The nature of the Organization's business inherently subjects the Organization to the risks of professional liability litigation. Estimated losses arising from events identified under the Organization's incident reporting system have been recorded in the accompanying combined financial statements. In addition, an accrual for possible losses attributable to incidents that may have occurred, but that have not been identified under the incident reporting system has been estimated. The estimate is valued at the present value of discounted future cash flows based on historical experience, relevant trend factors, and advice from consulting actuaries. The Organization is presently a defendant in various professional liability related legal actions. The Organization may be liable for losses in excess of the amount recorded at December 31, 2013; however, in the opinion of management, adequate provision has been made for estimated losses from asserted and unasserted claims.

The Organization's entities are insured through a retrospectively rated insurance agreement with the Captive. The Captive also provides professional liability insurance for Florida-licensed, practicing physicians and allied healthcare professionals who meet the company's underwriting requirements and have privileges to treat patients at the Organization's affiliated facilities.

Claims of approximately \$131,294,000 and \$115,811,000 at December 31, 2013 and 2012, respectively, are accrued based upon the expected ultimate costs of the experience to date of the captive (including a provision for unknown incidents) discounted using a rate of 1.0% at December 31, 2013 and 2012, and are included in other long-term liabilities.

(b) Litigation and Investigations

Certain of the Organization's affiliated entities currently are the subject of litigation other than professional liability litigation, as well as inquiries by federal agencies. The litigation generally involves matters of healthcare and employment law, as well as certain matters that arise in the ordinary course of business. The inquiries generally involve the application of complex healthcare regulations. The Organization is fully cooperating with the federal agencies in connection with their inquiries. Based on current information, management believes at this time that the results of the

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litigation and inquiries are not likely to have a material adverse effect on the combined financial position and results of the Organization.

On November 19, 2012, certain of the Organization's affiliated entities entered into a settlement agreement with the federal government to resolve allegations that the affiliated entities violated the False Claims Act related to the status of certain Medicare patients who were billed as inpatients from 2006 to 2008 primarily with respect to cardiac procedures. MPMHC also entered into a 5-year Corporate Integrity Agreement.

(c) *Operating Leases*

The Organization has entered into noncancelable operating lease agreements for the rental of building space, computer software, and equipment. Future minimum lease payments associated with these lease agreements (with initial or remaining lease terms in excess of one year) for each of the five years subsequent to December 31, 2013 are (in thousands) as follows:

2014	\$	15,382
2015		14,508
2016		10,312
2017		5,127
2018		3,384
Thereafter		11,202
Total	\$	<u>59,915</u>

Rental expense for operating leases totaled approximately \$24,621,000 and \$27,430,000 for the years ended December 31, 2013 and 2012, respectively.

(9) **Retirement Plans**

(a) *Pension Plan – BayCare*

Effective October 1, 2001, the Organization's board of trustees approved a system wide BayCare Health System Retirement Plan (Retirement Plan), a defined contribution plan that covers substantially all employees who meet certain service requirements. For these employees, the Retirement Plan provides that the Organization will contribute 2% of wages and also match 50% of the employee's contributions up to 6% of the contributing employee's wages. Prior existing defined contribution plans were rolled into the Retirement Plan. Contribution expense attributable to the defined contribution plan was approximately \$31,326,000 and \$32,343,000 for the years ended December 31, 2013 and 2012, respectively.

Employees who were participants in the Organization's defined benefit pension plan were given a one-time option to remain in the defined benefit pension plan or participate in the Retirement Plan. For participants who elected to participate in the Retirement Plan, the Organization froze their benefits so the participants no longer earn additional benefits for future services in the defined benefit pension plan.

The authoritative guidance for the accounting of defined benefit pension and other postretirement plans requires recognition in the combined balance sheets of the funded status of defined benefit pension plans and the recognition in unrestricted net assets of unrecognized gains or losses, prior service costs or credits,

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2013 and 2012

and transition assets or obligations existing at the time of adoption. The funded status is measured as the difference between the fair value of the defined benefit pension plan's assets and the projected benefit obligation of the plan. The valuation of plan assets and the calculation of benefit obligations and funded status utilized a measurement date of December 31, 2013 and 2012.

