QUARTERLY REPORT

For the six months ended
February 28, 2014

Baptist Healthcare System, Inc. And Affiliates

The information provided within this report
was prepared by Baptist Healthcare System, Inc.

Report Date: April 28, 2014

Baptist Healthcare System, Inc. And Affiliates

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The undersigned, Baptist Healthcare System, Inc. and Affiliates (BHS), and through Carl G. Herde its Vice President of Finance and CFO hereby certifies, warrants and represents, that the financial statements attached hereto (i) are the financial statements of BHS for the period stated, (ii) have been prepared in accordance with GAAP, (iii) fairly reflect the financial condition of BHS and the results of its operations as of the date and for the period stated and (iv) set forth in reasonable detail the financial information necessary to determine if BHS is in compliance with the covenants of the documents for the Series 2009A, Series 2009B, Series 2010 and the Series 2011 Bonds.

BHS has reviewed the provisions of the 2009A, 2009B, 2010 and 2011 bonds and, to the best of my knowledge, there does not presently exist, nor has there existed at any time during the period covered by the financial statements attached hereto, any Default or event of Default.

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Carl G. Herde, CFO

Baptist Healthcare System, Inc. And Affiliates

Forward looking information:

Certain statements included or incorporated by reference in this Quarterly Report constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. Such forward-looking statements include, among others, certain of the information under the Management Discussion and Analysis included within this Quarterly Report. The achievement of certain results or other expectations included in such forward-looking statements involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Given these uncertainties, bondholders and prospective bondholders are cautioned not to unduly rely on such forward-looking statements when evaluating the information in this Quarterly Report. These factors include, but are not limited to, (i) the highly competitive nature of the health care business, (ii) the efforts by insurers, health care providers and others to contain health care costs, (iii) possible changes in the Medicare and Medicaid programs that may impact reimbursements to health care providers, (iv) changes in federal, state or local regulations affecting the health care industry, (v) the possible enactment of federal or state health care reform, (vi) the ability to attract and retain qualified management and other personnel, including affiliated physicians, nurses and medical support personnel, (vii) liabilities and other claims asserted against the Obligated Group, (viii) changes in accounting standards and practices, (ix) changes in general economic conditions that affect the number of employed individuals who have health coverage, (x) future divestitures or acquisitions which may result in additional charges, (xi) changes in revenue mix and the ability to enter into and renew managed care provider arrangements on acceptable terms, (xii) the availability and terms of capital to fund future expansion plans of the Obligated Group and to provide for ongoing capital expenditure needs, (xiii) changes in business strategy or development plans, (xiv) delays in receiving payments, (xv) the ability to implement shared services and other initiatives and realize decreases in administrative, supply and infrastructure costs, (xvi) the outcome of pending and any future litigation, (xvii) the Obligated Group's continuing efforts to monitor, maintain and comply with appropriate laws, regulations, policies and procedures relating to the status of the Members of the Obligated Group as tax-exempt organizations as well as their ability to comply with the requirement of Medicare and Medicaid programs, (xviii) the ability to achieve expected levels of patient volumes and control the cost of providing services, and (xix) the impact of new clinical techniques and technology, as well as new pharmaceutical and genetic developments and products, that may alter the course of medical diagnosis and treatment in ways that are currently unanticipated.

Baptist Healthcare System, Inc. And Affiliates
System Entities

Baptist Healthcare System, Inc. changed the trade names of its wholly-owned entities, and also the legal names of select entities in order to better communicate its focus on unity and integration. The new brand, ***"Baptist Health"*** is present in all new entity names, indicating that the Baptist System is much more than a group of hospitals, but a broad variety of healthcare services and facilities known for high quality experienced care using the latest medical innovations who are working together to deliver exceptional care across the State.

The new name will help Kentucky residents better identify the unique Baptist brand of care synonymous with exceptional patient experiences. Baptist Health is well-established and nationally recognized and with changes in the healthcare industry occurring nationwide, the timing is right to bring about more unity and alignment of services and to create a stronger continuum of care throughout the state. The new brand also reflects a national shift to focus on preventive care and health improvement of our population. The name change became effective February 1, 2013. Please refer to ***Appendix A*** for a cross-reference of previous name to new name for all Baptist Health entities.

