Texas Health Resources

Consolidated Financial Statements

December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 3100
717 North Harwood Street
Dallas, TX 75201-6585

INDEPENDENT AUDITORS' REPORT

The Board of Trustees,
Texas Health Resources:

We have audited the accompanying consolidated financial statements of Texas Health Resources, a Texas non-profit corporation, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Texas Health Resources as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Dallas, Texas

April 14, 2014

TEXAS HEALTH RESOURCES
CONSOLIDATED BALANCE SHEETS
December 31, 2013 and 2012
(Dollars in Thousands)

	2013	2012
Assets		
Current Assets:		
Cash and cash equivalents	$ 334,539	$ 448,503
Short-term investments	1,436	1,526
Receivables -		
Patient, less allowance for doubtful accounts of $117,898 in 2013 and $103,280 in 2012	402,477	361,091
Other, net	131,665	92,162
Assets limited as to use	226,762	254,394
Other current assets	106,870	95,495
Total current assets	1,203,749	1,253,171
Assets Limited as to Use	2,778,059	2,050,969
Property and Equipment, net	1,781,225	1,696,318
Investments in Unconsolidated Affiliates	142,001	121,030
Goodwill and Intangible Assets, net	163,708	141,238
Other Assets, net	34,336	38,891
Total assets	$ 6,103,078	$ 5,301,617
Liabilities and Net Assets		
Current Liabilities:		
Current portion of long-term debt	$ 214,839	$ 209,634
Accounts payable	186,843	152,646
Estimated third-party payor settlements	39,790	38,412
Accrued salaries, wages, and employee benefits	225,313	213,180
Other accrued liabilities	163,985	161,970
Total current liabilities	830,770	775,842
Long-Term Debt, net of current portion	1,281,952	1,245,181
Other Noncurrent Liabilities	63,379	67,482
Total liabilities	2,176,101	2,088,505
Net Assets:		
Net Assets of THR:		
Unrestricted	3,692,334	3,013,216
Temporarily restricted	94,454	82,427
Permanently restricted	63,398	56,559
Total net assets of THR	3,850,186	3,152,202
Non-controlling ownership interest in equity of consolidated affiliates - unrestricted	76,791	60,910
Total net assets	3,926,977	3,213,112
Total liabilities and net assets	$ 6,103,078	$ 5,301,617

See accompanying notes to consolidated financial statements.

TEXAS HEALTH RESOURCES
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years ended December 31, 2013 and 2012
(Dollars in Thousands)

	2013	2012
Operating Revenue:		
Net patient service revenue before provision for bad debts	$ 3,931,827	$ 3,825,963
Less: Provision for bad debts	288,512	278,616
Net patient service revenue	3,643,315	3,547,347
Equity in earnings of unconsolidated affiliates	42,130	6,255
Other operating revenue	160,802	171,156
Total operating revenue	3,846,247	3,724,758
Operating Expenses:		
Salaries, wages, and employee benefits	1,901,588	1,821,461
Supplies	635,482	593,777
Other operating expenses	742,303	786,272
Depreciation and amortization	192,846	185,161
Interest expense	54,749	49,344
Total operating expenses	3,526,968	3,436,015
Operating Income	319,279	288,743
Nonoperating Gains (Losses):		
Net realized investment income and gains	207,375	83,757
Net unrealized gains on investments	241,752	115,824
Equity in earnings of unconsolidated affiliates, nonoperating	2,054	4,009
Other, net	6,561	1,174
Total nonoperating gains, net	457,742	204,764
Revenue and Gains In Excess of Expenses and Losses before Income Taxes	777,021	493,507
Less: Income Tax Expense	9,293	10,170
Revenue and Gains In Excess of Expenses and Losses	767,728	483,337
Less: Revenue and Gains in Excess of Expenses and Losses Attributable to Non-Controlling Interest	63,164	53,215
Revenue and Gains In Excess of Expenses and Losses from Continuing Operations Attributable to THR	704,564	430,122

(Continued)

See accompanying notes to consolidated financial statements.

TEXAS HEALTH RESOURCES
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS, Continued
Years ended December 31, 2013 and 2012
(Dollars in Thousands)

	2013	2012
Other Changes in Unrestricted Net Assets:		
Net unrealized gains (losses) on investments, other than trading securities	$ (30,516)	$ 3,801
Net assets released from restrictions used for purchase of property and equipment	8,854	4,127
Change in fair value of interest rate swap agreements	3,222	42
Transfers to permanently restricted net assets	(200)	(200)
Other changes, net	(6,806)	(3,394)
Increase in Unrestricted Net Assets	679,118	434,498
Changes in Temporarily Restricted Net Assets:		
Contributions received for purchase of property and equipment	3,674	12,264
Contributions received for operations	12,220	10,392
Net realized investment gain	6,319	3,176
Net unrealized gains on investments	8,061	2,053
Change in value of split-interest agreement	(240)	104
Net assets released from restrictions	(17,184)	(20,665)
Transfers to permanently restricted net assets	(823)	(767)
Increase in Temporarily Restricted Net Assets	12,027	6,557
Changes in Permanently Restricted Net Assets:		
Contributions	4,728	2,136
Unrealized investment gains on beneficial interest in perpetual trust, net	1,088	203
Transfers from unrestricted net assets	200	200
Transfers from temporarily restricted net assets	823	767
Increase in Permanently Restricted Net Assets	6,839	3,306
Increase in Net Assets of THR	697,984	444,361
Net Assets of THR, beginning of year	3,152,202	2,707,841
Net Assets of THR, end of year	$ 3,850,186	$ 3,152,202

See accompanying notes to consolidated financial statements.

TEXAS HEALTH RESOURCES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2013 and 2012
(Dollars in Thousands)

	2013	2012
Cash Flows From Operating Activities:		
Increase in net assets of THR	$ 697,984	$ 444,361
Adjustments to reconcile increase in net assets to net cash provided by operating activities, excluding the net effects of acquisitions -		
Net unrealized gains on investments	(220,385)	(121,881)
Net realized gains on investments	(174,712)	(31,116)
Change in value of split-interest agreement	240	(104)
Provision for bad debts	289,204	279,185
Restricted contributions received for purchase of property and equipment	(3,674)	(12,264)
Depreciation and amortization	192,846	185,161
Amortization of bond premiums	(1,376)	(1,457)
Net (gains) losses on impairment and disposal of property and equipment	(725)	8,312
Gain on sale of Denton Surgery Center	-	(4,158)
Equity in earnings of unconsolidated affiliates	(42,130)	(6,255)
Distributions from unconsolidated affiliates	36,658	12,389
Equity in earnings of unconsolidated affiliates, nonoperating	(2,054)	(4,009)
Change in fair value of interest rate swap agreements	(3,222)	(42)
Revenue and gains in excess of expenses and losses attributable to non-controlling interest	63,164	53,215
Other changes in non-controlling interest of consolidated affiliates	-	(281)
(Increase) decrease in:		
Receivables, patient, net	(329,898)	(296,824)
Receivables, other, net	(40,195)	(29,476)
Other assets, net	(8,043)	3,324
Increase (decrease) in:		
Accounts payable and accrued liabilities	46,155	52,596
Other noncurrent liabilities	5,172	(1,472)
Net cash provided by operating activities	505,009	529,204

(Continued)

See accompanying notes to consolidated financial statements.

TEXAS HEALTH RESOURCES
CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
Years ended December 31, 2013 and 2012
(Dollars in Thousands)

	2013	2012
Cash Flows From Investing Activities:		
Purchases of property and equipment, net	$ (267,519)	$ (222,104)
Proceeds from disposal of property and equipment	6,600	2,633
Cash used to acquire physician practices and other consolidated affiliates	(37,411)	(957)
Investment in unconsolidated affiliates, net	(13,445)	(31,470)
Cash used in deconsolidation of Denton Surgery Center	-	(1,226)
Purchases of short-term investments and assets limited as to use, net	(304,511)	(246,202)
Net cash used in investing activities	(616,286)	(499,326)
Cash Flows From Financing Activities:		
Proceeds from issuance of long-term debt	74,638	206,985
Debt issuance costs	(395)	(1,797)
Principal payments on capital lease obligations	(1,256)	(1,396)
Principal payments on long-term debt, net	(30,030)	(34,459)
Contributions from non-contolling interest holders	1,877	2,352
Distributions to non-controlling interest holders	(51,195)	(42,666)
Proceeds from restricted contributions received for purchase of property and equipment	3,674	12,264
Net cash provided by (used in) financing activities	(2,687)	141,283
Net Increase (Decrease) in Cash and Cash Equivalents	(113,964)	171,161
Cash and Cash Equivalents, beginning of year	448,503	277,342
Cash and Cash Equivalents, end of year	$ 334,539	$ 448,503
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 56,456	$ 50,861
Cash paid for income taxes	$ 4,077	$ 3,876
Supplemental Schedule of Noncash Investing Activities:		
Contributions of property and equipment and other assets to THR-SCA Holdings, LLC	$ -	$ 14,435
Supplemental Schedule of Noncash Financing Activities:		
Property and equipment acquired through capital lease obligations	$ -	$ 381

See accompanying notes to consolidated financial statements.

1. Organization

Texas Health Resources (THR), a Texas non-profit corporation, operates through its controlled affiliates a health care system with services and facilities throughout north central Texas. THR is organized and operated for the benefit of its tax-exempt controlled affiliates and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986, as amended (the Code), as an organization described in Section 501(c)(3). THR's wholly-controlled facilities include 13 acute care hospitals and a 10-bed long-term care hospital. The following table provides the locations of THR's tax-exempt member hospitals (the Tax-Exempt Hospitals) as of December 31, 2013. The Tax-Exempt Hospitals have been recognized as exempt from federal income taxes under the Code as organizations described in Section 501(c)(3).

Tax-Exempt Hospital	Location (Texas)
Texas Health Arlington Memorial Hospital	Arlington
Texas Health Harris Methodist Hospital Alliance	Fort Worth
Texas Health Harris Methodist Hospital Azle	Azle
Texas Health Harris Methodist Hospital Cleburne	Cleburne
Texas Health Harris Methodist Hospital Fort Worth	Fort Worth
Texas Health Harris Methodist Hospital Hurst-Euless-Bedford	Bedford
Texas Health Harris Methodist Hospital Southwest Fort Worth	Fort Worth
Texas Health Harris Methodist Hospital Stephenville	Stephenville
Texas Health Presbyterian Hospital Allen	Allen
Texas Health Presbyterian Hospital Dallas	Dallas
Texas Health Presbyterian Hospital Denton	Denton
Texas Health Presbyterian Hospital Kaufman	Kaufman
Texas Health Presbyterian Hospital Plano	Plano
Texas Health Specialty Hospital Fort Worth (10-bed long-term care hospital)	Fort Worth

In addition, THR is the sole member or sole shareholder of certain other wholly-controlled affiliates engaged in health care related activities in support of its mission including Texas Health Physicians Group (THPG), a Texas 5.01(a) physician organization and recognized as exempt from federal income taxes under the Code as an organization described in Section 501(c)(3) that consists of approximately 825 employed physicians and mid level providers in over 230 locations throughout north central Texas.

