Henry Ford HEALTH SYSTEM

UNAUDITED

Consolidated Financial Statements

for the Nine Months Ended September 30, 2014 and 2013

Consolidating Schedules, Including Obligated Group,

for the Nine Months Ended September 30, 2014

Statistical Information

for the Nine Months Ended September 30, 2014 and 2013

UNAUDITED
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2014 AND DECEMBER 31, 2013 (In Thousands)

ASSETS	September 2014	December 2013
CURRENT ASSETS:		
Cash and cash equivalents	$ 448,841	$ 471,320
Short-term investments	911	4,824
Patient care receivables - net of allowance for doubtful accounts of $248,347 and $265,234 in 2014 and 2013, respectively	211,476	216,574
Health care premium receivables	62,324	49,704
Due from third-party payors	31,841	37,928
Deferred tax asset	782	692
Assets held for sale	3,678	6,650
Other current assets	119,056	113,306
Current portion of assets limited as to use	28,586	32,069
Total current assets	907,495	933,067
LONG-TERM INVESTMENTS	353,207	329,972
ASSETS LIMITED AS TO USE	811,546	856,368
JOINT VENTURE INVESTMENTS	13,180	8,706
INTANGIBLE AND OTHER ASSETS	55,577	59,779
GOODWILL	45,045	45,045
PROPERTY, PLANT, AND EQUIPMENT - Net	1,294,897	1,292,388
TOTAL	$ 3,480,947	$ 3,525,325

LIABILITIES AND NET ASSETS	September 2014	December 2013
CURRENT LIABILITIES:		
Short term borrowings	$ 35,417	$ 39,583
Accounts payable	165,302	156,724
Medical claims liability	156,890	166,019
Other liabilities and accrued expenses	220,235	234,702
Current portion of long-term obligations	23,166	23,009
Contingent current portion of long-term obligations		19,804
Current portion of capital lease payable	517	1,787
Current portion of malpractice and general liability	25,505	25,505
Total current liabilities	627,032	667,133
MALPRACTICE AND GENERAL LIABILITY	98,091	110,882
DEFERRED COMPENSATION, POSTRETIREMENT, AND OTHER LIABILITIES	274,949	292,506
DEFERRED TAX LIABILITY	12,270	11,332
LONG-TERM OBLIGATIONS	878,605	866,896
LONG-TERM CAPITAL LEASE PAYABLE	3,861	3,832
Total liabilities	1,894,808	1,952,581
NET ASSETS:		
Unrestricted		
Henry Ford Health System	1,370,950	1,352,757
Noncontrolling interests	8,023	7,965
Total unrestricted	1,378,973	1,360,722
Temporarily restricted	112,595	117,167
Permanently restricted	94,571	94,855
Total net assets	1,586,139	1,572,744
TOTAL	$ 3,480,947	$ 3,525,325

See notes to consolidated financial statements

UNAUDITED
CONSOLIDATED STATEMENTS OF OPERATIONS
AND CHANGES IN NET ASSETS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (In Thousands)

	2014	2013
UNRESTRICTED REVENUE:		
Patient service revenue	$ 1,668,587	$ 1,720,144
Less provision for bad debts	(98,524)	(120,812)
Net patient service revenue	1,570,063	1,599,332
Health care premiums	1,694,215	1,636,821
Investment income	27,439	37,675
Other income	171,773	136,432
Total unrestricted revenue	3,463,490	3,410,260
EXPENSES:		
Salaries, wages, and employee benefits	1,287,824	1,275,595
Health care provider expense	1,023,827	1,050,719
Supplies	446,139	408,821
Depreciation and amortization	121,344	126,048
General and other administrative	254,385	190,805
Other contracted services	164,919	212,077
Malpractice	16,282	11,282
Plant operations	37,606	38,743
Interest expense	27,379	25,952
Repairs and maintenance	38,902	35,942
Rent	29,473	30,253
Total expenses	3,448,080	3,406,237
EXCESS OF REVENUE OVER EXPENSES BEFORE UNUSUAL ITEM	15,410	4,023
UNUSUAL ITEM:		
Gain on sale of joint venture (Note 1)	3,050	25,066
Total unusual item	3,050	25,066
EXCESS OF REVENUE OVER EXPENSES FROM CONSOLIDATED OPERATIONS	18,460	29,089
LESS: EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO NONCONTROLLING INTERESTS	3,209	12,597
EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO HENRY FORD HEALTH SYSTEM	$ 15,251	$ 16,492

(Continued)

UNAUDITED

CONSOLIDATED STATEMENTS OF OPERATIONS

AND CHANGES IN NET ASSETS (Continued)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (In Thousands)