The Obligated Group

The Obligated Group consists of Baptist Healthcare System, Inc. and Baptist Healthcare Affiliates, Inc. Each is organized as a Kentucky non-profit corporation and is a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended.

Baptist Healthcare System, Inc. (BHS):

- Baptist Health Louisville (BH LOU - 519 licensed beds). BH LOU opened in 1975 and is located in St. Matthews (an eastern Louisville suburb) approximately five miles from the downtown area and is strategically located near Interstate 64, a main access to downtown, and Interstate 264, a main beltway around Louisville. BH LOU provides a continuum of care to the community, including general acute care, mental health, acute rehabilitation and home health services. Distinguishing services include general medical and surgical care, cardiovascular services, and women's health including obstetrics, orthopedic surgery, the Center for Behavioral Health®, the cancer center, rehabilitation, neuroscience and emergency services.

- Baptist Health Corbin (BH COR - 273 licensed beds). BH COR opened in 1986 in Corbin, Kentucky. It is located one-half mile off of Interstate 75, approximately three miles from downtown Corbin and near U.S. Highway 25, which is a main access to several of the surrounding communities. BH COR is a Medicare Rural Referral Center that provides a full range of general acute care to the community. Distinguishing services include surgical services, rehabilitation, psychiatry, intensive care, obstetrics, MRI services, general medicine and emergency services. It is known in the region for its Behavioral Health, Physical Rehabilitation and Orthopedic Center of Excellence Programs.

Baptist Healthcare System, Inc. And Affiliates
System Entities

The Obligated Group

- Baptist Health Lexington (BH LEX - 383 licensed beds). BH LEX opened in 1954 in Lexington, the second largest city in Kentucky. It is located approximately five miles from Interstate 75 and Interstate 64 which provide access for the immediate Lexington metro area patients as well as patients from other areas of central and eastern Kentucky which the hospital serves. BH LEX is among the largest providers of cardiac care in Kentucky and offers a comprehensive program, including open heart surgery, angioplasty and full interventional procedures, electrophysiology, cardiac cath guided magnetic imagery, dedicated cardiothoracic intensive care, cardiac rehabilitation, invasive and noninvasive diagnostic services, cardiac 64-slice CT diagnostic capabilities, cardiac MRI services, and extensive community education, screening and wellness services. BH LEX established the first accredited chest pain center in the Lexington area, a special designation granted by the Society of Chest Pain Centers.

- Baptist Health Paducah (BH PAD - 373 licensed beds). BH PAD opened in 1953 in Paducah and is a regional medical and referral center, serving nearly 200,000 patients a year from four states. Distinguishing services include a full range of medical and surgical services, including cardiac and cancer care, orthopedics, neuroscience, women's and children's services, surgery, emergency treatment, diagnostic imaging, rehabilitation and more.

Baptist Healthcare Affiliates, Inc. (BHA):

- Baptist Health LaGrange (BH LAG – 120 licensed beds). BH LAG was acquired in 1992 and is located in LaGrange, Kentucky which is in one of the fastest growing and highest income areas within Kentucky. Located approximately 22 miles northeast of downtown Louisville off of Interstate 71, BH LAG is easily accessible from communities within Oldham County as well as the four adjacent Kentucky counties. Distinguishing services include a 24-hour emergency department, intensive/coronary care, telemetry monitoring, women's health services, a full range of diagnostic imaging services including nuclear medicine, mammography, ultrasound, CT Scanning, MRI services, a full complement of rehabilitative services including physical therapy, occupational therapy and speech therapy, a Skilled Nursing Facility (SNF) and outpatient services.

- Baptist Healthcare Affiliates, Inc. also operates the Oldham County ambulance service for the Oldham County Ambulance Tax District (OCATD) under a management contract. This contract became effective July 1, 2012 and has been renewed for the year beginning July 1, 2013.

Baptist Healthcare System, Inc. And Affiliates
System Entities

Non-Obligated Affiliates

In addition to the hospitals owned and operated by BHS and BHA, BHS also controls or has an ownership interest in several affiliated non-profit and for-profit corporations. These affiliates are not members of the Obligated Group created under the Master Indenture and therefore are not obligated to make payments with respect to the Bonds.