1. Organization, continued

THR and some of its controlled affiliates participate in joint ventures with physicians and non physicians to operate hospitals and other health related ventures. The following table provides the location of the joint venture hospitals along with THR's ownership interest in those hospitals at December 31, 2013.

Hospital	Location (Texas)	Ownership Interest
Consolidated:		
Texas Institute for Surgery, L.L.P. (d/b/a Texas Institute for Surgery at Texas Health Presbyterian Hospital Dallas)	Dallas	50.0%
Physicians Medical Center, L.L.C. (d/b/a Texas Health Center for Diagnostics & Surgery Plano)	Plano	53.4%
Southlake Specialty Hospital, L.L.C. (d/b/a Texas Health Harris Methodist Hospital Southlake)	Southlake	53.7%
Rockwall Regional Hospital L.L.C. (d/b/a Texas Health Presbyterian Hospital Rockwall)	Rockwall	59.3%
Flower Mound Hospital Partners, L.L.C. (d/b/a Texas Health Presbyterian Hospital Flower Mound)	Flower Mound	55.1%
AMH Cath Labs, L.L.C. (d/b/a Texas Health Heart & Vascular Hospital Arlington)	Arlington	55.4%
Unconsolidated:		
USMD Hospital of Arlington, L.P.	Arlington	51.0%
USMD Hospital of Fort Worth, L.P.	Fort Worth	51.0%
Texas Health Huguley, Inc. (d/b/a Texas Health Huguley Hospital Fort Worth South)	Fort Worth	51.0%
Sherman/Grayson Health System, L.L.C. (d/b/a Texas Health Presbyterian Hospital - WNJ)	Sherman	50.1%
Texas Rehabilitation Hospital of Fort Worth, L.L.C.	Fort Worth	30.0%

In addition to the hospitals listed above, there are numerous other non-hospital health related joint ventures included in THR's accompanying consolidated financial statements, including outpatient imaging and surgery centers.

THR and its tax-exempt controlled affiliates received support from two foundations, Texas Health Harris Methodist Foundation and Texas Health Presbyterian Foundation. Effective June 1, 2013, these foundations were merged to form a single new philanthropic organization, the Texas Health Resources Foundation. These foundations (collectively, the Foundations) operate as non-private foundations exempt from federal income taxes under Section 501(a) of the Code as organizations described in Section 501(c)(3), and THR is the sole corporate member.

The accompanying consolidated financial statements include the accounts of THR, the Foundations, its wholly controlled affiliates and its consolidated joint ventures (collectively, the System). All significant intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements.

2. Summary of Significant Accounting Policies

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include cash, money market funds, and governmental or other securities with original maturities of three months or less at time of purchase, excluding amounts limited as to use by board designation or other arrangements. THR's cash management system provides for daily investment of available balances and the funding of outstanding checks when presented for payment. Outstanding, but unpresented, checks totaling approximately $20,432,000 at December 31, 2013, have been included in accounts payable in the accompanying consolidated balance sheets. Upon presentation for payment, these checks are funded through available cash or cash equivalent balances. The change in outstanding but unpresented checks is included in cash used in operating activities on the accompanying consolidated statements of cash flows.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Realized investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in revenue and gains in excess of expenses and losses unless the income or loss is restricted by donor or law. Investments in mineral interests, which have limited marketability, are stated at fair value, as estimated based on a multiple of annual revenues. Investments in real estate are stated at fair value, as estimated by using private valuations. Investments in hedge funds are stated at fair value, as estimated by the general partner of the hedge fund and reviewed by management. Unrealized gains and losses on investments are excluded from revenue and gains in excess of expenses and losses unless the investments are trading securities. Management reviews individual securities to determine whether a decline in fair value below the amortized cost basis is other than temporary. If the decline in fair value is judged to be other than temporary, the cost basis of the individual security is written down to fair value as a new cost basis and the amount of the write-down is included in realized investment gains or losses in the consolidated statements of operations and changes in net assets. To determine whether a decline is other than temporary, management considers whether it has the ability and intent to hold the investment until a market price recovery, which may be maturity, and whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary.

The System invests in various securities. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonable to assume that changes in the values of investment securities will occur in the near term and that such changes could be material to the accompanying consolidated financial statements.

Split-Interest Agreements

The System has received as contributions various types of split-interest agreements, including charitable gift annuities, charitable remainder unitrusts and perpetual trusts held by a third party.

2. Summary of Significant Accounting Policies, continued

Split-Interest Agreements, *continued*

Under charitable gift annuity arrangements for which the System is the trustee of the assets, the System records the assets at fair value and the liabilities to the beneficiaries at the present value of the estimated future payments to be distributed by the System to such beneficiaries. The amount of the contribution is the difference between the asset and the liability and is recorded as unrestricted revenue, unless otherwise restricted by the donor. Subsequent changes to the annuity liability are recorded as changes in value of split-interest agreements in the appropriate net asset class.

Under charitable remainder unitrust arrangements for which the System is the trustee of the assets, the System records as donor-restricted contributions the present value of the residual interest in the trust in the period in which the trust is established. The assets held in trust are recorded at fair value when received, and the liabilities to the beneficiaries are recorded at the present value of the estimated future payments to be distributed by the System to such beneficiaries. The amount of the contribution is the difference between the asset and the liability and is recorded as temporarily restricted or permanently restricted support. Subsequent changes in fair value for charitable remainder unitrusts are recorded as changes in value of split-interest agreements in the appropriate net asset class.

Under perpetual trusts held by a third-party arrangement, the System records contribution revenue and an asset when it is notified of the trust's existence. The fair value of the contribution is measured at the present value of the estimated future cash receipts from the trust's assets and that value may generally be measured by the fair value of the assets contributed to the trust, unless facts and circumstances indicate that the fair value of the assets contributed to the trust differs from the present value of the expected future cash flows. Distributions from the trust are reported as investment income that increases the appropriate net asset class. Adjustments to the amount reported as an asset, based on periodic review, are recognized as unrealized investment gains or losses on beneficial interest in perpetual trust in the permanently restricted net asset class.

Under the charitable gift annuity arrangements and charitable remainder unitrust arrangements for which the System is not the trustee of the assets, the System records a receivable and contribution revenue at the present value of the estimated future distributions expected to be received by the System over the expected term of the agreement. However, if an unrelated third-party has variance power to redirect the benefits to another organization or if the System's rights to the benefits are conditional, the System does not recognize its potential for future distributions from the asset held by the trustee.

The discount rates and actuarial assumptions used in calculating present values have been based on Internal Revenue Service guidelines and actuarial tables. For agreements in which the System is the trustee, the discount rates used are commensurate with the risks involved at the time the contributions are initially recognized and are not subsequently revised. For agreements in which the System is not the trustee, under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-30, Not-for-Profit Entities Split Interest Agreements, and the guidance as provided in the AICPA Audit and Accounting Guide, Not-for-Profit Organizations, split-interest agreements held by others net expected cash flows are revalued to fair value at each year-end using a current risk-free rate of return, which ranged from 1.75% to 3.96% and 0.72% to 2.95% for the years ended December 31, 2013 and 2012, respectively.

2. Summary of Significant Accounting Policies, continued

Accounts Receivable and Allowance for Doubtful Accounts

Patient accounts receivable are reported net of estimated allowances for doubtful accounts and contractual adjustments in the balance sheets. The allowance and resulting provision for bad debts is based upon a combination of the aging of receivables and management's assessment of historical and expected net collections considering business and economic conditions, trends in health care coverage and other collection indicators for each of its major payor sources of revenue. Management assesses the adequacy of the allowance for doubtful accounts based upon historical write-off experience and payment trends by payor category. Patient accounts are also monitored and, if necessary, past due accounts are placed with collection agencies in accordance with guidelines established by management. For receivables associated with services provided to patients who have third-party coverage, the System analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the System records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the billed rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The System's allowance for doubtful accounts for self-pay patients (including allowances for charity care) increased from 94.2% of self-pay accounts receivable at December 31, 2012, to 96.0% of self-pay accounts receivable at December 31, 2013. In addition, the System's self-pay write-offs for bad debts increased from approximately $263,887,000 for fiscal year 2012 to approximately $294,476,000 for fiscal year 2013. The increase in write offs was the result of shifts in payor mix and an overall increase in patient revenue in fiscal year 2013. The System does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

Assets Limited as to Use

The System maintains certain assets that are limited as to use under board designation, indenture agreements, and other provisions, including self insurance trust agreements. Amounts required to fund current liabilities of the System have been classified as current assets in the consolidated balance sheets.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated statements of operations and changes in net assets. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

2. Summary of Significant Accounting Policies, continued

Property and Equipment, *continued*

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from revenue and gains in excess of expenses and losses unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Goodwill and Intangible Assets

Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized. The System reviews goodwill annually or more frequently if circumstances warrant a more timely review, to determine if there has been an impairment. FASB Accounting Standards Updates (ASU) 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill and Impairment* and 2012-02, *Intangibles—Testing Indefinite-Lived Assets for Impairment*, provide an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount or that indefinite-lived assets are impaired. If, after assessing the totality of events and circumstances, an entity determines it is not more likely than not that the fair value of the reporting unit is less than its carrying amount or that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to perform the two-step goodwill impairment test described in Topic 350 or determine the fair value of the indefinite-lived intangible asset and perform a quantitative impairment test by comparing the fair value with the carrying amount. During fiscal years ended December 31, 2013 and 2012, the System prepared a qualitative assessment of goodwill and indefinite-lived intangible assets impairment for all reporting units that have assigned goodwill and indefinite-lived intangible assets, and no impairments were identified.

Goodwill activity for the years ended December 31, 2013 and 2012 is presented below (dollars in thousands):

	2013	2012
Balance at beginning of year	$ 125,224	$ 124,890
Goodwill acquired from purchases of consolidated affiliates and/or physician practices	25,411	334
Balance at end of year	$ 150,635	$ 125,224

Asset Retirement Obligations

The fair value of a liability for a legal obligation associated with the retirement of long-lived assets is recognized in the period in which it is incurred if the fair value can be reasonably estimated. The fair value, which approximates the cost a third party would incur in performing the tasks necessary to retire such assets, is recognized at the present value of expected future cash flows and is added to the carrying value of the associated asset and depreciated over the asset's useful life. The liability is accreted over time and is reduced upon settlement of the obligation.

2. Summary of Significant Accounting Policies, continued

Impairment or Disposal of Long-Lived Assets

When events or changes in circumstances indicate that the carrying amount of long-lived assets, including property and equipment, or other long-lived assets, may not be recoverable, an evaluation of the recoverability of currently recorded costs is performed. When an evaluation is performed, the estimated value of undiscounted future net cash flows associated with the assets is compared to the assets' carrying value to determine if a write-down to fair value is required.

If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Long-lived assets to be disposed of are reflected at the lower of either their carrying amounts or their fair value less costs to sell or close. In such circumstances, estimates of fair value are based on independent appraisals, established market prices for comparable assets, or internal calculations of estimated discounted future cash flows.

Derivative Instruments

Certain consolidated joint ventures, Rockwall Regional Hospital, L.L.C. (Rockwall), Flower Mound Hospital Partners, L.L.C. (Flower Mound) and AMH Cath Labs, L.L.C. (ACL), use interest rate swap agreements to manage interest rate risk associated with their floating rate borrowings and account for derivative instruments utilized in connection with these activities in accordance with FASB ASC Topic 815, *Derivatives and Hedging,* which requires entities to recognize all derivative instruments as either assets or liabilities in the consolidated balance sheets at their respective fair values.