	2014	2013
UNRESTRICTED NET ASSETS:		
Excess of revenue over expenses from consolidated operations	$ 18,460	$ 29,089
Change in net unrealized gains and losses on investments	270	6,378
Net assets released from restrictions for capital	2,678	8,538
Distributions to noncontrolling interests	(3,157)	(12,303)
Increase in unrestricted net assets	18,251	31,702
TEMPORARILY RESTRICTED NET ASSETS:		
Income on restricted investments	1,545	1,347
Contributions and grants	17,798	17,086
Change in net unrealized gains and losses on investments	172	2,066
Net assets released from restrictions for operations	(25,152)	(23,556)
Net assets released from restrictions for capital	(2,678)	(8,538)
Annual spending appropriation	3,743	4,324
Decrease in temporarily restricted net assets	(4,572)	(7,271)
PERMANENTLY RESTRICTED NET ASSETS:		
Income on restricted investments	682	3,043
Contributions and other	2,777	1,299
Annual spending appropriation	(3,743)	(4,324)
(Decrease) increase in permanently restricted net assets	(284)	18
TOTAL INCREASE IN NET ASSETS	13,395	24,449
TOTAL NET ASSETS - Beginning of year	1,572,744	1,437,475
TOTAL NET ASSETS - End of period	$ 1,586,139	$ 1,461,924

See notes to consolidated financial statements

(Concluded)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (In Thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 13,395	$ 24,449
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for bad debts	98,524	120,812
Depreciation and amortization	121,344	126,048
Gain on sale of joint venture	(3,050)	(25,066)
Gain on sale of disposal of assets	(451)	(1,027)
Income on restricted investments	(2,227)	(4,390)
Restricted contributions and grants	(20,575)	(18,385)
Net realized and unrealized gains on investments, other than trading securities	(270)	(8,444)
Distributions to noncontrolling interests	3,157	12,303
Change in assets and liabilities:		
Patient and health care premium receivables	(106,046)	(168,638)
Deferred tax asset	(90)	(145)
Other current assets	(4,637)	(6,846)
Trading securities	10,944	(2,180)
Joint venture investments	(4,474)	(1,491)
Other assets	1,095	851
Accounts payable	8,661	(28,208)
Other liabilities	(29,301)	26,613
Deferred tax liability	938	(2,689)
Due to/from third-party payors	6,087	20,941
Medical claims liability	(9,129)	(13,627)
Malpractice and general liability	(12,791)	(13,130)
Net cash provided by operating activities	71,104	37,751
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property	(118,519)	(170,115)
Proceeds from the sale or maturity of investments	1,246,262	306,104
Purchase of investments	(1,230,676)	(261,788)
Proceeds from the sale of joint venture	3,050	26,410
Net cash used in investing activities	(99,883)	(99,389)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on short-term borrowings	(4,166)	(3,750)
Payments of long-term obligations	(7,938)	(1,883)
Payments of capital lease payable	(1,241)	(1,382)
Distributions to noncontrolling interests	(3,157)	(12,303)
Income on restricted investments	2,227	4,390
Restricted contributions and grants	20,575	18,385
Net cash provided by financing activities	6,300	3,457
DECREASE IN CASH AND CASH EQUIVALENTS	(22,479)	(58,181)
CASH AND CASH EQUIVALENTS - January 1	471,320	475,988
CASH AND CASH EQUIVALENTS - September 30	$ 448,841	$ 417,807

See notes to consolidated financial statements

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization — Henry Ford Health System (the "Corporation") and its affiliates (collectively, the "System") constitute a comprehensive health care system offering health care to the people of southeastern Michigan. The System provides medical, surgical, psychiatric, and rehabilitative services in an inpatient and outpatient setting; conducts research activities; and engages in the education and training of residents, nurses, and technicians. The System includes one of the nation's largest employed physician group practices and a health maintenance organization.

The Corporation is a Michigan not-for-profit corporation, which operates Henry Ford Hospital and is the parent and sole member or shareholder of Downriver Cancer Center d.b.a. Downriver Center for Oncology (DCO); Wyandotte Hospital and Medical Center d.b.a. Henry Ford Wyandotte Hospital ("Wyandotte"); Henry Ford Macomb Hospital Corporation ("Macomb"); Health Alliance Plan of Michigan (HAP); Henry Ford Continuing Care Corporation ("Continuing Care"); P-Cor, L.L.C. d.b.a. OptimEyes; Henry Ford Physician Network (HFPN); Henry Ford Innovation Institute (HFII); Henry Ford Health System Government Affairs Services; Onika Insurance Company Ltd. ("Onika"); Sha Realty; Neighborhood Development, L.L.C.; Horizon Properties, Inc.; and the Henry Ford Health System Foundation (the "Foundation"). HAP has the following wholly owned subsidiaries: HAP Preferred Inc. (HPI); Alliance Health and Life Insurance Company ("Alliance"); and Midwest Health Plan, Inc. (MHP); and has a majority ownership interest in Administration System Research Corporation (ASR). Joint ventures include Northwest Detroit Dialysis Centers (56.25% ownership) and Macomb Regional Dialysis Centers, L.L.C. (60% ownership), which are consolidated.