Bluegrass Family Health, Inc. (BFH)

- BFH is a Kentucky non-profit corporation formed in 1993 to own and operate a health maintenance organization ("HMO"). BFH currently provides services to approximately 35,000 commercial members concentrated in the central and southeastern regions of the state and provides other services through other networks and certain subcontracts for approximately 200,000 lives throughout the Commonwealth of Kentucky. BHS is the sole member owner.

Baptist Health Richmond (BH RIC):

- Baptist Health Richmond (BH RIC – 105 licensed beds). Baptist Health Richmond, Inc. is a nonprofit, tax-exempt organization that was formed on September 1, 2012 when Baptist acquired the net assets of Pattie A. Clay Infirmary Association and Pattie A. Clay Foundation (collectively Pattie A. Clay renamed to Baptist Health Richmond). There was no consideration paid by Baptist as part of the acquisition. See Note 17 for additional information related to the acquisition.

- In connection with the acquisition, BHS agreed to fund at least $50,000,000 of capital improvements benefiting BH RIC within five years from the date of the acquisition and provide $3,000,000 of funds to the foundation. BH RIC offers a continuum of care such as orthopedics, obstetrics/gynecology, pediatrics, cardiology and internal medicine, sports medicine and a full array of outpatient, diagnostic and emergency services. BH RIC is located in Richmond, Kentucky approximately 2 miles off Interstate 75, adjacent to Eastern Kentucky University. It's located approximately 25 miles south of downtown Lexington, Kentucky and 28 miles from Baptist Health Lexington.

Baptist Health Madisonville (BH MAD):

- Baptist Health Madisonville (BH MAD – 410 licensed beds). Baptist Health Madisonville, Inc. is a nonprofit, tax-exempt organization that was formed on November 1, 2012 when Baptist acquired the net assets of The Trover Foundation (d/b/a Trover Health System and its affiliates). There was no consideration paid by Baptist as part of the acquisition. BH MAD offers 55 services and specialties including oncology, orthopedics, obstetrics/gynecology, cardiology, cardiovascular, general surgery and emergency services. BH MAD is the major medical center within its seven county primary service area. BH MAD is located in Madisonville, Kentucky and is approximately one hour south of Evansville, Indiana.

Baptist Healthcare System, Inc. And Affiliates
System Entities

Baptist Health Community Services (BCHS):

- BCHS is a Kentucky non-profit tax-exempt 501(c)(3) corporation of which BHS is the sole member. BCHS was formed in 1987 and owns and operates urgent care centers, occupational medicine clinics and a primary care center. BCHS owns a 54% interest in a limited liability company formed in 2002 called Baptist-Physicians' Surgery Center, LLC ("BPSC"). Physicians own the remaining 46% of BPSC. BPSC owns and operates an ambulatory surgery center on the campus of BH LEX. Baptist Eastpoint Surgery Center ("BESC") was formed in 2007 and operates an ambulatory surgery center located off-campus in Louisville, Kentucky, which opened in early 2009. BCHS owns a 51% interest in a limited liability company formed in October 2011 called St. Matthews Surgery Center, LLC ("SMSC"). Physicians own the remaining 49% of SMSC. SMSC owns and operates an ambulatory surgery center in St. Matthews, near Baptist Health Louisville.

- BCHS also owns Oak Tree Hospital at Baptist Health Corbin, a 32-bed long-term acute care hospital (LTACH). Effective December 1, 2013, Baptist Community Health Services, Inc. (BCHS) transferred its membership interest in Corbin Long Term Acute Care, LLC d/b/a Oak Tree Hospital at Baptist Regional Medical Center (Oak Tree) to CHC Community Care, LLC (CCC), a Delaware limited liability company and a subsidiary of Community Hospital Corporation, Inc. (CHC). Through the Membership Exchange Agreement, BCHS exchanged its sole membership interest in Oak Tree for a stated membership interest in CCC that entitles BCHS to a portion of the income derived from the long-term acute care hospital (Oak Tree). Additionally, Oak Tree entered into a lease agreement with Baptist Health Corbin for a term of five years to utilize 32 beds under Baptist Health Corbin's hospital license for the term of the lease. Oak Tree also entered into an ancillary services agreement as part of the membership exchange transaction with Baptist Health Corbin for a term of five years for the provision of certain services for the operation of the LTACH. Oak Tree entered into a management agreement for a term of five years with CCC to provide key management for the LTACH and to manage the day-to-day operations thereof. The term of the management agreement would be co-extensive with the term of the lease agreement.