These consolidated joint ventures designate and account for their interest rate swap agreements as cash flow hedges in accordance with FASB ASC Subtopic 815-30, *Derivatives and Hedging – Cash Flow Hedges.* For all hedging relationships, these consolidated joint ventures formally document the hedging relationship and its risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method of measuring ineffectiveness. These consolidated joint ventures also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in the hedging transactions are highly effective in offsetting cash flows of hedged items. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as other changes in unrestricted net assets and reclassified into earnings in the same period or periods during which earnings are affected by the variability in cash flows of the designated hedged item. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in revenues and gains in excess of expenses and losses.

These consolidated joint ventures discontinue hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, or the derivative designation is removed.

In all situations in which hedge accounting is discontinued and the derivative is retained and not redesignated as part of a new hedging relationship, these consolidated joint ventures continue to carry the derivative at its fair value in the consolidated balance sheets and recognize any subsequent changes in its fair value in revenues and gains in excess of expenses and losses. When it is probable that a forecasted transaction will not occur, these consolidated joint ventures discontinue hedge accounting and recognize immediately any gains and losses that were accumulated in other changes in unrestricted net assets.

2. Summary of Significant Accounting Policies, continued

Derivative Instruments, *continued*

By using derivative financial instruments to hedge exposures to changes in interest rates, the System exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the System, which creates credit risk for the System. When the fair value of a derivative contract is negative, the System owes the counterparty and, therefore, the System is not exposed to the counterparty's credit risk in these circumstances. The System minimizes counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties. The derivative instruments entered into by the System do not contain credit-risk-related contingent features.

Market risk is the adverse effect on the value of a derivative instrument that results from a change in interest rates. The market risk associated with interest-rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

The System does not enter into derivative instruments for any purpose other than cash flow hedging. The System does not speculate using derivative instruments.

Physician Income Guarantees

Consistent with its policy on physician relocation and recruitment, THR hospitals provide income guarantee agreements to certain non-employed physicians who agree to relocate to its communities to fill a need in the hospital's service area and commit to remain in practice there. Under such agreements, THR hospitals are required to make payments to the physicians in excess of the amounts they earn in their practice up to the amount of the income guarantee. The income guarantee periods are typically 12 months. Such payments are recoverable from the physicians if they do not fulfill their commitment period to the community, which is typically three years subsequent to the guarantee period. At December 31, 2013, the maximum potential amount of future payments under these guarantees was approximately $2,587,000.

At December 31, 2013 and 2012, THR had a liability of approximately $1,016,000 and $3,136,000, respectively, for the fair value of new or modified guarantees entered into, with a corresponding asset recorded in other current assets in the consolidated balance sheets, which will be amortized over the commitment period.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to THR and its tax-exempt controlled affiliates are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying consolidated statements of operations and changes in net assets as net assets released from restrictions and other operating revenue.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by THR and its tax-exempt controlled affiliates have been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by THR and its tax-exempt controlled affiliates in perpetuity.

2. Summary of Significant Accounting Policies, continued

Revenue and Gains in Excess of Expenses and Losses

The consolidated statements of operations and changes in net assets include revenue and gains in excess of expenses and losses. Changes in unrestricted net assets which are excluded from revenue and gains in excess of expenses and losses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), and other items required by GAAP to be reported separately.

Net Patient Service Revenue

Net patient service revenue is recognized as services are provided and reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The Tax-Exempt Hospitals provide care to patients who meet criteria established under THR's charity care policy without charge or at amounts less than their established rates. Because the Tax-Exempt Hospitals do not pursue collection of amounts determined to qualify as charity care, those amounts are not reported as net patient service revenue or patient receivables.

Electronic Health Record Incentive Payment Program

The American Recovery and Reinvestment Act of 2009 established incentive payments under the Medicare and Medicaid programs for hospitals that meaningfully use certified electronic health record (EHR) technology. In order to qualify for the Act's reporting period, a hospital is required to meet certain designated EHR meaningful use criteria from both mandatory and optionally selected requirements within the Act's reporting year. THR has elected to apply the grant accounting guidance in International Accounting Standards (IAS) 20 to these incentive payments. IAS 20 does not allow incentive payments to be recognized as income until there is reasonable assurance that the entity will successfully demonstrate compliance with the minimum number of meaningful use objectives. THR's management believes the relevant criteria were met for Years One through Three reporting and determined compliance was reasonably assured.

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2. Summary of Significant Accounting Policies, continued

Electronic Health Record Incentive Payment Program, continued

During 2013, THR's eligible hospitals received approximately $8,214,000 of reimbursement payments under the Act's Year Two and Year Three reporting periods. At December 31, 2013, approximately $772,000 of these payments were recorded in the accompanying consolidated balance sheets for potential adjustments. The remainder of the payments were recorded as other operating revenue in the accompanying consolidated statements of operations and changes in net assets for the years ended December 31, 2013 and 2012 depending on when the payments were earned. During 2012, THR's eligible hospitals received approximately $18,467,000 of reimbursement payments under the Act's Year Two and Year Three reporting periods. At December 31, 2012, approximately $3,749,000 of these payments were recorded in the accompanying consolidated balance sheets for potential adjustments. The remainder of the payments were recorded as other operating revenue in the accompanying consolidated statements of operations and changes in net assets for the year ended December 31, 2012. At December 31, 2013, THR's management has accrued EHR meaningful use payments of approximately $9,948,000 for the Act's Year Three reporting period. At December 31, 2012, THR's management had accrued EHR meaningful use payments of approximately $5,910,000 and $3,712,000 for the Act's Year Two and Year Three reporting periods, respectively. These accruals are included in other receivables in the accompanying consolidated balance sheets and in other operating revenue in the accompanying consolidated statements of operations and changes in net assets.

At December 31, 2013, THR's management did not believe adequate reliable information was available to make a determination of reasonable assurance that the hospitals would be able to successfully demonstrate compliance with the minimum number of meaningful use objectives for the Act's Year Four reporting period. Therefore, THR did not record an accrual as of December 31, 2013 in the accompanying consolidated financial statements for estimated EHR incentive payments under the Act's Year Four reporting period.

Self-Insurance

Under THR's self-insurance programs, claims are reflected as liabilities based upon actuarial estimation, including both reported, and incurred but not reported claims, taking into consideration the severity of the incidents and the expected timing of claim payments.

Recent Accounting Pronouncements

In October 2012, the FASB issued ASU 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*, which requires an entity to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the entity. The ASU is effective for THR beginning January 1, 2014 and is not expected to have a material impact on the consolidated financial statements.

2. Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements, *continued*

In February 2013, the FASB issued ASU 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date*, which provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. generally accepted accounting principles. THR will adopt the provisions of this ASU effective January 1, 2014, and adoption is not expected to have a material impact on the consolidated financial statements.

In April 2013, the FASB issued ASU 2013-06, *Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate*, which requires contributed services be recognized at fair value if employees of separately governed affiliated entities regularly perform services (in other than an advisory capacity) for and under the direction of the donee. In addition, the guidance indicates those contributed services should be recognized only if they (1) create or enhance nonfinancial assets or (2) require specialized skills, are provided by individuals possessing those skills, and typically would need to be purchased if not provided by donation. The provisions of this ASU are effective for THR beginning January 1, 2015, and adoption is not expected to have a material impact on the consolidated financial statements.

3. Net Patient Service Revenue

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

> ***Medicare*****.** Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services, outpatient services, and certain capital and medical education costs related to Medicare beneficiaries are paid based on a combination of prospective and cost reimbursement methodologies or fee schedule. The hospitals are reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the hospitals and audits thereof by the Medicare fiscal intermediary.
>
> ***Medicaid.*** Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospectively determined system similar to Medicare. Most outpatient services are reimbursed by the Medicaid program under a cost reimbursement methodology or fee schedule. The hospitals are reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the hospitals and audits thereof by the Medicaid fiscal intermediary.

Medicare and Medicaid cost report settlements are estimated in the period services are provided to the program beneficiaries. These estimates are revised as needed until final settlement of the cost report. 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 will change by a material amount in the near term. Net patient service revenue increased approximately $14,263,000 and $18,934,000 in 2013 and 2012, respectively, due to reassessment of settlement issues and other changes in estimates related to final settlements. Additionally, in 2012, the System received approximately $20,930,000 additional Medicare payments from The Rural Floor Provision Settlement that was signed on April 5, 2012. This settlement related to the improper calculation of the Medicare DRG rate for System facilities by the Centers for Medicare and Medicaid Services (CMS) for years 2004 to 2011.

3. Net Patient Service Revenue, continued

The System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the hospitals and THPG under these arrangements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. Items such as high cost drugs and implants are sometimes paid as an add-on to prospectively determined rates. All of these payment methods can occur independently or in combination for different commercial agreements.

Additionally, the Tax-Exempt Hospitals provide discounted pricing to uninsured patients. The pricing is calculated by applying a discount to charges for services received. The discount rate was 45% in 2012 and 2013. The consolidated and unconsolidated joint venture hospitals also provide similar discounted pricing to uninsured patients.

The System recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the System recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the System's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the System records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the years ended December 31, 2013 and 2012 from these major payor sources, is as follows (dollars in thousands):

	2013	2012
Medicare	$ 718,738	$ 740,746
Medicare Managed Care	373,173	306,026
Medicaid	138,158	162,935
Medicaid Managed Care	118,936	125,159
Managed Care	2,276,448	2,183,667
Commercial and Other	132,438	113,292
Private Pay	173,936	194,138
	$ 3,931,827	$ 3,825,963

THR (through certain wholly controlled tax-exempt and joint venture hospitals), Baylor Health Care System, HCA North Texas Division, and Methodist Hospitals of Dallas have entered into Affiliation Agreements with Parkland Memorial Hospital and Healthcare System (Parkland), and John Peter Smith Hospital and Healthcare System (JPS), and have created Dallas County Indigent Care Corporation (DCICC), and Tarrant County Indigent Care Corporation (TCICC), both Texas non-profit corporations, to effectuate participation in the Texas Healthcare Transformation and Quality Improvement Program (1115 Waiver Program). DCICC has separately entered into a series of agreements with Parkland and the University of Texas Southwestern Medical Center of Dallas (UT Southwestern), and TCICC has separately entered into a series of agreements with JPS and various physician groups.

In 2013, THR (through certain wholly controlled tax-exempt hospitals) began participating in similar 1115 Waiver Programs in other counties. These programs include: the Johnson County Community Care Corporation (JCCCC), which has entered into contracts with physicians to pay for the care of indigent county residents, Collin County, which has entered into a contract with Paramed Physicians Association to pay for care of indigent county residents, and Denton County to provide hospital care for indigent county residents.

3. Net Patient Service Revenue, continued

During 2013 and 2012, THR, on behalf of its participating hospitals, recorded supplemental Medicaid revenue of approximately $96,148,000 and $133,154,000, respectively, under the 1115 Waiver Program. At December 31, 2013 and 2012, THR had a receivable of approximately $63,623,000 and $44,665,000, respectively, related to the 1115 Waiver Program.