During 2011, the System completed a review of the Macomb Warren Campus resulting in the announcement on January 17, 2012, of the closure, effective March 31, 2012. As of September 30, 2014, assets held for sale related to the Macomb Warren Campus are $1,104,000. The assets consist of property, plant, and equipment.

On August 1, 2013, the operating assets of Dialysis Partners of Northwest Ohio, a 57% ownership consolidated joint venture, were sold. These assets consisted primarily of inventory and property, plant, and equipment. The sale resulted in a gain of $26,007,000, of which $14,824,000 was attributable to the System and $11,183,000 was attributable to noncontrolling interest. During 2014, the System met certain requirements noted in the purchase agreement. As a result, the System recorded an additional $3,050,000 of which $1,739,000 is attributable to the System and $1,311,000 is attributable to noncontrolling interest.

On October 31, 2013, Henry Ford Health System Government Affairs Services was established as a Michigan not-for-profit membership corporation, which supports education and advocacy initiatives with regard to quality, cost-effective health care services for the communities it serves. The Corporation is the parent and sole member.

During 2013, the System evaluated the potential sale of Continuing Care, which owns and operates two long term care facilities. As of September 30, 2014, assets held for sale related to Continuing Care are

$2,574,000. These assets consist of inventory of $24,000 and property, plant, and equipment of $2,550,000.

On January 1, 2014, the operating assets of Henry Ford Health Products, a medical equipment division of the Corporation, were contributed to a newly established joint venture. The Corporation has a 35.49% ownership in the joint venture.

Basis of Presentation — The consolidated financial statements include the accounts of the System members as described above. The accounting and reporting policies of the System conform to accounting principles generally accepted in the United States of America (GAAP). All intercompany transactions have been eliminated. The preparation of consolidated financial statements in conformity with GAAP requires that management make estimates and assumptions that affect the reported amounts. Actual results could differ from those estimates.

The Corporation, DCO, Wyandotte, Macomb, HAP (excluding its subsidiaries Alliance, MHP, and ASR), and Continuing Care are members of the Henry Ford Health System Obligated Group (the "Obligated Group"). The consolidating balance sheet information and consolidating statement of operations and changes in net assets — unrestricted information as of and for the nine months ended September 30, 2014, are presented for the purposes of additional information of the Obligated Group. The Obligated Group information excludes the effects of wholly owned consolidating subsidiaries controlled by members of the Obligated Group and the effect of recording the beneficial interest in the net assets held by affiliated entities on behalf of members of the Obligated Group.

Patient Services, Net Patient Service Revenue, and Uncompensated Care and Community Benefit — Net patient service revenue is reported at the estimated net realizable amounts. For uninsured patients who meet the qualifications stipulated in the System's patient financial assistance policy, emergency and other medically necessary inpatient services are provided at no cost. Net patient service revenue associated with services provided to patients who have third-party payor coverage is reported on the basis of contractual rates for the services rendered. For uninsured patients, the System offers rates that equate to 115% of the established Medicare payment rate for similar services. 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. Therefore, the System records a significant provision for bad debts related to uninsured patients in the period the services are provided.

In evaluating the collectability of accounts receivable, the System analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. 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. 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 a portion of the bill), the System records a significant provision for bad debts in the period of service on the basis of its past experience. At such point in time that a billed service is believed to be uncollectible, the related receivable is written off against the allowance for doubtful accounts.

Estimates of retroactive adjustments under reimbursement agreements with third-party payors are accrued in the period the related services are rendered and adjusted in future periods as final settlements are received.

A substantial portion of net patient service revenue was paid primarily by Medicare, Medicaid, and Blue Cross based upon contracted rates or under cost reimbursement agreements in 2014 and 2013. Provisions for estimated retroactive adjustments under these agreements for current and prior years have been reflected in the accounts based upon the most current information available. Net patient service revenue of $17,276,000 and $15,317,000 related to prior-year settlements was recorded during the nine months ended September 30, 2014 and 2013, respectively.

The System provided health care services without charge or at amounts less than its established rates to patients who met the criteria of its charity care policy. The amount of charity care provided, determined on the basis of cost, is computed using a cost to charge ratio methodology. In addition to charity care, the System provided services to Medicare, Medicaid, and other public programs for financially needy patients, for which the payments received were less than the cost of providing services. The unpaid costs attributed to providing services under this program are considered a community benefit. The System also provided community health services, such as community education and outreach in the form of free or low-cost clinics; health education; donations for the community; multiple health promotion and wellness programs, such as health screening; and various community projects and support groups.

Additionally, the System demonstrates its exempt purpose to benefit the community by operating emergency rooms open to the public 24 hours a day, seven days a week; providing facilities for the education and training of health care professionals; and maintaining research facilities for the study of new drugs and medical devices that offer the promise of improving health care.

The quantifiable costs of the System’s community benefit for the nine months ended September 30, 2014 and 2013, were as follows (in thousands):

	2014	2013
Charity care at cost	$ 46,563	$ 50,182
Unpaid cost of Medicare, Medicaid and other public programs	126,250	63,169
Bad debt at estimated cost	63,195	62,173
Total cost of uncompensated care	$ 236,008	$ 175,524

The above does not include the 2013 unpaid cost of Medicare of $59,368,000, which would increase the 2013 total cost of uncompensated care to $234,892,000.