The following are deferred pension costs, which have not yet been recognized in periodic pension expense, but instead are accrued in unrestricted net assets as of December 31, 2013 (in thousands):

	Amounts recognized in unrestricted net assets at December 31, 2013	Amounts in unrestricted net assets to be recognized during the next fiscal year
Net actuarial loss	\$ 11,314	3,283

Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the average remaining assumed service period for active employees.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2013 and 2012

The following table sets forth changes to the defined benefit pension plan's benefit obligation, plan assets, and funded status (included in other noncurrent liabilities) as of December 31, 2013 and 2012, the measurement dates (in thousands):

	Year ended December 31	
	2013	2012
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 165,193	161,615
Service cost	1,704	1,765
Interest cost	6,339	6,844
Actuarial loss (gain)	(9,449)	5,331
Benefits paid	(9,602)	(10,362)
Projected benefit obligation at end of year	<u>154,185</u>	<u>165,193</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	113,211	106,043
Actual return on plan assets	13,171	12,530
Contributions made	5,000	5,000
Benefits paid	(9,602)	(10,362)
Fair value of plan assets at end of year	<u>121,780</u>	<u>113,211</u>
Net amount recognized as accrued pension cost		
included in other noncurrent liabilities	\$ <u>(32,405)</u>	<u>(51,982)</u>

The accumulated benefit obligation for the pension plan was approximately \$152,575,000 and \$162,936,000 at December 31, 2013 and 2012, respectively.

The following table summarizes components of net periodic pension cost of the defined benefit pension plan (in thousands):

	Year ended December 31	
	2013	2012
Service cost	\$ 1,704	1,765
Interest cost	6,339	6,844
Expected return on plan assets	(6,496)	(6,998)
Amortization of net actuarial loss	1,736	2,011
Net periodic pension cost	<u>\$ 3,283</u>	<u>3,622</u>

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2013 and 2012

Weighted average assumptions used to determine net periodic pension cost of the defined benefit pension plan are as follows:

	Year ended December 31	
	2013	2012
Discount rate	4.00%	4.40%
Projected rate of increase in future compensation levels	4.00	4.00
Expected long-term rate of return on plan assets	6.10	7.00

Weighted average assumptions used to determine benefit obligations of the defined benefit pension plan are as follows:

	Year ended December 31	
	2013	2012
Discount rate	4.67%	4.00%
Projected rate of increase in future compensation levels	3.00	4.00

The Organization expects to contribute approximately \$5,000,000 to the defined benefit pension plan prior to December 31, 2014.

The benefits expected to be paid in each year from 2014 to 2018 are approximately \$11,934,000, \$11,493,000, \$11,585,000, \$11,396,000, and \$11,331,000, respectively. The aggregate benefits expected to be paid in the five years from 2019 to 2023 are approximately \$57,292,000. The expected benefits to be paid are based on the same assumptions used to measure the Organization's benefit obligation at December 31, 2013 and include estimated future employee service.

The investment objective of the defined benefit plan is to produce a return on investment that is based upon levels of liquidity and investment risk that are prudent and reasonable, given prevailing capital market conditions, which allows for payments of benefits to participants and their beneficiaries. The investment objective also incorporates the financial condition of the plan, future growth of active and retired participants, inflation, and the rate of salary increases. The defined benefit plan's investment committee has selected market-based benchmarks to monitor the performance of the investment strategy and performs periodic reviews of investment performance.

The investment strategy has a current target asset allocation policy as follows: 35% fixed income, 30% domestic equities, 20% international equities, 10% hedge funds, and 5% Treasury Inflation Protected Securities (TIPS). The expected long-term rate of return on plan assets is based primarily on expectations of future returns for the defined benefit plan's investments, based upon the target asset allocation. Additionally, the historical returns on comparable equity and fixed income investments are considered in the estimate of the expected long-term rate of return on plan assets.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2013 and 2012

The table below summarizes the fair values of pension plan assets as of December 31, 2013 (in thousands) (see note 2(p) for discussion of valuation methods):

	December 31, 2013	Fair value measurements at reporting date	
		Level 1	Level 2
Asset category:			
Cash	\$ 71	71	—
Equity securities:			
U.S.	38,451	7,828	30,623
International	24,941	—	24,941
Fixed income securities:			
Core holdings	40,129	26,209	13,920
Treasury Inflation (TIPS)	5,749	—	5,749
Hedge funds	12,439	—	12,439
Total	<u>\$ 121,780</u>	<u>34,108</u>	<u>87,672</u>

There were no transfers between levels during the year.