During 2013 and 2012, THR, on behalf of its participating hospitals, recorded expense of approximately $44,054,000 and $79,229,000, respectively, representing disbursements made to the companies listed above through DCICC, TCICC, JCCCC, and Collin County for providing services to indigent patients in those respective counties.

At December 31, 2013 and 2012, THR has deferred revenue of approximately $12,964,000 and $9,811,000, respectively included in other accrued liabilities on the consolidated balance sheets. The deferred revenue at December 31, 2013 represents approximately 10% of the payments that have been received or are expected under the waiver programs (all counties) relating to uncertainties surrounding the State of Texas capacity limits. The deferred revenue at December 31, 2012 is comprised of approximately $15,454,000 representing 10% of the payments that have been received or are expected under the waiver programs (Dallas and Tarrant County) relating to uncertainties surrounding the State of Texas capacity limits, offset by approximately $5,643,000 net receivable due from the other partners in DCICC and TCICC relating to indemnity agreement requirements.

In addition to the uncompensated care revenue THR receives under the 1115 Waiver Program, THR also receives Delivery System Reform Incentive Program (DSRIP) revenue through TCICC and DCICC. The program provides for incentive revenue to be earned by facilities for initiating programs that benefit the community and lower overall healthcare cost, and for reaching preset goals for those programs. The DSRIP program will run through five years. For year one, facilities who chose to participate received incentive revenue for submitting acceptable project plans that would span the five years of the program. THR received approximately $3,712,000 during 2013 for the first year of the DSRIP program, which is included in other operating revenue in the consolidated statements of operations and changes in net assets. During years two through five, providers earn revenue by meeting the program goals and reporting them to the State. During 2013, THR recorded approximately $18,136,000 in DSRIP year two revenue included in other operating revenue in the consolidated statements of operations and changes in net assets. Of this amount, approximately $3,137,000 was received in 2013, $15,313,000 is recorded as other receivables in the consolidated balance sheets, and $314,000 of the funds received are recorded in other accrued liabilities in the consolidated balance sheets representing a reserve for uncertainties surrounding the State of Texas capacity limits.

4. Charity Care and Community Benefit

In accordance with its mission, the System commits substantial resources to sponsor a broad range of services for the indigent as well as the broader community. Community benefit provided to the indigent includes the cost of providing services to persons who cannot afford health care due to inadequate resources and/or to persons who are underinsured. This category of community benefit in accordance with Texas law includes the unreimbursed costs of traditional charity care as well as the estimated unreimbursed costs of care provided to beneficiaries of Medicaid and other indigent public programs. The System also benefits the communities it serves by providing facilities for the education and training of health care professionals and by participating in research activities that offer the potential of improving health care.

4. Charity Care and Community Benefit, continued

The System also promotes access to health care services by providing support for indigent care clinics; promotes community health education and wellness programs; supports other local community based non-profit organizations through charitable donations; and sponsors a variety of health-related support groups and programs. These activities are classified as community benefits under Texas law.

Finally, the System provides a significant amount of health care services to uninsured and underinsured individuals who do not pay for the services they receive. When the System does not have the information required to properly determine charity status, the amounts owed by these individuals are classified as bad debt expense.

The System provides care to patients who meet criteria established under its charity care policy without charge or at amounts less than their established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. The System estimated costs associated with charity care based on the ratio of cost to gross charges and applying this ratio to charity care provided. The System estimates direct and indirect costs associated with providing charity care was approximately $198,250,000 and $183,650,000 for the years ended December 31, 2013 and 2012, respectively. The System receives certain funds to offset or subsidize charity services provided from gifts or grants restricted for charity or indigent care. The amount of such funds recognized in unrestricted operations from such sources totaled approximately $512,000 and $621,000 for the years ended December 31, 2013 and 2012, respectively.

5. Investments

Short-Term Investments

Short-term investments at December 31, 2013 and 2012 totaling approximately $1,436,000 and $1,526,000, respectively, are comprised of fixed income securities.

Assets Limited as to Use

Assets limited as to use that are required for obligations classified as current liabilities are included in current assets in the consolidated balance sheets. The composition of assets limited as to use at December 31, 2013 and 2012 is set forth in the following table (dollars in thousands):

	2013	2012
Internally designated:		
Cash and cash equivalents	$ 77	$ 45
U.S. government securities	1,160	1,151
Fixed income securities	826,708	694,536
Equity securities	1,940,653	1,357,276
Mutual funds	536	-
Hedge funds	1,294	1,570
Donor-restricted special purpose and endowment funds:		
Cash and cash equivalents	1,113	1,382
Mineral interests	5,693	4,330
Real estate	2,768	2,768
Fixed income securities	34,601	36,580
Equity securities	90,853	73,033
Beneficial interest in perpetual trust, held in charitable remainder unitrusts, and held in charitable gift annuities:		
Cash and cash equivalents	1,047	273
Mutual funds	3,852	276
Mineral interests	1,115	1,144
Real estate	842	842
Fixed income securities	3,207	3,974
Equity securities	5,875	4,022
Other provisions:		
Cash and cash equivalents	23,640	51,657
Fixed income securities	39,094	44,583
Equity securities	11,150	13,330
	2,995,278	2,292,772
Less: Assets limited as to use - required for current liabilities	(226,762)	(254,394)
	$ 2,768,516	$ 2,038,378

Excluded from the above table are promises to give of approximately $9,543,000 and $12,591,000 at December 31, 2013 and 2012, respectively that are included in assets limited as to use in the accompanying consolidated balance sheets.

5. Investments, continued

Assets Limited as to Use, *continued*

These promises to give are comprised of the following at December 31, 2013 and 2012 (dollars in thousands):

	2013	2012
Unconditional promises to give before unamortized discount and allowance for uncollectibles	$ 9,928	$ 13,396
Less: Unamortized discount	(81)	(121)
	9,847	13,275
Less: Allowance for uncollectibles	(304)	(684)
Net unconditional promises to give	$ 9,543	$ 12,591
Schedule of future amounts due:		
Less than one year	$ 4,026	$ 7,632
One to five years	4,288	3,961
Over five years	1,614	1,803
Total	$ 9,928	$ 13,396

Discount rates for these promises to give ranged from 0.22% to 4.66% and from 0.16% to 4.82% for the years ended December 31, 2013 and 2012, respectively.

THR and its wholly-controlled affiliates participate with Presbyterian Healthcare Resources, a founding member of THR, in a pooled, long term investment fund administered by THR. Amounts internally designated represent THR and its wholly-controlled affiliates pro rata share of the fund. These funds exist to provide liquidity for the System, to support its capital program, and to backstop short-term reserves as a buffer against interruption of business operations due to catastrophic events. The fund's asset allocation is a reflection of the System's investment objectives as stated in its investment policy statement. Prior to July 16, 2012, the fixed income securities in the pool, which are primarily U.S. government obligations, were designated as other-than-trading securities while the equity securities were designated as trading. As a result of modifications to THR's investment policy statement effective July 16, 2012, all purchases of fixed income securities in the pool after this date are designated as trading securities.

Management evaluates THR and its wholly-controlled affiliates' fixed income securities to determine whether any are deemed to be other-than-temporarily impaired due to credit worthiness of the bond issuers. There were no securities deemed to be other-than-temporarily impaired at December 31, 2013 or 2012.

At December 31, 2013, the fair value and gross unrealized losses on THR and its wholly-controlled affiliates' pro rata share of fixed income securities that are deemed not to be other-than-temporarily impaired and have been in a continuous unrealized loss position for twelve months or greater were approximately $19,856,000 and $1,253,000, respectively. Because THR has the ability and intent to hold these investments until a market price recovery, which may be maturity, these investments are not considered other-than-temporarily impaired. At December 31, 2013, the fair value and gross unrealized losses on THR and its wholly-controlled affiliates' pro rata share of fixed income securities that are deemed not to be other-than temporarily impaired and have been in a continuous unrealized loss position for less than twelve months were approximately $237,910,000 and $7,790,000, respectively.

5. Investments, continued

Investment Income

Net realized investment income, included in revenue and gains in excess of expenses and losses in the consolidated statements of operations and changes in net assets, is comprised of the following for the years ended December 31, 2013 and 2012 (dollars in thousands):

	2013	2012
Interest and dividends	$ 38,982	$ 55,817
Realized gains, net	174,712	31,116
Total net realized investment income	213,694	86,933
Less: Net realized investment gain related to restricted funds	(6,319)	(3,176)
Net realized investment income, other than amount related to restricted funds	$ 207,375	$ 83,757

6. Property and Equipment

A summary of property and equipment at December 31, 2013 and 2012 is as follows (dollars in thousands):

	2013	2012
Land	$ 141,909	$ 140,994
Buildings and improvements	1,939,730	1,904,294
Fixed equipment	343,548	318,165
Major movable equipment	945,463	840,159
Building and equipment under capital lease obligations	2,758	8,103
	3,373,408	3,211,715
Less: Accumulated depreciation and amortization	(1,702,083)	(1,556,082)
	1,671,325	1,655,633
Construction and renovation in progress	109,900	40,685
	$ 1,781,225	$ 1,696,318

Depreciation and amortization expense related to property and equipment from continuing operations for the years ended December 31, 2013 and 2012 was approximately $187,151,000 and $178,999,000, respectively. Included in the above table is the cost, approximately $314,851,000 and $322,321,000, and accumulated depreciation, approximately $171,783,000 and $168,088,000, of land, buildings, and equipment held out for lease at December 31, 2013 and 2012, respectively.

6. Property and Equipment, continued

The System has several construction projects in progress, which include renovation and modernization of existing facilities and construction of new facilities. Total remaining estimated costs of these projects is approximately $176,117,000, of which the System has outstanding commitments of approximately $119,087,000 at December 31, 2013. Total interest capitalized during the years ended December 31, 2013 and 2012 was approximately $1,985,000 and $2,230,000, respectively.

The System recognizes a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. This applies to legal obligations to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The fair value of a liability for a legal obligation associated with the retirement of long-lived assets is recognized in the period in which it is incurred. The fair value, which approximates the cost a third party would incur in performing the tasks necessary to retire such assets, is recognized at the present value of expected future cash flows and is added to the carrying value of the associated asset and depreciated over the asset's useful life.

Asset retirement obligations related to asbestos removal are recorded as other non-current liabilities in the accompanying consolidated balance sheets and totaled approximately $6,271,000 and $6,894,000 at December 31, 2013 and 2012, respectively. As a result of changes in estimated costs to abate certain types of asbestos, the System recorded decreases to the liability and a reduction in asbestos abatement expenses of approximately $200,000 and $29,000 during the years ended December 31, 2013 and 2012, respectively. Depreciation expense related to the associated assets was approximately $44,000 and $46,000 in 2013 and 2012, respectively. Additional accretion costs were approximately $329,000 and $373,000 for the years ended December 31, 2013 and 2012, respectively.