Baptist Health Medical Associates Louisville (MD LOU):

- MD LOU is a non-profit 501(c)(3) tax-exempt corporation of which BHS is the sole member. MD LOU was formed in 2006 to own and operate healthcare facilities such as physician offices, primary care centers, special health clinics, and urgent care centers in the Louisville and surrounding communities. MD LOU employs physicians in the Louisville, Kentucky market.

Baptist Health Medical Associates Lexington (MD LEX):

- MD LEX is a non-profit 501(c)(3) tax-exempt corporation of which BHS is the sole member. MD LEX was formed in 2006 to own and operate healthcare facilities such as physician offices, primary care centers, special health clinics, and urgent care centers in the Lexington and Central Kentucky area. MD LEX employs physicians in the Lexington, Kentucky market.

Baptist Healthcare System, Inc. And Affiliates
System Entities

Baptist Health Medical Associates Corbin (MD COR):

- MD COR is a non-profit 501(c)(3) tax-exempt corporation of which BHS is the sole member. MD COR was formed in 2006 to own and operate healthcare facilities such as physician offices, primary care centers, special health clinics, and urgent care centers in Corbin and Southeastern Kentucky. MD COR employs physicians in the Corbin, Kentucky market.

Baptist Health Medical Associates Paducah (MD PAD):

- MD PAD is a non-profit 501(c)(3) tax-exempt corporation of which BHS is the sole member. MD PAD was formed in 1988 to own and operate health care facilities such as physician offices, primary care centers, special health clinics, and urgent care centers in the Paducah and Western Kentucky area. MD PAD employs physicians in the Paducah, Kentucky market. MD PAD owns a one-third interest in Paducah MRI Partnership, which provides magnetic resonance imaging ("MRI") services to patients in BH PAD's service area.

Baptist Health Ventures (BHV):

- BHV is a Kentucky for-profit corporation in which BHS owns 100% of the stock. BHV was formed in 1991 to own, manage, operate, maintain, lease, or joint venture with hospitals, medical facilities, or other entities which provide health care services to patients or which promote the health and well-being of the community. BHV has contracted with Hardin County Fiscal Court to manage Hardin Memorial Hospital in Elizabethtown, Kentucky. BHV has also contracted to manage Russell County Hospital in Russell Springs, Kentucky. BHV owns 50% of the stock in Affiliated Nursing Services, Inc., a for-profit company formed in 1987. BHV owns 50% of a for-profit health and wellness center called Baptist East/Milestone, LLC, formed in 1999.

Baptist Health Bodyscan Louisville (BS LOU):

- BS LOU, formed in 2007, is a limited liability company in which BHS owns an 82.92% interest and physicians own a 17.08% interest. BS LOU leases positron emission tomography equipment and provides supplies and management services to Louisville to operate a freestanding PET/CT service. Louisville has a certificate of need to provide PET services to its patients.

Baptist Health Employer Solutions (ES LOU):

- ES LOU is a Kentucky non-profit corporation formed in 2010 to organize, promote and develop care delivery systems such as accountable care organizations which utilize evidence-based clinical care guidelines, integrate clinical care to improve community health, collaborate among health providers to improve service and care delivery, develop chronic disease management programs, participate in pay for performance programs and to perform such activities in a manner consistent with the overall charitable purpose of BHS. BHS is the sole member owner.

Purchase Health Quality Collaborative, LLC (PHQ PAD):

- PHQ PAD is a Kentucky limited liability company whose sole member is Baptist Healthcare System, Inc. d/b/a Baptist Health Paducah (BH PAD). PHQ PAD was formed to support a physician/hospital network, established by Purchase Health Partners, Inc. (PHP) working in conjunction with BH PAD to engage in the process of clinical integration, which, currently means the implementation of an active and ongoing program to evaluate and modify practice patterns by the network's physician participants and create a high degree of interdependence and cooperation among physicians to control costs and ensure quality.