The table below summarizes the fair values of pension plan assets as of December 31, 2012 (in thousands):

	December 31, 2012	Fair value measurements at reporting date	
		Level 1	Level 2
Asset category:			
Cash	\$ 117	117	—
Equity securities:			
U.S.	33,216	6,695	26,521
International	23,582	5,367	18,215
Fixed income securities:			
Core holdings	39,286	25,708	13,578
Treasury Inflation (TIPS)	5,581	—	5,581
Hedge funds	11,429	—	11,429
Total	<u>\$ 113,211</u>	<u>37,887</u>	<u>75,324</u>

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2013 and 2012

The fair values of the following pension plan assets have been estimated using the net asset value per share of the investments as of December 31, 2013 and 2012 (in thousands). There are no unfunded commitments on any of these funds at December 31, 2013 and 2012.

	December 31		Redemption frequency	Redemption notice period
	2013	2012		
Asset category:				
U.S. equity index fund (a)	\$ 30,623	26,521	Daily	None
International small cap equity partnership (b)	6,417	6,255	Monthly	15 days
International emerging markets equity partnership (c)	5,643	6,150	Monthly	10 days
International equities fund (d)	6,566	5,810	Daily	None
International equities partnership (e)	6,315	—	Monthly	15 days
TIPS commingled fund (f)	5,749	5,581	Daily	None
Long duration core fixed income commingled fund (g)	13,920	13,578	Daily	None
Hedge fund of funds (h)	12,439	11,429	Semiannually	95 days
	<u>\$ 87,672</u>	<u>75,324</u>		

- (a) The primary objective of the U.S. equity index fund is to approximate the risk and return characteristics of the S&P 500 Index. This index is commonly used to represent the large-cap segment of the U.S. equity market. This fund may participate in securities lending.
- (b) The international small cap equity partnership's investment objective is to outperform the MSCI EAFE Small Cap Market Index by investing in a portfolio of non-U.S. small cap equities.
- (c) The investment objective of the international emerging markets equity partnership is to outperform the MSCI Emerging Markets Index, net of dividend withholding taxes, by investing in a portfolio of non-U.S. emerging market equities.
- (d) The international equities fund seeks capital appreciation through investments in an international portfolio of equity securities of issuers located in countries of developed markets.
- (e) The primary objective of the international equities partnership is to achieve long-term total return by investing in value equity securities of non-U.S. issuers, including emerging markets.
- (f) The primary investment objective of the TIPS commingled fund is to match the risk and return characteristics of the Barclays Capital TIPS Index. This fund may participate in securities lending.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2013 and 2012

- (g) The primary objective of the long duration corefixed income commingled fund is to outperform the total return of the Barclays Capital Long Government/Credit Index.
- (h) The hedge fund of funds' objective is to develop and actively maintain an investment portfolio of long-term returns, with low volatility and downside protection qualities.

(b) Pension Plan – Winter Haven

Qualified employees of Winter Haven participate in the Mid-Florida Medical Services, Inc. Pension Plan (the Plan) – a cash balance hybrid multiemployer plan. A qualified employee is one who is over the age of 21, has received credit for at least 1,000 hours of service in a 12-month period, and was not over the age of 60 when hired. The Plan is funded to at least the minimum required ERISA contribution.

On November 26, 2013, the Organization's board approved the curtailment of the Plan, effective December 31, 2013. The terms of the curtailment generally provide that no further benefit accrual under the Plan is provided for service after the effective date nor will new entrants into the Plan be permitted after the effective date. The financial impact of the curtailment of \$(2,421) was recognized in net periodic pension cost in the 2013 combined financial statements. A discount rate of 4.67% was used to remeasure obligations at the curtailment date.

The following are deferred pension costs, which have not yet been recognized in periodic pension expense, but instead are accrued in unrestricted net assets as of December 31, 2013 (in thousands):

	Amounts recognized in unrestricted net assets at December 31, 2013	Amounts in unrestricted net assets to be recognized during the next fiscal year
Net actuarial loss	\$ 1,032	(222)

Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the average remaining assumed service period for active employees.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2013 and 2012

The following table sets forth changes to the Plan's benefit obligation, plan assets, and funded status (included in other noncurrent liabilities) as of December 31, 2013, the measurement date (in thousands):

	Year ended December 31, 2013
Change in projected benefit obligation:	
Projected benefit obligation at beginning of year	\$ 56,276
Service cost	791
Interest cost	844
Actuarial loss	1,032
Plan curtailments	(2,421)
Benefits paid	(1,322)
	<hr/>
Projected benefit obligation at end of year	55,200
Change in plan assets:	
Fair value of plan assets at beginning of year	45,933
Actual return on plan assets	4,379
Contributions made	570
Benefits paid	(1,322)
	<hr/>
Fair value of plan assets at end of year	\$ 49,560
	<hr/>
Net amount recognized as accrued pension cost included in other noncurrent liabilities	\$ (5,640)

The accumulated benefit obligation for the Plan was approximately \$55,200,000 at December 31, 2013.