7. Long-Term Debt

A summary of long-term debt at December 31, 2013 and 2012 is as follows (dollars in thousands):

	2013	2012
System Revenue Bonds (Texas Health Resources), Series 2012A (Taxable), fixed interest rate of 4.366%, due through 2047	$ 100,000	$ 100,000
System Revenue Bonds (Texas Health Resources), Series 2012B, variable interest rates, due through 2047 (interest rates were 0.04% and 0.11% at December 31, 2013 and 2012, respectively)	50,000	50,000
System Revenue Bonds (Texas Health Resources), Series 2010, fixed interest rate of 5.00%, due through 2040	157,550	157,550
System Tax-Exempt Loan (Texas Health Resources), Series 2010 Bank of America Private Loan, variable interest rates, due through 2035, (interest rates were 0.76% and 0.78% at December 31, 2013 and 2012, respectively)	67,500	33,388
System Tax-Exempt Loan (Texas Health Resources), Series 2010 Compass Private Loan, variable interest rates, due through 2033, (interest rate was 1.17% at December 31, 2013 and 2012)	67,500	64,588

(Continued)

7. Long-Term Debt, continued

	2013	**2012**
System Revenue Bonds (Texas Health Resources), Series 2008A, 2008B, and 2008C, variable interest rates, due through 2047, (interest rates were 0.04% at December 31, 2013 and ranged from 0.11% to 0.13% at December 31, 2012)	176,055	176,055
System Revenue Bonds (Texas Health Resources), Series 2007A and 2007B, fixed interest rate of 5.00%, due through 2047	657,120	671,005
Term and Revolving Loans (Rockwall Regional Hospital, L.L.C.), variable interest rates, due through 2017, (interest rates ranging from 2.11% to 2.16% and 2.16% to 2.26% at December 31, 2013 and 2012, respectively)	43,129	47,086
Term and Revolving Loans (Flower Mound Hospital Partners, L.L.C.), variable interest rates, due through 2018, (interest rates ranging from 1.40% to 1.46% and 1.53% to 1.78% at December 31, 2013 and 2012, respectively)	87,841	93,809
Term and Revolving Loans (AMH Cath Labs, L.L.C.), variable interest rates, due through 2022, (interest rates ranging from 1.07% to 1.47% and 1.11% to 1.51% at December 31, 2013 and 2012, respectively)	20,832	21,700
Term Loan (Health Imaging Partners, LLC), fixed interest rate of 3.87%, due through 2021	28,500	-
Notes Payable (Health Imaging Partners, LLC), varying rates of interest, due through 2018, (interest rates ranging from 4.03% to 7.21% and 2.94% to 7.95% at December 31, 2013 and 2012, respectively)	9,153	9,498
Note Payable (THR-SCA Holdings, LLC), convertible to equity, interest rate of 4% fixed or 49% of available cash flow, due 2032	9,790	7,492
Capital Lease Obligations, at imputed interest rates ranging from 4.74% to 8.09% collateralized by leased equipment	1,886	3,142
Other loans and notes payable, fixed and variable interest rates due through 2018 (interest rates ranging from 2.63% to 3.30% and 1.96% to 3.30% at December 31, 2013 and 2012, respectively)	10,807	8,998
	1,487,663	1,444,311
Add:		
Unamortized original issue premium/discount, net	9,128	10,504
Less:		
Current portion of long-term debt	(214,839)	(209,634)
Long-term debt, net of current portion	$ 1,281,952	$ 1,245,181

In December, 2012, THR entered into credit agreements 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 a variable rate calculated as a percentage of LIBOR plus a spread. At December 31, 2013 and 2012, there were no outstanding balances under these Credit Agreements.

7. Long-Term Debt, continued

THR issued Series 2012A (Series 2012A Bonds) and 2012B (Series 2012B Bonds) bonds (collectively the Series 2012 Bonds) through Tarrant County Cultural Education Facilities Finance Corporation (official statements dated September 27, 2012) in the amounts of $100,000,000 and $50,000,000, respectively. The proceeds of the Series 2012 Bonds will be used to (a) finance and reimburse THR for the costs of the acquisition, construction, renovation, remodeling and/or equipping of capital improvements and (b) pay certain costs incurred in connection with the issuance of the Series 2012 Bonds. The Series 2012A Bonds are taxable fixed rate bonds that were priced to yield 4.366% interest. The Series 2012B Bonds are tax-exempt variable rate demand bonds, and are as such subject to periodic tender and remarketing provisions. The interest rates at which the bonds are remarketed are determined in accordance with the remarketing agreement applicable to the Series 2012B Bonds. Liquidity for payment of the Series 2012B Bonds tendered for purchase and not remarketed is provided by THR under a self liquidity program. As a result, THR has classified the Series 2012B Bonds as a current liability in the current portion of long-term debt.

In November 2010, THR entered into tax-exempt loan agreements with Bank of America, N.A. and Compass Mortgage Corporation in the aggregate principal amount of $135,000,000 (the Bank Loans). The proceeds of these Bank Loans were used (a) to pay costs of acquiring, constructing, renovating, remodeling and/or equipping capital improvements for certain THR tax-exempt health facilities; and (b) to pay certain costs incurred in connection with the Bank Loans. The Bank Loans bear interest at variable rates calculated as a percentage of LIBOR plus a spread. At December 31, 2013 and 2012, THR had drawn approximately $67,500,000 and $33,388,000, and $67,500,000 and $64,588,000 on the Bank of America and Compass Bank Loans, respectively.

THR issued Series 2010 bonds (the Series 2010 Bonds) through the Tarrant County Cultural Education Facilities Finance Corporation (official statement dated November 11, 2010) in the amount of $157,550,000. The proceeds of the Series 2010 Bonds were used (a) to refund the Tarrant County Health Facilities Development Corporation Texas Health Resources System Revenue Bonds, Series 2008D, 2008F, and 2008G; and (b) to pay certain costs incurred in connection with the issuance of the Series 2010 Bonds and the provisions for payment of the refunded Series 2008D, 2008F, and 2008G Bonds.

THR issued Series 2008A-G bonds (the Series 2008 Bonds) through the Tarrant County Cultural Education Facilities Finance Corporation (official statement dated October 27, 2008) in the amount of $366,120,000. The proceeds of the Series 2008 Bonds were used (a) to refund the Tarrant County Health Facilities Development Corporation Texas Health Resources System Revenue Bonds, Series 2003 (the Series 2003 Bonds) ($300,000,000) and the Plano Health Facilities Development Corporation Unit Priced Demand Adjustable Revenue Bonds (Children's and Presbyterian Healthcare Center of North Texas Project) Series 1989 (the Series 1989 Bonds) ($27,900,000); (b) to finance or refinance the purchase, development, construction, reconstruction, renovation, rehabilitation and/or equipping of certain THR tax-exempt health facilities ($35,900,000); and, (c) pay certain costs incurred in connection with the issuance of the Series 2008 Bonds and the provisions for payment of the refunded Series 2003 and Series 1989 Bonds. As previously discussed, THR defeased all of the outstanding Series 2008D, 2008F, and 2008G Bonds in November 2010, with proceeds from the issuance of the Series 2010 Bonds. In addition, THR redeemed all of the outstanding Series 2008E Bonds on November 22, 2010 at a purchase price equal to the principal amount ($36,140,000) thereof plus interest accrued thereon to the redemption date. THR used available cash to redeem the Series 2008E Bonds.

7. Long-Term Debt, continued

The Series 2008 Bonds are variable rate demand bonds. Accordingly, the Series 2008 Bonds are subject to periodic tender and remarketing provisions. The interest rates at which the bonds are remarketed are determined in accordance with the remarketing agreement applicable to each series of the Series 2008 Bonds. Liquidity for payment of the Series 2008A ($65,000,000) and 2008B ($50,285,000) Bonds tendered for purchase and not remarketed is provided by THR under a self liquidity program. As a result, THR has classified these two series as current liabilities in the current portion of long-term debt. Liquidity for payment of the Series 2008C Bonds tendered for purchase and not remarketed is provided by a Standby Bond Purchase Agreement (SBPA) with JPMorgan Chase Bank, N.A. With respect to the bonds supported by a SBPA, any principal balance that would require repayment within twelve months under the terms of the SBPA agreement is classified as current. Based on the payment terms in the SBPA, at the end of any reporting period, THR could have up to three of twelve quarterly payments due within a one-year period of time; therefore, THR carries 3/12 of the outstanding principal amount on these bonds as a current liability in the current portion of long-term debt. THR's management believes that the lending institution holding this SBPA has the ability to meet its obligation, if necessary. The SBPA expires November 23, 2015 and may be renewed or replaced. In the event the SBPA is not renewed and THR is unable to replace the liquidity facilities, the outstanding bonds become bank bonds under a mandatory tender provision. The SBPA also contains certain liquidity facility agreement special default provisions that would result in immediate termination of the agreement requiring THR to purchase any tendered bonds that are unable to be remarketed.

In the event all of the Series 2008 and Series 2012B Bonds were tendered and the remarketing agents were unable to remarket the bonds, THR's required repayment of principal as compared to scheduled principal repayments are as follows (dollars in thousands):

Series 2008 and 2012B Bonds		
Year Ending December 31,	Scheduled Principal Payments	Self Liquidity and SBPA Provisions
2014	$ -	$ 180,478
2015	-	20,257
2016	-	20,257
2017	-	5,063
Thereafter	226,055	-
Total	$ 226,055	$ 226,055

Concurrent with the issuance of the Series 1997 Bonds and amended in connection with the issuance of the Series 2008 and Series 2012 Bonds, THR entered into the Second Amended and Restated Master Trust Indenture (the Master Indenture). Among other requirements, THR granted a security interest in (a) certain of its revenue (as defined in the Master Indenture) and accounts receivable of the grantor; (b) all money and investments held or required to be held for the credit of the funds and accounts established by or under the Master Indenture; and (c) any and all property that may, from time to time, be subjected to the lien and security interest of the Master Indenture.

7. Long-Term Debt, continued

In April and May 2007, at THR's request, Tarrant County Cultural Education Facilities Finance Corporation issued $597,840,000 of Refunding Revenue Bonds and $100,000,000 of Revenue Bonds, Series 2007A and 2007B, respectively. The proceeds of the Series 2007A Bonds were used (a) to provide payment of principal, redemption premium, and interest to redemption or maturity on $366,985,000 outstanding Series 1997A Bonds, $157,090,000 outstanding Series 1997B Bonds, and $68,745,000 outstanding Series 1997C Bonds, and (b) to pay certain costs incurred in connection with the issuance of the Series 2007A Bonds and the provisions for the refunded bonds. The proceeds of the sale of the Series 2007B Bonds will be used (a) to pay or reimburse THR for the costs of acquiring, constructing, renovating, remodeling, and/or equipping capital improvements for THR and its tax-exempt controlled affiliates, and (b) to pay certain costs incurred in connection with the issuance of the Series 2007B Bonds.

On December 21, 2010, Rockwall entered into a Credit Agreement with JPMorgan Chase Bank N.A (the Chase Agreement). The Chase Agreement provides Rockwall with a Real Estate Term Loan of $42,000,000, an Equipment Term Loan of $13,000,000, and a Revolving Loan of $5,000,000 to be used as working capital. Under the Chase Agreement, outstanding balances bear interest based on a one-, two-, or three-month LIBOR rate plus 1.95%. The Real Estate Term Loan and Equipment Term Loan had outstanding balances of approximately $35,700,000 and $7,429,000, and $37,800,000 and $9,286,000 at December 31, 2013 and 2012, respectively. There were no amounts outstanding on the Revolving Loan as of December 31, 2013 and 2012.