Health Care Premiums — Premiums received in advance of the respective period of coverage are credited to income ratably over the period of coverage. A significant portion of HAP’s customer base is concentrated in companies that are part of the automotive manufacturing industry. HAP also has a significant portion of its customer base concentrated in Medicare beneficiaries.

Contributions — Unrestricted contributions are included in the consolidated statements of operations and changes in net assets when received. Gifts of cash and other assets are reported as restricted contributions if they are received with donor stipulations that limit the use of the assets. When the restrictions expire or the purpose of the restriction is accomplished, temporarily restricted assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as other income or net assets released from restrictions for capital.

Other Income — Other income consists of assets released from restrictions, income from grants, gift shop and cafeteria sales, parking garage fees, and other miscellaneous sources.

The American Recovery and Reinvestment Act of 2009 (ARRA) established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that "meaningfully use" certified electronic health record technology. These provisions of ARRA, together with certain of its other provisions, are referred to as the Health Information Technology for Economic and Clinical Health Act (HITECH). The System recognized $17,487,000 and $9,768,000 for the nine months ended September 30, 2014 and 2013, respectively, of incentive reimbursement for HITECH incentives from Medicare and Medicaid as other income in the consolidated statements of operations and changes in net assets. HITECH incentives from Medicare are calculated using Medicare cost report data that is subject to audit. Additionally, the System's compliance with meaningful use criteria is subject to audit by the federal government.

Performance Indicator — The consolidated statements of operations and changes in net assets include the excess of revenue over expenses from consolidated operations. Changes in unrestricted net assets, which are excluded from the excess of revenue over expenses from consolidated operations, consistent with industry practice, include change in net unrealized gains and losses on investments, net assets released from restrictions for capital, and distributions to noncontrolling interests.

Cash and Cash Equivalents — Cash and cash equivalents consist of cash and highly liquid short-term investments (i.e., money market funds) with an original maturity of 90 days or less. Cash equivalents are stated at fair value, which approximates cost.

Short-term Investments — Short-term investments consist primarily of fixed-income instruments with original maturities greater than 90 days and less than one year. Short-term investments are stated at fair value, which approximates cost.

Other Current Assets — Other current assets include inventories, which are stated at the lower of cost (first-in, first-out) or market.

Investments and Assets Limited as to Use — Investments in equity securities with readily determinable fair values and investments in debt securities are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the deficiency of revenue over expenses, unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the deficiency of revenue over expenses, unless the investments are trading securities or related to other-than-temporary impairment changes. Hedge funds and private equities are accounted for on the cost basis. Other investments structured as limited liability corporations and partnerships are accounted for on the equity method. Commingled funds that hold securities directly are stated at fair value. Net realized gains and losses on sales of securities are computed on the specific-identification method. Declines in value judged to be other-than-temporary are included in investment income or income on restricted investments.

Assets limited as to use are reported at their estimated fair value or cost and include resources for which the board of trustees of the System has designated specific future uses; donor-restricted funds that arise through specific contributions to the System and the Foundation; and funds held by the State of Michigan under the bond indenture agreements. The dollar amount of these assets, which are to be used to satisfy current liabilities, has been classified as a current asset.

The System continually reviews investments for impairment conditions that indicate that an other-than-temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which, individually or in combination, indicate that a decline is other than temporary and that a reduction of the carrying value is required. For debt securities, these factors include the intent to sell the security and whether the System will more likely than not sell the security before its anticipated recovery. For equity securities, these factors include the length of time and extent to which the market value is below the cost basis of the investment, the financial condition and near-term prospects of the individual security, and the ability and intent of the System to retain the investment for a period of time sufficient to allow for any anticipated recovery in the market value.

Investment Risks — Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in values in the near term could materially affect the amounts reported in the accompanying consolidated financial statements.

Fair Value of Financial Instruments — Fair value of financial instruments has been determined using available information and appropriate valuation methodologies. The fair value of assets is based on quoted market prices, dealer quotes, and prices obtained from independent sources. The fair value of liabilities is based on a discounted cash flows analysis, using interest rates currently available for the issuance of debt with similar terms and remaining maturities. Considerable judgment is required in certain circumstances to develop the estimates of fair value, and they may not be indicative of the amounts, which could be realized in a current market exchange.

Derivative Financial Instruments — The System periodically utilizes various financial instruments (e.g., options, and swaps) to limit interest rate risk and guarantee income. The System's policies generally prohibit trading in derivative financial instruments on a leveraged basis.