System Foundations:

All foundations were formed to support the System's hospitals. The Baptist Health Cardiac Research Foundation, Inc., of which BHS is the sole member, receives and administers grants, bequests and donations for cardiac related medical research. All other foundations are non-profit tax-exempt corporations that receive, invest and manage philanthropic gifts on behalf of the Hospitals.

- Baptist Health Cardiac Research Foundation, Inc.
- Baptist Health Foundation Corbin, Inc.
- Baptist Health Foundation Greater Louisville, Inc.
- Baptist Health Foundation Lexington, Inc.
- Baptist Health Foundation Paducah, Inc.

Other Entities:

In addition to the affiliates listed previously, BHS has a partial interest in the following entities, all of which are accounted on the equity basis.

- Purchase Health Partners, Inc. (PHP)
- BRMC Condominium Association, Inc. (BCA)
- Baptist East Medical Pavilion Association, Inc. (BEMP)
- Cumberland Healthcare, Inc. (CHI)
- Mercy Regional Emergency Medical System, LLC (MREMS)
- Medical Associates of Middletown, LLC (MAM)
- American Excess Insurance Exchange (AEIX), Risk Retention Group

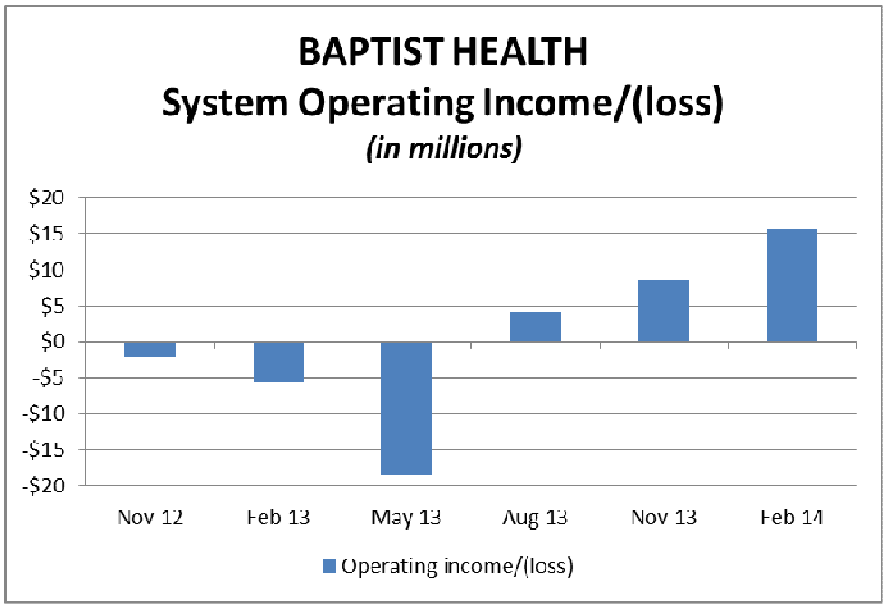
The System

BHS, BHA and their non-obligated affiliates are hereafter referred to as the System. Presented within this report are financial statements and operating results for both the System and the Obligated Group. The System consolidated financial statements represent the consolidated operations of BHS, the affiliates in which it has sole ownership or membership and the entities in which it has greater than 50% equity interest with commensurate control.

Baptist Healthcare System, Inc. And Affiliates
Management's Discussion of Operating Performance
For the Six Months Ended February 28, 2014

Executive summary

System operating income for the quarter ended February 28, 2014 was a gain of $15.6 million, representing a 2.4% operating margin. The improvement in the current quarter was primarily due to a 7.1% increased net patient service revenue resulting from price standardization across the System hospitals implemented this fiscal year, and increase in surgical cases and operational efficiencies implemented through the initiatives of various task forces across the System. As the chart below indicates, the system improved operational and financial performance for the third quarter in a row, each quarter with increasing positive results.



Much of this performance improvement is the direct result of programs implemented by seven task forces over the past three quarters that have produced sustained, positive results. The seven task forces are:

I. *BEST PATIENT EXPERIENCE* - Leadership Council to develop, guide and support the System's quality and clinical effectiveness plan for patient safety, quality and patient satisfaction.