On January 13, 2011, Rockwall entered into a forward-starting swap agreement with JPMorgan Chase with respect to the $42,000,000 Real Estate Term Loan. This swap is intended to reduce the financial risk related to rising LIBOR interest rates by executing a cash flow hedge that will convert the floating rate exposure to a fixed rate hedge instrument. The fixed rate on this hedge is 2.70%, with a start date of January 31, 2011 and ending date of December 31, 2017. The fair value of the swap was a liability of approximately $1,935,000 at December 31, 2013, of which approximately $871,000 is expected to be reclassified into earnings during the next twelve months and is included in other accrued liabilities with the remainder included in other noncurrent liabilities on the accompanying consolidated balance sheets. The fair value of the swap was a liability of approximately $3,252,000 at December 31, 2012, and is included in other noncurrent liabilities on the accompanying consolidated balance sheets. All of the increase or decrease in the fair value for the years ended December 31, 2013 and 2012 is recorded in other changes in unrestricted net assets in the accompanying consolidated statement of operations and changes in net assets. Realized gains and losses (settlements) on interest hedge derivatives are recorded as adjustments to interest expense in the statements of operations and are included in cash flows from operating activities in the statements of cash flows. For the years ended December 31, 2013 and 2012, settlements totaled approximately $941,000 and $980,000, respectively

On February 28, 2008, Flower Mound entered into a Credit Agreement (the Agreement) with various lending institutions with JPMorgan Chase Bank, NA acting as agent for the lenders. The Agreement provides Flower Mound with an Advancing Term Loan Commitment of $105,000,000 used for the construction of the hospital building and the acquisition of equipment and a Revolving Loan Commitment of $20,000,000 to be used as working capital. During 2012, the Agreement was amended to reduce the Revolving Loan to $5,000,000. Under the Agreement, outstanding balances for the Term and Revolving Loans bear interest based on one-, two-, three-, or six-month LIBOR rates, plus 1.43% for the Term Loan and 0.90% for the Revolving Loan. Prior to an amendment on December 20, 2013, the interest rate on the Term Loan was based on LIBOR rates plus 1.15%. The balance outstanding on the Term Loan as of December 31, 2013 and 2012 was approximately $87,841,000 and $93,809,000, respectively. There were no amounts outstanding on the Revolving Loan as of December 31, 2013 and 2012.

7. Long-Term Debt, continued

On March 10, 2008, Flower Mound also entered into a forward-starting interest swap agreement with JPMorgan Chase with respect to $73,500,000 of the Advancing Term Loan. This swap is intended to reduce the financial risk related to rising LIBOR interest rates by executing a cash flow hedge that will convert the floating rate exposure to a fixed rate hedge instrument. The fixed rate on the hedge is 4.76% with a start date of September 30, 2009 and an end date of February 28, 2018. The fair value of the swap was a liability of approximately $7,583,000 at December 31, 2013, of which approximately $2,698,000 is expected to be reclassified into earnings during the next twelve months and is included in other accrued liabilities with the remainder included in other noncurrent liabilities on the accompanying consolidated balance sheets. The fair value of the swap was a liability of approximately $11,137,000 at December 31, 2012, and is included in other noncurrent liabilities on the accompanying consolidated balance sheets. All of the increase or decrease in the fair value for the years ended December 31, 2013 and 2012 is recorded in other changes in unrestricted net assets in the accompanying consolidated statement of operations and changes in net assets. Realized gains and losses (settlements) on interest hedge derivatives are recorded as adjustments to interest expense in the statements of operations and are included in cash flows from operating activities in the statements of cash flows. For the years ended December 31, 2013 and 2012, settlements totaled approximately $2,903,000 and $2,982,000, respectively.

On December 28, 2011, ACL entered into Loan Agreements with Bank of America, N.A. (the Agreements). The Agreements provide ACL with a ten year floating rate Service Line Term Loan of $15,300,000, a seven year floating rate Equipment Term Loan of $6,400,000 and a five year floating rate Revolving Line of Credit of $10,000,000. The loans bear interest at LIBOR plus a credit spread of 1.3% for the Service Line Term Loan and 0.9% for the Equipment Term Loan and Revolving Line of Credit. Balances outstanding as of December 31, 2013 and 2012, respectively, were approximately $14,688,000 and $15,300,000 on the Service Line Term Loan and approximately $6,144,000 and $6,400,000 on the Equipment Term Loan. There was no outstanding balance on the Revolving Line of Credit as of December 31, 2013 and 2012.

On December 22, 2011, ACL entered into Interest Rate Swap Agreements with Bank of America N.A. with respect to the Service Line Term Loan and Equipment Term Loan. These swaps are intended to reduce the financial risk related to rising LIBOR interest rates by executing a cash flow hedge that will convert the floating rate exposure to a fixed rate hedge instrument. The fixed rate on the Service Line Term Loan hedge is 2.0025%, with a start date of December 28, 2011 and ending date of January 1, 2022. The fixed rate on the Equipment Term Loan hedge is 1.6470%, with a start date of December 28, 2011 and ending date of January 1, 2019. The fair value of the swaps at December 31, 2013 was an asset of approximately $379,000 and is included in other assets on the accompanying consolidated balance sheets. The fair value of the swaps at December 31, 2012 was a liability of approximately $835,000 and is included in other noncurrent liabilities on the accompanying consolidated balance sheets. All of the increase or decrease in the fair value of the swaps for the years ended December 31, 2013 and 2012 is recorded in other changes in unrestricted net assets in the accompanying consolidated statements of operations and changes in net assets. Realized gains and losses (settlements) on interest hedge derivatives are recorded as adjustments to interest expense in the statements of operations and are included in cash flows from operating activities in the statements of cash flows. For the years ended December 31, 2013 and 2012, settlements totaled approximately $362,000 and $270,000, respectively.

In December 2013, Health Imaging Partners entered into a Senior Secured Credit Facility with KeyBank National Association (the Credit Facility). The Credit Facility provides Health Imaging Partners with a seven year fixed rate Term Loan of $28,500,000 and a two year fixed or floating rate Revolving Line of Credit of $3,000,000. The Term Loan bears interest at 3.87% and the Revolving Line of Credit bears interest at either a floating rate advance or a LIBOR rate advance based on timing of when the advance is made. The balance outstanding on the Term Loan as of December 31, 2013 was $28,500,000. There was no outstanding balance on the Revolving Line of Credit as of December 31, 2013.

7. Long-Term Debt, continued

Scheduled principal repayments on long-term debt are as follows (dollars in thousands):

Year Ending December 31,	Scheduled Principal Payments
2014	$ 34,361
2015	34,311
2016	41,874
2017	69,859
2018	91,702
Thereafter	1,215,556
Total	$ 1,487,663

Unamortized bond and debt issuance costs at December 31, 2013 and 2012 were approximately $6,213,000 and $6,224,000, respectively, and are included in other assets in the accompanying consolidated balance sheets.

The Master Indenture, SBPA, Bank Loans and Credit Agreements contain various covenants which require, among other things, the maintenance of certain financial ratios and certain other restrictions. Management believes THR is in compliance with its covenants as of December 31, 2013.

8. Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2013 and 2012 were restricted for the following purposes (dollars in thousands):

	2013	2012
Capital improvements	$ 32,044	$ 36,007
Education and training	23,683	18,204
Patient care	12,946	10,654
Research	9,332	6,786
Community outreach	5,170	3,560
Other restricted purposes	11,279	7,216
	$ 94,454	$ 82,427

8. Net Assets, continued

Permanently Restricted Net Assets

Permanently restricted net assets at December 31, 2013 and 2012 were restricted by donors to be maintained by THR in perpetuity for the following purposes (dollars in thousands):

	2013	2012
Education and training	$ 23,211	$ 22,378
Research	12,181	11,945
Patient care	8,326	7,968
Capital improvements	3,590	3,526
Community outreach	2,594	2,566
Other restricted purposes	13,496	8,176
	$ 63,398	$ 56,559

9. Endowment

The System's endowments consist of donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Based on the interpretation of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) by the Board of Trustees, the guidance in FASB ASC 958-205, Not-for-Profit Entities Presentation of Financial Statements, and absent explicit donor stipulations to the contrary, the System classifies the original value of gifts donated to the permanent endowment as well as accumulations to the permanent endowment made at the direction of the donor or by policy as permanently restricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the System in a manner consistent with the standard of prudence prescribed in UPMIFA.

In accordance with UPMIFA, the System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Foundations and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Foundations
(7) The investment policies of the Foundations

9. Endowment, continued

Changes in the System's endowment net assets for the years ended December 31, 2013 and 2012 are as follows (dollars in thousands):

	Board Designated Endowment Funds	Donor- Restricted Endowment Funds		Total Endowment Funds
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Balance at December 31, 2011	$ 42,995	$ 24,871	$ 46,064	$ 113,930
Contributions	-	-	2,221	2,221
Interest and dividends	827	1,883	-	2,710
Realized and unrealized gains, net	2,818	2,974	-	5,792
Transfers	-	(718)	1,267	549
Amounts appropriated for expenditure	(236)	(1,433)	-	(1,669)
Balance at December 31, 2012	46,404	27,577	49,552	123,533
Contributions	-	-	358	358
Interest and dividends	473	1,437	-	1,910
Realized and unrealized gains, net	6,631	12,396	-	19,027
Transfers	-	(823)	1,023	200
Amounts appropriated for expenditure	(164)	(1,304)	-	(1,468)
Balance at December 31, 2013	$ 53,344	$ 39,283	$ 50,933	$ 143,560

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the original value of the fund. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies of this nature as of December 31, 2013 and 2012.

The System has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in securities and other instruments which compliment or balance one another, thereby reducing risk without significantly reducing average returns.

To satisfy its long-term rate-of-return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The System targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The System has spending policies that allow up to 4% of the endowment to be appropriated for expenditure unless otherwise stipulated in the donor agreement, calculated after the endowment principal has been increased by the annual Consumer Price Index. This is consistent with the System's objectives to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth.

10. Non-Controlling Interests

The System controls and therefore consolidates certain investees in its partnerships with physicians and non-physicians to operate hospitals and other health related ventures. The activity for non-controlling interests for the years ended December 31, 2013 and 2012 is summarized below (dollars in thousands):

	2013	2012
Non-controlling ownership interest in equity of consolidated affiliates, beginning of year	$ 60,910	$ 49,343
Revenue and gains in excess of expenses and losses attributable to non-controlling interest	63,164	53,215
Elimination and/or purchase of non-controlling interest	(829)	(1,053)
Non-controlling interest in change in fair value of interest rate swap agreements	2,864	(281)
Contributions from non-controlling interest holders	1,877	2,352
Distributions to non-controlling interest holders	(51,195)	(42,666)
Non-controlling ownership interest in equity of consolidated affiliates, end of year	$ 76,791	$ 60,910

11. Retirement Plans

The System has various plans, primarily defined contribution plans, which cover eligible full-time and part-time employees of the System. Plan contributions, included in salaries, wages, and employee benefits in the consolidated statements of operations and changes in net assets, were approximately $52,834,000 and $49,165,000 for the years ended December 31, 2013 and 2012, respectively.