Intangible and Other Assets — Intangible and other assets as of September 30, 2014 and December 31, 2013, consisted of the following (in thousands):

September 30, 2014	**Carrying Amount**	**Accumulated Amortization**	**Net Book Value**	**Useful Life**
Definite-lived intangible assets:				
Customer relationships	$ 45,890	$ 8,317	$ 37,573	13 - 17
Trademarks	2,050	275	1,775	2 - 25
Non-compete agreements	2,720	1,587	1,133	5
Provider relations	5,394	1,714	3,680	10
Bond issuance costs	11,267	4,197	7,070	30 - 40
Other	10,681	6,335	4,346	
Total	$ 78,002	$ 22,425	$ 55,577	

December 31, 2013	**Carrying Amount**	**Accumulated Amortization**	**Net Book Value**	**Useful Life**
Definite-lived intangible assets:				
Customer relationships	$ 45,890	$ 6,215	$ 39,675	13 - 17
Trademarks	2,050	214	1,836	2 - 25
Non-compete agreements	2,720	1,179	1,541	5
Provider relations	5,394	1,310	4,084	10
Bond issuance costs	11,267	3,899	7,368	30 - 40
Other	10,068	4,793	5,275	
Total	$ 77,389	$ 17,610	$ 59,779	

Goodwill — The System reviews goodwill annually for impairment in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 350, *Intangibles — Goodwill and Other*. Impairments, if any, are charged to earnings. This evaluation is based on the projected, discounted cash flows generated by the related assets. Goodwill was tested for impairment as of September 30, 2013 and 2012, with no impairment considered necessary.

Impairment — The System periodically evaluates the carrying value of its long-lived assets for impairment. This evaluation is based principally on the projected, undiscounted cash flows generated by the related assets.

During 2011, the System began implementation of an integrated clinical and revenue software application. This resulted in a reduction in the remaining useful life of the current electronic medical record system and additional depreciation expense of $5,772,000 and $10,927,000 was recorded during the nine months ended September 30, 2014 and 2013, respectively.

Property, Plant, and Equipment — Property, plant, and equipment, which includes capitalized internal–use software, is recorded at cost or fair value at the date of acquisition. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Estimated useful lives used in computing depreciation are generally 10 years for land improvements, 15 to 40 years for buildings and building improvements, and 3 to 15 years for equipment.

Expenditures for maintenance and repairs are charged against operations. Expenditures for betterment and major renewals that extend the useful life of an asset are capitalized and depreciated.

Medical Claims Liability — Medical claims liability consists of unpaid medical claims and other obligations resulting from the provision of health care services. It includes claims reported as of the consolidated balance sheets date and estimates, based upon historical claims experience, for claims incurred but not reported.

Contingencies — The System is party to lawsuits incidental to its operations. Management and its counsel believe that the ultimate disposition of such litigation will not have a material effect on the consolidated financial position of the System.

Deferred Compensation — Certain employees of the System participate in deferred compensation plans. The System has chosen to fund this liability using mutual funds and annuity or insurance contracts solely owned by the System. Thus, these amounts are subject to the claims of the System's general creditors.

Asset Retirement Obligation — The fair value of a liability for legal obligations associated with asset retirements is recorded in the period in which it is incurred, in accordance with ASC Topic 410-20, *Asset Retirement and Environmental Obligations — Asset Retirement Obligations*. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statements of operations and changes in net assets.

Tax Status — The System, except for HAP, HPI, HFPN, Henry Ford Health System Government Affairs Services, Alliance, MHP, ASR, and Onika, consists of entities described under Internal Revenue Service Code Section 501(c)(3) and, as such, are exempt from federal income taxes under Internal Revenue Code Section 501(a) and do not have private foundation status under Internal Revenue Code Section 509(a)(1) or 509(a)(3). HAP and Henry Ford Health System Government Affairs Services are entities described under Internal Revenue Code Section 501(c)(4) and, as such, are exempt from federal income taxes. HPI, HFPN, Alliance, MHP, and ASR are taxable entities. The System's wholly owned insurance captive, Onika, operates in the Cayman Islands and is currently not subject to income taxes. The System does not have any material uncertain tax positions as of September 30, 2014 and December 31, 2013.

2. ASSETS LIMITED AS TO USE

Assets limited as to use as of September 30, 2014 and December 31, 2013, consisted of the following (in thousands):

	2014	2013
Unrestricted assets limited as to use:		
The Foundation	$ 329,419	$ 332,690
Loan funds held by trustee	-	18,397
Funds designated for malpractice and general liability	117,761	145,047
Funds designated for deferred compensation	122,814	119,941
Funds held under bond indenture agreements	23,349	23,349
HAP statutory funds	14,339	14,355
Funds board-designated for research and education	25,284	22,636
Total unrestricted assets limited as to use	632,966	676,415
Temporarily restricted assets:		
Grant and pledge funds	102,825	103,818
Grants and pledges receivable	9,770	13,349
Total temporarily restricted assets	112,595	117,167
Permanently restricted assets:		
Grant and pledge funds	94,071	94,304
Grants and pledges receivable	500	551
Total permanently restricted assets	94,571	94,855
Total assets limited as to use	840,132	888,437
Less requirements for current liabilities	28,586	32,069
Noncurrent assets limited as to use	$ 811,546	$ 856,368

Onika maintains a reserve deposit of $9,745,000 and $9,540,000 as of September 30, 2014 and December 31, 2013, respectively, under a reinsurance trust agreement and an agency agreement. These amounts are included above in funds designated for malpractice and general liability. The HAP statutory funds are required by insurance regulations.

3. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment as of September 30, 2014 and December 31, 2013, consisted of the following (in thousands):

	2014	2013
Land and improvements	$ 78,558	$ 75,817
Building and improvements	1,373,086	1,341,519
Equipment	1,429,416	1,476,966
Construction in progress	62,327	71,568
Total	2,943,387	2,965,870
Less accumulated depreciation	1,648,490	1,673,482
Property, plant, and equipment	$1,294,897	$1,292,388

Internal use software is included above in equipment and construction in progress. The net book value was $241,299,000 and $214,668,000 at September 30, 2014 and December 31, 2013, respectively.

4. LONG-TERM OBLIGATIONS

Long-term obligations as of September 30, 2014 and December 31, 2013, consisted of the following (in thousands):

	2014	2013
Revenue and refunding bonds Series 2009, fixed rate, maturing serially through 2020, interest rates of 4.0% to 5.5%; term due 2024, interest rate of 5.25%; term due 2029, interest rate of 5.625% and term due 2039, interest rate of 5.75%	$ 309,375	$ 309,375
Revenue bonds Series 2007, maturing serially through 2042, variable interest rate, 0.06% at September 30, 2014	151,595	151,595
Revenue and refunding bonds Series 2006A, fixed rate, maturing serially through 2027, interest rates of 4.8% to 5.0%; term due 2032, interest rate of 5.25%; term due 2038, interest rate of 5.0% and term due 2046, interest rate of 5.25%	370,255	370,255
Tax exempt loan, interest rate of 2.07%, maturing 2020	67,475	75,000
Other obligations (interest rates from 3.16% to 3.23%)	2,065	2,368
Unamortized discount on bonds	(7,678)	(7,794)
Unamortized premium on bonds	8,684	8,910
Total	901,771	909,709
Less current portion	23,166	23,009
Less contingent current portion of long-term obligations		19,804
Total long-term obligations	$ 878,605	$ 866,896

On November 3, 2009, the System issued $330,735,000 in Series 2009 revenue and refunding bonds. The proceeds were used to fund an escrow account of $195,000,000 to convert the Series 2006B&C variable rate bonds to fixed rate bonds, reimburse the System for approximately $100,000,000 for previous capital expenditures, fund approximately $24,000,000 into a debt service reserve fund to provide security for the bonds, to pay certain issuance costs, and to cover the cost of discount bonds.

Prior to December 31, 2009, the funds included in the escrow account were used to redeem the remaining principal and interest on the Series 2006B&C bonds and the excess funds transferred to a bond payment fund to make future bond payments.

During 2006, the Obligated Group cash-defeased or refunded all its existing tax-exempt debt with the Series 2006A, B&C bonds. Escrow accounts were established for the refunded bonds in amounts sufficient to cover interest, principal, and call premiums. During 2013, the escrow matured and the bonds were paid off.

Members of the Obligated Group are jointly and severally liable for outstanding obligations issued under the Master Indenture. The Master Indenture contains covenants that require the Obligated Group to maintain a debt service coverage ratio above a certain level and contains limitations on incurring additional indebtedness and debt guarantees. The System has no knowledge of any default in the performance of the terms, covenants, provisions, or conditions of the Master Indenture. The Obligated Group can redeem the fixed-rate outstanding bonds from the Series 2009 beginning November 15, 2020, and thereafter at par, and the Series 2006A beginning November 15, 2017, and thereafter at par and the variable rate Series 2007 bonds on any business day during a weekly interest rate period at par. The rates on the variable rate bonds are set each week to enable the bonds to be remarketed at a price of par, not to exceed 12%. Variable rate bonds can be tendered with a minimum of seven days' notice. The System entered into a remarketing agreement to remarket the variable rate bonds on a weekly basis in addition to entering into an irrevocable, transferable, direct-pay, letter-of-credit agreement in the original amount of $165,735,000 of which $151,595,000 is outstanding on September 30, 2014. The letter of credit expires on November 29, 2014.

The letter of credit supporting the Series 2007 bonds provides interim financing to the Obligated Group in the event that remarketing efforts fail for bonds tendered. The reimbursement agreement specifies that letter of credit draws be repaid over a five-year period in equal quarterly installments beginning either January 1, April 1, July 1, or October 1 following a draw on the letter of credit that remains outstanding as provided for in the agreements. No remarketing of the Series 2007 bonds has failed. As of September 30, 2014, there was $151,595,000 of Series 2007 bonds outstanding of which $148,660,000 was classified as long term and $2,935,000 was classified as current maturities. A contingent current portion of long-term obligations was not recorded as of September 30, 2014 due to the refunding of the Series 2007 bonds with the Series 2014 Revenue Refunding Bonds on November 13, 2014, as presented in Note 6.