The following table summarizes components of net periodic pension cost of the Plan (in thousands):

	Year ended December 31, 2013
Service cost	\$ 791
Interest cost	844
Expected return on plan assets	(1,151)
Curtailment gain	(2,421)
	<hr/>
Net periodic pension cost	\$ (1,937)
	<hr/>

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2013 and 2012

Weighted average assumptions used to determine net periodic pension cost of the Plan are as follows:

	Year ended December 31, 2013
Discount rate	4.62%
Projected rate of increase in future compensation levels	3.00
Expected long-term rate of return on plan assets	7.75

Weighted average assumptions used to determine benefit obligations of the Plan are as follows:

	Year ended December 31, 2013
Discount rate	4.67%
Projected rate of increase in future compensation levels	N/A

Winter Haven does not expect to contribute to the Plan in 2014.

The benefits expected to be paid in each year from 2014 to 2018 are approximately \$3,983,000, \$2,924,000, \$3,173,000, \$3,752,000, and \$3,559,000, respectively. The aggregate benefits expected to be paid in the five years from 2019 to 2023 are approximately \$17,861,000. The expected benefits to be paid are based on the same assumptions used to measure Winter Haven's benefit obligation at December 31, 2013 and include estimated future employee service.

The plan assets are administered by a trustee and are invested in the following percentages in various instruments at December 31, 2013: 50% equity securities, 40% fixed income securities, and 10% other investments.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2013 and 2012

The table below summarizes the fair values of pension plan assets as of December 31, 2013 (in thousands) (see note 2(p) for discussion of valuation methods):

	December 31, 2013	Fair value measurements at reporting date	
		Level 1	Level 2
Asset category:			
Cash	\$ 2,958	2,958	—
Equity securities:			
U.S.	18,555	12,912	5,643
International	11,875	11,875	—
Fixed income securities:			
Core holdings	13,510	9,694	3,816
Global	1,760	1,760	—
Treasury Inflation (TIPS)	902	902	—
Total	\$ 49,560	40,101	9,459

There were no transfers between levels during the year.

The fair values of the following pension plan assets have been estimated using the net asset value per share of the investments as of December 31, 2013 (in thousands). There are no unfunded commitments on any of these funds at December 31, 2013.

	December 31, 2013	Redemption frequency	Redemption notice period
Asset category:			
U.S. equity index fund (a)	\$ 5,643	Daily	None
Passive core fixed income commingled fund (b)	3,816	Daily	None
	\$ 9,459		

(a) The primary objective of the U.S. equity index fund is to seek a return that approximates the performance of the Russell 1000 Index, before expenses. This index is commonly used to represent the highest ranking 1,000 stocks in the Russell 3000 Index. This fund may participate in securities lending.

(b) The primary objective of the commingled fund is to seek a return that approximates the performance of the Barclays U.S. Aggregate Bond Index, before expenses. This fund may participate in securities lending.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Combined Financial Statements

December 31, 2013 and 2012

(10) Subsequent Events

The Organization has evaluated events and transactions occurring subsequent to December 31, 2013 as of March 10, 2014, which is the date the financial statements were issued. Management believes that no material events have occurred since December 31, 2013 that requires recognition or disclosure in the combined financial statements.

COMBINING INFORMATION

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combining Balance Sheet Information

December 31, 2013

(In thousands)