12. Federal and State Income Taxes

The System has certain subsidiaries and operations such as partnership interests, retail pharmacies and outside laboratory services that are taxable for federal income tax purposes. The taxable activities of all includible entities have approximately $747,000 and $1,082,000 in net deferred tax assets, against which a 100% valuation allowance has been recorded, for the years ended December 31, 2013 and 2012, respectively. While the System expects to generate taxable income from certain activities in the future, the valuation allowance has been recorded because the System does not believe taxable income will be incurred by the entities that generated the net deferred tax assets. The Texas franchise tax applies to certain of the System’s consolidated for-profit and joint venture interests. Under this law, tax is calculated on a margin base and is therefore reflected in the System’s statements of operations and changes in net assets as income tax expense. Federal and state income tax expense of approximately $9,293,000 and $10,170,000 is included in the consolidated statements of operations and changes in net assets for the years ended December 31, 2013 and 2012, respectively.

13. Concentrations of Credit Risk

Financial institutions that potentially subject the System to concentrations of credit risk consist of deposits in banks and investments in excess of the Federal Deposit Insurance Corporation, Securities Investor Protection Corporation and other privately insured limits. The System has not experienced any credit losses on these financial instruments.

13. Concentrations of Credit Risk, continued

The hospitals and physician practices grant credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors at December 31, 2013 and 2012 is as follows:

	2013	2012
Medicare	22%	19%
Medicare Managed Care	9%	8%
Medicaid	2%	3%
Medicaid Managed Care	5%	6%
Managed care organizations	43%	45%
Other third-party payors	3%	3%
Patients	16%	16%
	100%	100%

14. Commitments and Contingencies

Management evaluates contingencies based upon available evidence. In addition, allowances for losses are provided each year for disputed items which have continuing significance. Management believes that allowances for losses have been provided to the extent necessary and that its assessment of contingencies is reasonable. Due to the inherent uncertainties and subjectivity involved in accounting for contingencies, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. To the extent that the resolution of contingencies results in amounts which vary from management's estimates, future operating results will be charged or credited. The principal commitments and contingencies are described below:

Professional and General Liability Insurance

The System has known professional and general liability claims and incidents that may result in the assertion of claims, as well as exposure from unknown incidents that may be asserted. In connection with these risks, THR maintains a self-insurance program for the professional and general liabilities of THR and its wholly-controlled hospital affiliates whereby undiscounted reserves are recorded based on actuarial estimates from an independent third-party actuary. The self-insurance program includes coverage for general liability exposure of THPG. Professional liability exposure of THPG is purchased from commercial carriers and is not included in the self-insurance program. In connection with the self-insurance program, THR maintains trust funds, included in assets limited as to use in the consolidated balance sheets, which hold assets for the purpose of paying potential professional liability and general liability claims. The System also purchases insurance for professional liability and general liability claims in excess of THR's self-insurance retention level.

Workers' Compensation Insurance

The System purchases workers' compensation insurance from commercial carriers with per claim deductibles and aggregate limits. Accrued claims include estimates for known claims and incidents incurred but not reported at December 31, 2013 and 2012, respectively.

14. Commitments and Contingencies, continued

Employee Health Insurance

THR maintains a self-insurance medical plan for the employees of THR and its wholly-controlled affiliates. Accrued claims include estimates for known claims and services incurred but not reported at December 31, 2013 and 2012, respectively. THR also purchases insurance to limit its losses on claims for medical expenses.

Guarantees of Indebtedness

The Tax-Exempt Hospitals guaranteed approximately $20,542,000 and $15,386,000 of patient notes purchased by banks at December 31, 2013 and 2012, respectively. The System recorded a contingent liability of approximately $5,763,000 and $7,470,000 at December 31, 2013 and 2012, respectively, for these guarantees based on historical default rates.

THR had previously entered into a limited guaranty agreement with Bank of America whereby THR guaranteed its proportionate share of any indebtedness outstanding between Bank of America and USMD Hospital of Arlington, L.P. (USMD Arlington). In February, 2013, USMD Arlington refinanced their existing Bank of America debt with JPMorgan Chase Bank, N.A. (JPM), and THR entered into a limited guaranty agreement with JPM for 51% of any indebtedness outstanding between JPM and USMD Arlington. THR also previously guaranteed 100% of USMD Hospital of Fort Worth, L.P. (USMD Fort Worth)'s Southwest Bank indebtedness and 51% of their Bank of Texas indebtedness for a fee. In May, 2013, USMD Fort Worth paid off their Bank of Texas debt and renegotiated their existing debt with Southwest Bank, and THR entered into a limited guaranty agreement with Southwest Bank for 51% of any indebtedness outstanding between Southwest Bank and USMD Fort Worth up to a maximum guaranty amount of $6,150,000. At December 31, 2013 and 2012, THR's share of principal on USMD Arlington's and USMD Fort Worth's outstanding indebtedness was approximately $17,284,000 and $6,150,000, and $18,036,000 and $8,557,000, respectively. Payments are due from THR if USMD Arlington or USMD Fort Worth is unable to fulfill its obligations at the scheduled payment dates. As of December 31, 2013, it is not probable that THR will be required to make significant payments under the limited guaranty agreements. No amounts have been recorded in the accompanying consolidated financial statements for these guarantees.

Litigation

The System is a party to several legal actions arising in the ordinary course of its business. In management's opinion, the System has adequate legal defenses, insurance coverage, and (or) self insurance trust assets for each of these actions, and management estimates that these matters will be resolved without material adverse effect on the System's future financial position, results of operations, or cash flows.

Regulatory Compliance

The health care industry is subject to numerous laws and regulations of federal, state, and local governments and compliance can be subject to future review and interpretation as well as the possible emergence of regulatory actions unknown or unasserted at this time. Management believes that the System is in substantial compliance with applicable government laws and regulations. Regulatory inquiries and voluntary reports may be made from time-to-time. It is management's policy to cooperate fully in resolving any such reports or inquiries.

14. Commitments and Contingencies, continued

Regulatory Compliance, *continued*

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. In management's opinion, the System does not expect the resolution of any known regulatory compliance matters to have a material adverse effect on the System's future financial position, results of operations, or cash flows.

Operating Leases

The System leases various equipment and facilities under operating leases expiring at various dates through 2025. Total rental expense, included in other operating expenses in the consolidated statements of operations and changes in net assets, was approximately $80,620,000 and $87,220,000 for the years ended December 31, 2013 and 2012, respectively.

The following is a five year schedule, by year, of future minimum lease payments under non-cancelable operating leases that have initial terms in excess of one year as of December 31, 2013 (dollars in thousands):

Year Ending December 31,	
2014	$ 52,377
2015	41,899
2016	36,054
2017	32,614
2018	23,190

The System leases office space and land at fair market value to non-THPG physicians, health care related businesses, and others under operating leases expiring at various dates through 2072. Total rental income, included in other operating revenue and other non-operating gains in the consolidated statements of operations and changes in net assets, was approximately $36,273,000 and $36,810,000 for the years ended December 31, 2013 and 2012, respectively.

14. Commitments and Contingencies, continued

Operating Leases, *continued*

The following is a five-year schedule, by year, of future minimum rental income payments under non-cancelable leases that have initial terms in excess of one year as of December 31, 2013 (dollars in thousands):

Year Ending December 31,	
2014	$ 24,460
2015	18,678
2016	13,008
2017	9,491
2018	6,679

15. Functional Operating Expenses

The System provides general and comprehensive health care services to residents within its geographic locations. Operating expenses related to providing these services for the years ended December 31, 2013 and 2012 were as follows (dollars in thousands):

	2013	2012
Patient care services	$ 3,077,387	$ 3,004,051
General and administrative	427,841	410,294
Research and physician education	15,746	15,254
Fundraising	5,994	6,416
	$ 3,526,968	$ 3,436,015

16. Fair Value Measurements

The System follows the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*, for its financial assets and liabilities that are measured and reported at fair value each reporting period. The financial assets recorded at fair value on a recurring basis primarily relate to investments, assets limited as to use, interest rate swap agreements, and contributions receivable from split-interest agreements. FASB ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

16. Fair Value of Financial Instruments, continued

The following tables present information about the System's assets and liabilities (dollars in thousands) that are measured at fair value on a recurring basis as of December 31, 2013 and 2012, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable, such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The System's assets limited as to use that are categorized as Level 3, or valued using significant unobservable inputs, represent an investment in the Texas Methodist (formerly Central Texas Methodist) Foundation, contributions receivable from split-interest agreements and an endowment fund primarily holding mineral interests that are valued based on a multiple of annual revenues.

	2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 23,540	$ 22,830	$ 710	$ -
Domestic equity securities:				
Cash equivalents	23,704	23,704	-	-
Mutual funds	80,795	80,795	-	-
Common collective trust	233,021	233,021	-	-
Energy	127,300	126,883	417	-
Materials	64,432	64,432	-	-
Industrials	122,246	122,246	-	-
Consumer discretionary	240,133	239,778	355	-
Consumer staples	69,707	69,303	404	-
Health care	161,131	160,461	670	-
Financials	303,621	302,945	676	-
Information technology	299,975	299,899	76	-
Telecommunication services	27,987	27,752	235	-
Utilities	18,943	18,851	92	-
Other	16,745	12,680	4,065	-
International equity securities:				
Mutual funds	128,208	128,208	-	-
Common collective trust	130,264	130,264	-	-
Fixed income securities:				
Cash equivalents	97,031	-	97,031	-
U.S. Government	17,742	-	17,742	-
Corporate bonds	80,783	-	80,783	-
Agency mortgages	247,045	-	247,045	-
U.S. Agencies	421,256	-	421,256	-
Other	2,098	-	2,098	-
Common collective trust (blended securities)	40,610	40,610	-	-
Mutual funds (blended securities)	5,525	536	4,989	-
Hedge funds	1,294	-	1,294	-
Texas Methodist Foundation	1,160	-	-	1,160
Real estate	3,610	-	3,592	18
Mineral interests	6,808	-	-	6,808
Contributions receivable from split-interest agreements	1,614	-	-	1,614
Total assets	$ 2,998,328	$ 2,105,198	$ 883,530	$ 9,600
Interest rate swap agreements	$ (9,139)	$ -	$ (9,139)	$ -

16. Fair Value of Financial Instruments, continued

	2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 51,733	$ 50,502	$ 1,231	$ -
Domestic equity securities:				
Cash equivalents	23,961	23,961	-	-
Energy	91,964	91,585	379	-
Materials	69,540	69,540	-	-
Industrials	102,117	102,117	-	-
Consumer discretionary	229,656	229,179	477	-
Consumer staples	67,607	67,293	314	-
Health care	153,378	152,969	409	-
Financials	213,697	213,185	512	-
Information technology	202,800	202,743	57	-
Telecommunication services	30,815	30,601	214	-
Utilities	21,335	18,600	2,735	-
Other	21,009	21,002	7	-
International equity securities:				
Mutual funds	110,189	110,189	-	-
Common collective trust	109,593	109,593	-	-
Fixed income securities:				
Cash equivalents	26,204	-	26,204	-
U.S. Government	13,732	-	13,732	-
Corporate bonds	3,328	-	3,328	-
Agency mortgages	208,430	-	208,430	-
U.S. Agencies	482,737	-	482,737	-
Other	2,186	-	2,186	-
Common collective trust	46,207	46,207	-	-
Mutual funds	276	-	276	-
Hedge funds	1,570	-	1,570	-
Central Texas Methodist Foundation	1,151	-	-	1,151
Real estate	3,610	-	3,592	18
Mineral interests	5,473	-	-	5,473
Contributions receivable from split-interest agreements	1,803	-	-	1,803
Total assets	$ 2,296,101	$ 1,539,266	$ 748,390	$ 8,445
Interest rate swap agreements	$ (15,225)	$ -	$ (15,225)	$ -

Included in assets limited as to use in the accompanying statements of financial position is approximately $7,929,000 and $10,788,000 at December 31, 2013 and 2012, respectively, of pledges receivable that have been excluded from the above tables.