During 2013, the System entered into a $75,000,000 tax exempt loan to finance a portion of the integrated clinical and revenue software application. The lendor has a security interest in this software application. The interest rate is 2.07% and is due in 2020.

5. UNRESTRICTED NET ASSETS

Changes in consolidated unrestricted net assets attributable to the System and the noncontrolling interests for the nine months ended September 30, 2014 and 2013, are as follows (in thousands):

	Henry Ford Health System	Noncontrolling Interests	Total
UNRESTRICTED NET ASSETS — December 31, 2012	$ 1,215,498	$ 7,884	$ 1,223,382
Excess of revenue over expenses from consolidated operations	16,492	12,597	29,089
Change in net unrealized gains and losses on investments	6,378		6,378
Net assets released from restrictions for capital	8,538		8,538
Distributions to noncontrolling interests		(12,303)	(12,303)
Increase in unrestricted net assets	31,408	294	31,702
UNRESTRICTED NET ASSETS — September 30, 2013	$ 1,246,906	$ 8,178	$ 1,255,084
UNRESTRICTED NET ASSETS — December 31, 2013	1,352,757	7,965	1,360,722
Excess of revenue over expenses from consolidated operations	15,251	3,209	18,460
Change in net unrealized gains and losses on investments	264	6	270
Net assets released from restrictions for capital	2,678		2,678
Distributions to noncontrolling interests		(3,157)	(3,157)
Increase in unrestricted net assets	18,193	58	18,251
UNRESTRICTED NET ASSETS — September 30, 2014	$ 1,370,950	$ 8,023	$ 1,378,973

6. SUBSEQUENT EVENTS

Pursuant to FASB ASC Topic 855-10, *Subsequent Events — Overall*, the System has evaluated subsequent events through November 14, 2014, the date of issuance. As a result of this evaluation, the following subsequent event was noted: On November 13, 2014, the System issued $148,905,000 in Series 2014 variable rate revenue refunding bonds. The proceeds were used to refund the long-term portion of the Series 2007 bonds and to pay certain issuance costs. The Series 2014 bonds were issued as a tax exempt, direct placement loan and mature serially through 2042.

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Henry Ford Health System

UNAUDITED

Consolidating Schedules, Including Obligated Group,

for the Nine Months Ended September 30, 2014

UNAUDITED
CONSOLIDATING BALANCE SHEET INFORMATION
AS OF SEPTEMBER 30, 2014 (In Thousands)

	Henry Ford Health System Obligated Group	Henry Ford Health System Non Obligated Group	Eliminations	Henry Ford Health System Consolidated
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 304,384	$ 144,457	$ -	$ 448,841
Short-term investments	764	147	-	911
Patient care receivables	218,417	1,787	(8,728)	211,476
Health care premium receivables	46,015	16,309	-	62,324
Due from third-party payors	31,841	-	-	31,841
Deferred tax asset	-	782	-	782
Assets held for sale	3,678	-	-	3,678
Other current assets	113,426	13,303	(7,673)	119,056
Current portion of assets limited as to use	28,586	-	-	28,586
Total current assets	747,111	176,785	(16,401)	907,495
LONG-TERM INVESTMENTS	325,113	28,094	-	353,207
ASSETS LIMITED AS TO USE	488,816	394,091	(71,361)	811,546
JOINT VENTURE INVESTMENTS	18,951	(124)	(5,647)	13,180
INTANGIBLE AND OTHER ASSETS	151,054	37,564	(133,041)	55,577
GOODWILL	8,838	36,207	-	45,045
PROPERTY, PLANT, AND EQUIPMENT - Net	1,266,148	28,749	-	1,294,897
TOTAL	$ 3,006,031	$ 701,366	$ (226,450)	$ 3,480,947

(Continued)

UNAUDITED
CONSOLIDATING BALANCE SHEET INFORMATION
AS OF SEPTEMBER 30, 2014 (In Thousands)

	Henry Ford Health System Obligated Group	Henry Ford Health System Non Obligated Group	Eliminations	Henry Ford Health System Consolidated
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Short-term borrowings	$ 35,417	$ -	$ -	$ 35,417
Accounts payable	153,195	13,658	(1,551)	165,302
Medical claims liability	90,434	75,312	(8,856)	156,890
Other liabilities and accrued expenses	208,425	36,525	(24,715)	220,235
Current portion of long-term obligations	22,762	404	-	23,166
Current portion of capital lease payable	517	-	-	517
Current portion of malpractice and general liability	25,505	-	-	25,505
Total current liabilities	536,255	125,899	(35,122)	627,032
MALPRACTICE AND GENERAL LIABILITY	89,982	60,757	(52,648)	98,091
DEFERRED COMPENSATION, POSTRETIREMENT, AND OTHER LIABILITIES	267,479	7,470	-	274,949
DEFERRED TAX LIABILITY	-	12,270	-	12,270
LONG-TERM OBLIGATIONS	876,942	1,663	-	878,605
LONG-TERM CAPITAL LEASE PAYABLE	3,861	-	-	3,861
Total liabilities	1,774,519	208,059	(87,770)	1,894,808
NET ASSETS:				
Unrestricted				
Henry Ford Health System	1,020,631	488,999	(138,680)	1,370,950
Noncontrolling interests	4,544	3,479	-	8,023
Total unrestricted	1,025,175	492,478	(138,680)	1,378,973
Temporarily restricted	111,766	829	-	112,595
Permanently restricted	94,571	-	-	94,571
Total net assets	1,231,512	493,307	(138,680)	1,586,139
TOTAL	$ 3,006,031	$ 701,366	$ (226,450)	$ 3,480,947