Assets	BayCare Health System, Inc.	Winter Haven Hospital, Inc.	Combined CHE Participants	Morton Plant Mease Health Care, Inc.	South Florida Baptist, Inc.	BCHS Insurance, Ltd.	Subtotal	Eliminations	Combined
Current assets:									
Cash and cash equivalents	\$ 42,587	2,803	532	4,781	2	—	50,705	—	50,705
Collateral received for securities lending transactions	348,453	—	—	—	—	—	348,453	—	348,453
Investments held on behalf of others	27,656	—	—	—	—	—	27,656	—	27,656
Assets limited as to use	—	—	2,415	—	—	—	2,415	—	2,415
Accounts receivable, net	28,104	36,437	136,986	110,086	10,803	—	322,416	—	322,416
Inventories	14,758	6,444	20,094	16,185	2,295	—	59,776	—	59,776
Prepaid and other current assets	24,967	6,793	8,706	9,371	553	1	50,391	(3,428)	46,963
Total current assets	486,525	52,477	168,733	140,423	13,653	1	861,812	(3,428)	858,384
Investments	2,439,751	53,800	—	—	—	—	2,493,551	—	2,493,551
Assets limited as to use	—	1	6,433	1,268	—	185,041	192,743	—	192,743
Property and equipment, net	181,742	149,230	915,334	520,006	38,026	—	1,804,338	—	1,804,338
Beneficial interest in net assets of foundations	—	14,372	29,347	100,632	6,353	—	150,704	—	150,704
Due from affiliates	(1,402,858)	(96,028)	553,820	879,497	69,365	—	3,796	(3,796)	—
Other assets	170,671	11,934	26,599	26,959	243	3,775	240,181	(140,253)	99,928
Total assets	\$ 1,875,831	185,786	1,700,266	1,668,785	127,640	188,817	5,747,125	(147,477)	5,599,648
Liabilities and Net Assets									
Current liabilities:									
Accounts payable and accrued expenses	\$ 83,173	9,598	38,696	41,979	2,534	1,657	177,637	(3,349)	174,288
Employee compensation and benefits	95,890	16,516	38,049	31,216	2,695	—	184,366	—	184,366
Estimated third-party settlements	—	7,195	47,943	40,678	3,647	—	99,463	—	99,463
Short-term debt	77,600	—	—	—	—	—	77,600	—	77,600
Current portion of long-term debt	24,940	1,561	659	614	—	—	27,774	(80)	27,694
Long term debt, subject to short-term put arrangements	108,465	—	—	—	—	—	108,465	—	108,465
Liabilities for investments held on behalf of others	27,656	—	—	—	—	—	27,656	—	27,656
Liabilities under securities lending transactions	348,453	—	—	—	—	—	348,453	—	348,453
Total current liabilities	766,177	34,870	125,347	114,487	8,876	1,657	1,051,414	(3,429)	1,047,985
Long-term debt, less current portion	765,634	4,213	840	7,527	—	—	778,214	(208)	778,006
Other liabilities	35,573	10,900	54,526	727	—	166,651	268,377	1,372	269,749
Total liabilities	1,567,384	49,983	180,713	122,741	8,876	168,308	2,098,005	(2,265)	2,095,740
Net assets:									
Unrestricted	308,447	133,644	1,496,532	1,464,384	115,823	20,509	3,539,339	(145,212)	3,394,127
Temporarily restricted	—	1,193	21,819	55,040	2,941	—	80,993	—	80,993
Permanently restricted	—	966	1,202	26,620	—	—	28,788	—	28,788
Total net assets	308,447	135,803	1,519,553	1,546,044	118,764	20,509	3,649,120	(145,212)	3,503,908
Total liabilities and net assets	\$ 1,875,831	185,786	1,700,266	1,668,785	127,640	188,817	5,747,125	(147,477)	5,599,648

See accompanying independent auditors' report.

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combining Statement of Operations and Changes in Net Assets Information

Year ended December 31, 2013

(In thousands)