The System's policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no significant transfers into or out of level 1, level 2, or level 3 for the years ended December 31, 2013 and 2012.

16. Fair Value of Financial Instruments, continued

The change in the fair value of the System's assets limited as to use valued using significant unobservable inputs (Level 3) is shown below (dollars in thousands):

	2013	2012
Fair value recorded at beginning of year	$ 8,445	$ 8,919
Adjustment to record increase in estimated fair value due to realized investment gains	9	13
Adjustment to record increase (decrease) in estimated fair value due to unrealized gains (losses)	1,335	(549)
Change in value of splilt-interest agreements	(189)	62
Fair value recorded at end of year	$ 9,600	$ 8,445

The adjustment to record the increase (decrease) in estimated fair value due to realized and unrealized gains (losses) on the investments valued using significant unobservable inputs is included in changes in temporarily restricted net assets in the accompanying consolidated statements of operations and changes in net assets. The change in value of split-interest agreements on the investments valued using significant unobservable inputs is included in changes in unrestricted and temporarily restricted net assets in the accompanying consolidated statements of operations and changes in net assets. The increase in unrealized gains (losses) relating to assets still held at December 31, 2013 and 2012 is approximately $1,335,000 and ($549,000), respectively.

The following methods and assumptions were used by the System in estimating the fair value of its financial instruments:

Cash and Cash Equivalents

The carrying amounts, at face value or cost plus accrued interest, approximate fair value because of the short maturity of these instruments.

Equity Securities

Equity securities held by THR or held in trust controlled by THR are measured using quoted market prices. Equity securities held in trust not controlled by THR are measured using the net asset value of the trust based on the fair value of underlying securities, which are measured using quoted market prices.

Fixed Income Securities

Fixed income securities are measured using quoted market prices, if available, or estimated using quoted market prices for similar assets.

Common Collective Trusts

Investments in common collective trusts may be accessed at any time at the net asset value as reported by the manager on a daily basis. THR's interest in these trusts contains no other rights or obligations. As such, net asset value represents fair value for these investments. Each common collective trust invests in either equity or fixed income securities.

16. Fair Value of Financial Instruments, continued

Mutual Funds

Values of investments in mutual funds are based on quoted market prices for publicly traded funds and net asset values for funds that are not publicly traded. THR's interest in these funds contains no other rights or obligations. As such, net asset value represents fair value for these investments. Each fund invests in either equity or fixed income securities.

Hedge Funds

Values of investments in hedge funds are based on net asset value as estimated by the general partner of the hedge fund based on the underlying securities which are primarily level 1 and 2 financial instruments and reviewed by management of THR.

Texas Methodist Foundation

The value of the investment in the Texas Methodist Foundation is estimated by the manager of the foundation based on the valuation of loans made by the foundation.

Real Estate

Investments in real estate are measured by private valuations.

Mineral Interests

Investments in mineral interests are estimated based on a multiple of annual revenues.

Contributions Receivable from Split-Interest Agreements

The fair value of the contribution is measured at the present value of the estimated future cash receipts from the trust's assets.

Long-Term Debt

Fair value of the System's long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the System for debt of the same remaining maturities and is therefore classified as Level 2 under the fair value hierarchy. The carrying amounts and fair value of the System's long-term debt at December 31, 2013 and 2012 were as follows (dollars in thousands):

	Book Value		Estimated Fair Value	
	2013	**2012**	**2013**	**2012**
Fixed rate	$ 952,298	$ 939,059	$ 943,380	$ 994,280
Variable rate	522,647	494,118	522,647	494,118
Other	21,846	21,638	21,846	21,638
	$ 1,496,791	$ 1,454,815	$ 1,487,873	$ 1,510,036

Interest Rate Swap Agreements

Current market pricing models were used to estimate fair values of interest rate swap agreements.

16. Fair Value of Financial Instruments, continued

Other Financial Instruments

The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, receivables, accounts payable, estimated third-party settlements, accrued salaries, wages, and employee benefits, and other accrued liabilities approximates its fair value due to the short-term nature of these financial instruments.

17. Investments in Unconsolidated Affiliates

THR and its controlled affiliates participate with other organizations, physicians, and non-physicians to provide health care related services. At December 31, 2013, THR and its controlled affiliates own interests in Community Hospice of Texas (Hospice), a provider of hospice services; LHCG XXXIII, LLC (LHC Home Health), a provider of home health services; North Central Texas Services (d/b/a CareFlite) (CareFlite), a provider of helicopter, fixed wing and ground ambulance services; North Texas Health Care Laundry Cooperative Association (NTHC Laundry), a provider of laundry services; USMD Arlington and USMD Fort Worth, short-stay hospitals; Imaging Center Partnership, L.L.P. (d/b/a Southwest Diagnostic Imaging Center) (SDIC), a provider of outpatient diagnostic imaging services; Sherman/Grayson Health System, L.L.C. (d/b/a Texas Health Presbyterian Hospital – WNJ) (WNJ) and Texas Health Huguley, Inc. (d/b/a Texas Health Huguley Hospital Fort Worth South) (Huguley), acute care hospitals; THR/STT Rockwall ASC, LLC (STT Rockwall), THR/STT Southlake ASC, LLC (STT Southlake), ambulatory surgery centers; MedSynergies, Inc. (MSI), a provider of medical business services and technology to physicians and hospital systems; and other partnerships.

Effective May 1, 2012, THR entered into an agreement with Adventist Health System to form a joint venture to own and manage Huguley Memorial Medical Center, a 213 bed hospital located in south Fort Worth. Subsequent to the transaction, the facility name was changed to Texas Health Huguley Hospital Fort Worth South, and is managed by Adventist Health System.

Effective June 1, 2012, THR purchased shares of THR/STT Rockwall ASC, LLC and THR/STT Southlake ASC, LLC, two existing ambulatory surgery centers located in Rockwall and Southlake, respectively.

Effective July 1, 2012, Texas Health Presbyterian Hospital Dallas sold its Home Health service line to LHCG XXXIII, LLC. In conjunction with the transaction, THR acquired a 20% ownership interest in that joint venture and recorded a gain on the sale of the service line of approximately $3,787,000, which is included in other operating revenue in the accompanying consolidated statements of operations and changes in net assets.

Effective October 1, 2012, THR entered into an agreement with Surgical Care Affiliates, LLC (SCA) to form a joint venture to acquire and develop ambulatory surgery centers (ASC's) in the Dallas Fort Worth Metroplex. THR owns THR-SCA Holdings, LLC joint venture, and SCA manages the daily operations of the ASC's. The ASC's included in the joint venture as of December 31, 2012 are Greenville Surgery Center (Greenville ASC), Texas Health Flower Mound Orthopedic Surgery Center, LLC (Flower Mound ASC), Surgical Caregivers of Fort Worth (Fort Worth ASC), and Denton Surgery Center (Denton ASC). During 2013, THR-SCA Holdings also acquired ownership interests in Texas Health Craig Ranch Surgery Center, LLC (Craig Ranch ASC), and Cleburne Surgical Center, LLC (Cleburne ASC). In 2012, THR contributed its existing ownership in Denton ASC to THR-SCA Holdings and received approximately $1,360,000 cash from SCA to compensate THR for the difference between the fair value of Denton ASC versus the fair value of the ASC's contributed by SCA. As a result of this transaction, THR deconsolidated Denton ASC effective October 1, 2012, and recognized a gain of approximately $5,518,000, which is included in other operating revenue in the accompanying consolidated statements of operations and changes in net assets.

17. Investments in Unconsolidated Affiliates, continued

The ownership interests, carrying amounts, and equity in earnings of investments in unconsolidated affiliates at December 31, 2013 and 2012 were as follows (dollars in thousands):

	Ownership Interest		Carrying Value		Equity in Earnings	
	2013	2012	2013	2012	2013	2012
Huguley	51.0%	51.0%	$ 29,646	$ 17,781	$ 11,865	$ 2,781
USMD Arlington	51.0%	51.0%	26,295	25,008	10,265	7,468
Hospice	50.0%	50.0%	17,794	15,577	2,218	2,612
USMD Fort Worth	51.0%	51.0%	14,267	12,874	4,578	2,881
MSI	13.0%	13.0%	10,040	10,040	-	-
Denton ASC	71.5%	70.3%	9,000	8,829	3,001	527
STT Southlake	51.0%	51.0%	6,065	6,058	2,748	1,467
Fort Worth ASC	51.0%	51.0%	5,920	4,453	3,497	206
CareFlite	50.0%	50.0%	5,690	5,544	(417)	1,382
NTHC Laundry	48.3%	43.9%	4,046	3,257	795	1,118
Cleburne ASC	51.0%	0.0%	3,487	-	117	-
Greenville ASC	80.3%	86.3%	2,378	1,072	1,620	10
STT Rockwall	51.0%	51.0%	2,015	2,009	1,327	757
SDIC	50.0%	50.0%	1,943	1,860	4,656	4,565
Flower Mound ASC	51.0%	51.0%	1,020	1,677	(657)	-
Craig Ranch ASC	66.0%	0.0%	841	-	(479)	-
LHC Home Health	20.0%	20.0%	781	1,056	(275)	(194)
WNJ	50.1%	50.1%	-	-	(1,124)	(15,319)
Others	1.2% - 51.0%	1.0% - 51.0%	773	3,935	449	3
			$ 142,001	$ 121,030	$ 44,184	$ 10,264

The equity in earnings of unconsolidated affiliates providing services that the System does not provide as part of its routine services are included in nonoperating gains (losses) in the accompanying consolidated statements of operations and changes in net assets. All others are included in operating revenue.

18. Related-Party Transactions

THR incurred expenses for purchased services from NTHC Laundry of approximately $8,420,000 and $8,218,000 for the years ended December 31, 2013 and 2012, respectively, which is recorded in other operating expenses in the accompanying consolidated statements of operations and changes in net assets. Amounts due to NTHC Laundry, which total approximately $1,008,000 and $511,000 at December 31, 2013 and 2012, respectively, are reflected in current liabilities in the accompanying consolidated balance sheets. THPG received subsidies from WNJ totaling approximately $3,960,000 and $7,199,000 for the years ended December 31, 2013 and 2012, respectively, which is recorded in other operating revenue in the accompanying consolidated statements of operations and changes in net assets. Amounts due to (from) WNJ for this arrangement, which total approximately $399,000 and $(829,000) at December 31, 2013 and 2012, respectively, are reflected in other receivables in the accompanying consolidated balance sheets. Additionally, THR has various other immaterial transactions with certain of its nonconsolidated affiliates throughout the year.

19. Subsequent Events

The System evaluated events subsequent to December 31, 2013 and through April 14, 2014, the date on which the financial statements were issued.