(Concluded)

UNAUDITED
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS - UNRESTRICTED INFORMATION
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 (In Thousands)

	Henry Ford Health System Obligated Group	Henry Ford Health System Non Obligated Group	Eliminations	Henry Ford Health System Consolidated
UNRESTRICTED REVENUE:				
Patient service revenue	$ 1,654,048	$ 51,240	$ (36,701)	$ 1,668,587
Less provision for bad debts	(98,524)	-	-	(98,524)
Net patient service revenue	1,555,524	51,240	(36,701)	1,570,063
Health care premiums	1,251,048	444,541	(1,374)	1,694,215
Investment income	16,507	12,858	(1,926)	27,439
Other income	179,493	29,723	(37,443)	171,773
Total unrestricted revenue	3,002,572	538,362	(77,444)	3,463,490
EXPENSES:				
Salaries, wages, and employee benefits	1,256,931	37,365	(6,472)	1,287,824
Health care provider expense	694,624	366,170	(36,967)	1,023,827
Supplies	440,277	5,877	(15)	446,139
Depreciation and amortization	116,605	4,739	-	121,344
General and other administrative	168,135	100,293	(14,043)	254,385
Other contracted services	159,396	6,862	(1,339)	164,919
Malpractice	16,217	(6)	71	16,282
Plant operations	36,058	1,548	-	37,606
Interest expense	27,313	66	-	27,379
Repairs and maintenance	38,278	624	-	38,902
Rent	27,825	2,514	(866)	29,473
Total expenses	2,981,659	526,052	(59,631)	3,448,080
EXCESS OF REVENUE OVER EXPENSES BEFORE UNUSUAL ITEM	20,913	12,310	(17,813)	15,410
UNUSUAL ITEM:				
Gain on sale of joint venture	-	3,050	-	3,050
Total unusual item	-	3,050	-	3,050
EXCESS OF REVENUE OVER EXPENSES FROM CONSOLIDATED OPERATIONS	20,913	15,360	(17,813)	18,460
Change in net unrealized gains and losses on investments	(172)	441	1	270
Net assets released from restrictions for capital	2,678	-	-	2,678
Distributions to noncontrolling interests	(50)	(3,107)	-	(3,157)
Other	(3,666)	(626)	4,292	-
INCREASE IN UNRESTRICTED NET ASSETS	$ 19,703	$ 12,068	$ (13,520)	$ 18,251

HENRY FORD HEALTH SYSTEM

UNAUDITED

Statistical Information

for the Nine Months Ended September 30, 2014 and 2013

UNAUDITED
STATISTICAL INFORMATION
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
THIRD - PARTY PAYORS		
(Page A-15 of the Series 2009 Official Statement)		
Managed Care Payors (primarily HAP)	33%	33%
Medicare	28%	28%
Blue Cross	16%	16%
Medicaid	4%	6%
Medicaid HMO	10%	8%
Other Payors	9%	9%
Total	100%	100%
HAP MEMBERSHIP		
(Page A-16 of the Series 2009 Official Statement)	273,291	331,139
HAP PREFERRED MEMBERSHIP		
(Page A-17 of the Series 2009 Official Statement)	118,586	118,548
OUTPATIENT FACILITY VISITS		
(Page A-20 of the Series 2009 Official Statement)		
HFHS	1,582,132	1,639,485
Wyandotte Hospital	172,555	183,644
Macomb Hospital - Clinton Township Campus	298,920	316,459
Total	2,053,607	2,139,588
UTILIZATION STATISTICS		
(Page A-22 of the Series 2009 Official Statement)		
Admissions (excluding newborns)		
HFHS:		
Henry Ford Hospital	26,000	26,858
Behavioral Services	5,646	4,464
West Bloomfield Hospital	10,093	9,853
Wyandotte Hospital	13,757	14,159
Macomb Hospital - Clinton Township Campus	15,686	16,504
Total	71,182	71,838
Patient Days (excluding newborns)		
HFHS:		
Henry Ford Hospital	141,247	151,398
Behavioral Services	29,452	25,278
West Bloomfield Hospital	39,669	38,742
Wyandotte Hospital	63,296	66,144
Macomb Hospital - Clinton Township Campus	77,768	81,925
Total	351,432	363,487