II. *POPULATION HEALTH/ENHANCING COMMUNITY HEALTH* - Develop Baptist Health's strategy for population health and clinical integration that clearly defines the System managed care strategy as well as the strategy for information technology and clinical care. Plan will identify partners, infrastructure and timeframes to implement strategy.

III. *PHYSICIAN PARTNERSHIPS* - Evaluate current Baptist physician enterprise and recommend and implement strategies and structures for employed physicians that promote continued integration and alignment, encourages clinical leadership and engagement, and reduces operating losses.

IV. *SYSTEM GROWTH* - Define and articulate Baptist Health's growth and expansion strategy to include recommendations of key geographic locations, potential partners (including other hospitals and continuum of care partners) and business models for partnerships that position the System for managing the health of Kentucky's population.

V. *STEWARDING OUR FINANCIAL RESOURCES* - Identify and implement strategies for reducing expenses and increasing revenue, in both the short and long-term, with a primary focus on improving 2014 operating performance.

VI. *OPTIMAL INFORMATION TECHNOLOGY* - Review the current leadership structure and membership with the goal of recommending a Leadership Council that will identify, guide and implement future information technology strategies and decision-making.

VII. *AN EFFECTIVE ORGANIZATION* - Evaluate and recommend an organizational structure (governance, management, defined roles/responsibilities, accountabilities and synergies) based on the input and recommendations from the other six task forces that positions Baptist Health to be a top performing health system.

The primary focus of the *STEWARDING OUR FINANCIAL RESOURCES* task force was operational efficiencies and cost reduction and the results of programs developed by this task force have been tremendous, as indicated in the following operational metrics.

Baptist Health Operating Metrics:

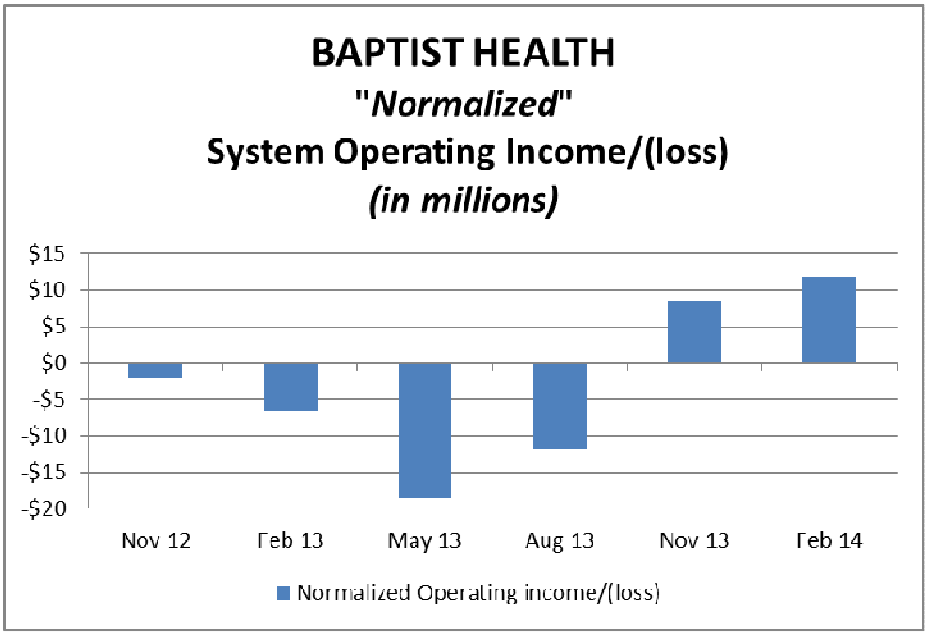
	Quarter Ended			
	May 2013	**Aug 2013**	**Nov 2013**	**Feb 2014**
Salary and benefit % of total revenue	54.4%	50.0%	51.0%	49.5%
Supplies % of total revenue	20.1%	19.8%	20.0%	19.7%
Purchase services % total revenue	6.4%	6.3%	5.5%	5.3%
Full-time equivalents (FTE's)	13,097	13,084	12,699	12,702
FTE's per adjusted occupied bed – adjusted for case mix	3.0	3.0	2.8	2.8

Baptist Healthcare System, Inc. And Affiliates
Management's Discussion of Operating Performance
For the Six Months Ended February 28, 2014

System Operating Performance overview:

System operating income for the quarter ended February 28, 2014 was a gain of $15.6 million compared to a loss of $5.7 million for the prior year quarter ended February 28, 2013. As mentioned earlier, the improvement in the current quarter was primarily due to increased net patient service revenue due to price standardization across the System hospitals implemented this fiscal year, an increase in surgical cases and operational efficiencies implemented through the initiatives of various task forces across the System.