	BayCare Health System, Inc.	Winter Haven Hospital, Inc.	Combined CHE Participants	Morton Plant Mease Health Care, Inc.	South Florida Baptist, Inc.	BCHS Insurance, Ltd.	Subtotal	Eliminations	Combined
Operating revenues:									
Patient service revenue (net of contractual adjustments and discounts)	\$ 176,990	99,531	1,249,552	1,032,318	104,066	—	2,662,457	(16,084)	2,646,373
Provision for bad debts	(6,541)	(13,003)	(71,235)	(64,673)	(8,713)	—	(164,165)	—	(164,165)
Net patient service revenue less provision for bad debts	170,449	86,528	1,178,317	967,645	95,353	—	2,498,292	(16,084)	2,482,208
Other revenues	275,069	1,737	35,634	22,808	2,926	—	338,174	(251,942)	86,232
Total operating revenues	445,518	88,265	1,213,951	990,453	98,279	—	2,836,466	(268,026)	2,568,440
Operating expenses:									
Salaries and benefits	252,592	49,709	568,147	440,921	41,030	—	1,352,399	(17,591)	1,334,808
Supplies	37,527	17,476	201,978	178,837	16,110	—	451,928	—	451,928
Other expenses	85,601	15,260	249,212	225,737	19,989	—	595,799	(192,153)	403,646
Depreciation and amortization	33,177	7,124	87,032	57,756	5,540	—	190,629	(25,325)	165,304
Interest	27,605	918	14,622	11,627	978	—	55,750	(27,845)	27,905
Loss on impairment of long-lived assets	669	—	—	—	—	—	669	—	669
Total operating expenses	437,171	90,487	1,120,991	914,878	83,647	—	2,647,174	(262,914)	2,384,260
Operating income (loss)	8,347	(2,222)	92,960	75,575	14,632	—	189,292	(5,112)	184,180
Nonoperating gains, net:									
Investment income, net	252,931	3,858	86	158	1	95	257,129	—	257,129
Gain on interest rate swaps	44,073	969	—	—	—	—	45,042	—	45,042
Gain on extinguishment of debt	—	1,559	—	—	—	—	1,559	—	1,559
Contribution received from business acquisition	131,189	—	—	—	—	—	131,189	—	131,189
Other nonoperating gains (losses), net	2,148	(1,998)	3,313	10,170	1,094	—	14,727	(1,988)	12,739
Total nonoperating gains, net	430,341	4,388	3,399	10,328	1,095	95	449,646	(1,988)	447,658
Excess of revenues and gains over expenses	438,688	2,166	96,359	85,903	15,727	95	638,938	(7,100)	631,838

BAYCARE HEALTH SYSTEM, INC. AND AFFILIATES

Combining Statement of Operations and Changes in Net Assets Information

Year ended December 31, 2013

(In thousands)

	BayCare Health System, Inc.	Winter Haven Hospital, Inc.	Combined CHE Participants	Morton Plant Mease Health Care, Inc.	South Florida Baptist, Inc.	BCHS Insurance, Ltd.	Subtotal	Eliminations	Combined
Unrestricted net assets:									
Excess of revenues and gains over expenses	\$ 438,688	2,166	96,359	85,903	15,727	95	638,938	(7,100)	631,838
Net unrealized gains (losses) on other-than-trading securities	182	—	(8)	—	—	—	174	—	174
Net asset transfers from joint operating agreement participants, net	(230,079)	—	140,179	92,371	(2,471)	—	—	—	—
Contributions for capital equipment	—	—	1,336	443	—	—	1,779	—	1,779
Net assets released from restrictions for purchase of property and equipment	—	—	100	—	—	—	100	—	100
Amortization of accumulated hedge accounting losses	458	—	—	—	—	—	458	—	458
Pension-related changes other than net periodic pension cost	—	—	16,815	—	—	—	16,815	—	16,815
Winter Haven pension-related changes other than net periodic pension cost	—	2,197	—	—	—	—	2,197	—	2,197
Other	(6,325)	129,281	312	158	(1)	—	123,425	(125,989)	(2,564)
Increase in unrestricted net assets	202,924	133,644	255,093	178,875	13,255	95	783,886	(133,089)	650,797
Temporarily restricted net assets:									
Contributions	—	—	493	232	57	—	782	—	782
Change in beneficial interest in net assets of foundations	—	76	432	6,862	83	—	7,453	—	7,453
Net assets released from restrictions for purchase of property and equipment	—	—	(100)	—	—	—	(100)	—	(100)
Net assets released from restrictions for operations	—	—	(429)	(199)	(35)	—	(663)	—	(663)
Contribution received from business acquisition	—	1,117	—	—	—	—	1,117	—	1,117
Other	—	—	(97)	—	—	—	(97)	—	(97)
Increase in temporarily restricted net assets	—	1,193	299	6,895	105	—	8,492	—	8,492
Permanently restricted net assets:									
Change in beneficial interest in net assets of foundations	—	—	19	1,541	—	—	1,560	—	1,560
Contribution received from business acquisition	—	966	—	—	—	—	966	—	966
Other	—	—	—	(1)	—	—	(1)	—	(1)
Increase in permanently restricted net assets	—	966	19	1,540	—	—	2,525	—	2,525
Increase in net assets	202,924	135,803	255,411	187,310	13,360	95	794,903	(133,089)	661,814
Net assets at beginning of year	105,523	—	1,264,142	1,358,734	105,404	20,414	2,854,217	(12,123)	2,842,094
Net assets at end of year	\$ 308,447	135,803	1,519,553	1,546,044	118,764	20,509	3,649,120	(145,212)	3,503,908

See accompanying independent auditors' report.