It should be noted that the financial results often include adjustments to income that will not be repeated. During the quarter ended February 28, 2014 these adjustments had an overall positive impact of $3.7 million to operating income. As a result, "n*ormalized"* System Operating Income was $11.9 million for the quarter. The chart below indicates the trend in "*normalized*" operating income .



The improved financial performance of the System was somewhat offset by the continued investment and growth in employed physician practices, clinics and *Baptist Express Care* locations over the past year. Losses from these entities for the quarter ended February 28, 2014 increased $6.5 million over the prior year quarter as indicated in the chart below.

Approximately 12 new physicians were added during the quarter ended February 28, 2014 and approximately 49 physicians and 168 physician office staff FTEs were added since the prior year same quarter. New practices, along with growth of existing practices added nearly 11,000 patient encounters and nearly 3,000 outpatient surgery cases during the quarter ended February 28, 2014 as compared to the prior year same quarter.

Baptist Healthcare System, Inc. And Affiliates
Management's Discussion of Operating Performance
For the Six Months Ended February 28, 2014

Growth of employed physician practices remains one of the pillars of success in the Baptist Health long range strategic plan. The System remains committed to growing its employed physician network and integrating Baptist Health providers across the Commonwealth as it prepares for the impact of population health initiatives.

Overall financial performance of the physician practices, clinics and *Baptist Express Care* for the quarter ended February 28, 2014 was as follows:

Physician Practices, Clinics and Baptist Express Care:

	3 months ended February 28, 2014	3 months ended February 28, 2013	Change
Total revenue (in millions)	$58.0	$46.0	$12.0
Operating Loss	$(27.7)	$(23.1)	$(4.6)

Obligated Group operating income was $39.6 million for the quarter ended February 28, 2014, representing a 10.9% operating margin and an increase of $23.7 million from the quarter ended February 28, 2013. Most of this increase was due to higher surgical cases and deliveries, standardized pricing, inter-company charges of Corporate support fees to non-obligated group entities and operating efficiencies – particularly in direct patient costs such as staffing and supplies.

Obligated Group:

	3 months ended February 28, 2014	3 months ended February 28, 2013
Operating income	$39.6	$15.9
Operating margin	10.9%	4.8%

Obligated Group patient volume percentage change from:

	Quarter Ended February 28, 2013
Inpatient cases	-5.4%
Surgeries	2.1%
Deliveries	4.2%
Emergency visits	-2.3%
Outpatient registrations	-0.1%

With the addition of BH RIC and BH MAD, all patient volume indicators for the System increased over the prior year same quarter as follows.

System hospitals patient volume percentage change from:

	Quarter Ended February 28, 2013
Inpatient cases	-5.9%
Surgeries	4.1%
Deliveries	4.0%
Emergency visits	-2.7%
Outpatient registrations	-1.5%

Categorical explanations:

Net patient service revenue:

System net patient service revenue increased 13.2% ($51.6 million) for the quarter ended February 28, 2014 compared to the prior year quarter ended February 28, 2013. As indicated in the chart below, the increase in net patient service revenue was due to growth in outpatient surgeries and registration at the System hospitals, growth in the number of physician practices, clinics and *Baptist Express Care* locations, and the addition of BH MAD.

Net patient service revenue:

	Quarter ended February 28, 2014	Quarter ended February 28, 2013
Obligated Group	$340.4	$319.9
BH RIC	16.2	14.3
BH MAD	37.8	36.8
Physician practices, clinics and Express Care	46.9	38.2
Other (a)	9.7	11.9
Total net patient service revenue	$451.0	$421.1

(a) Effective December 1, 2013, BCHS transferred is membership interest in Oak Tree hospital to CHC. Net patient service revenue for Oak Tree for the quarter ended February 28, 2013 was approximately $3.1 million. For more information regarding the transaction, see BCHS in the System Entities section beginning on page 4.

Charity care:

Charity care, bad debt and discounts for the uninsured, at customary charge amounts, was approximately $61.6 million for the quarter ended February 28, 2014 compared to $66.1 million for the prior year same quarter. Much of this decrease was due to the Medicaid expansion *Kynect* program. Prior to the expansion, Kentucky had approximately 640,000 uninsured citizens, which represents 15% of the state's population. Approximately 413,410 Kentuckians enrolled in the new health coverage, including Medicaid (330,615) and private insurance (82,795). During the quarter ended February 28, 2014, the Hospital Group experienced a decrease of 273 uninsured inpatient cases (representing a 30% reduction) relative to the prior year same quarter.

Expenses:

Since the formation of the System task forces during the third quarter ended May 31, 2013, new programs have been designed and implemented to improve expense management and achieve better operating efficiencies. The chart below illustrates the improvement in expense management during the current quarter as compared to the prior year same quarter.

Total System operating expense metrics:

	Quarter Ended February 28, 2014	Quarter Ended February 28, 2013
Salary and benefit % of total revenue	49.5%	51.8%
Supplies % of total revenue	19.7%	20.4%
Purchase services % total revenue	5.3%	6.0%
Full-time equivalents (FTE's)	12,702	12,835
FTE's per adjusted occupied bed – adjusted for case mix	2.8	3.1

For the ***Hospital Group***, operating expense increased $9.3 million from the quarter ended February 28, 2013 to the quarter ended February 28, 2014. Despite this increase, results relative to total revenue were positive as indicated in the following two charts:

Total System expenses:

	Quarter ended February 28, 2014	Quarter ended February 28, 2013
Obligated Group	$323.7	$317.5
BH RIC	17.2	16.0
BH MAD	38.6	36.7
Total Hospital Group	**379.5**	**370.2**

Hospital Group operating expense metrics:

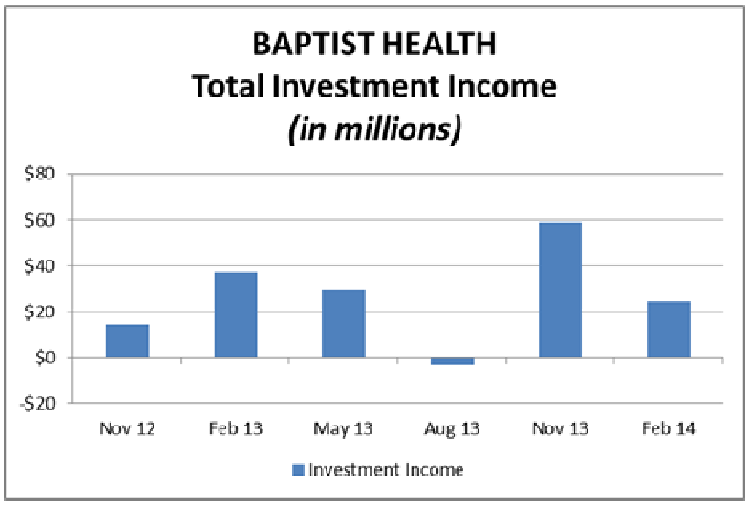
	Quarter Ended February 28, 2014	Quarter Ended February 28, 2013
Salary and benefit % of total revenue	35.2%	38.4%
Supplies % of total revenue	22.3%	24.1%
Purchase services % total revenue	4.3%	5.5%
Full-time equivalents (FTE's)	10,191	10,556
FTE's per adjusted occupied bed – adjusted for case mix	2.8	2.9

Interest expense increased from $3.4 million for the quarter ended February 28, 2013 to $3.8 million for the quarter ended February 28, 2014 due to the $0.6 million reduction in net capitalized interest on construction projects.

Other gains (losses):

Investment markets play an important role in the financial results of the System. The majority of the income was interest, dividends and realized and unrealized gains on investments. Investment income plus the change in market value during the quarter ended February 28, 2014 resulted in income of $24.4 million compared to a gain of $37.2 million in the prior year same quarter.

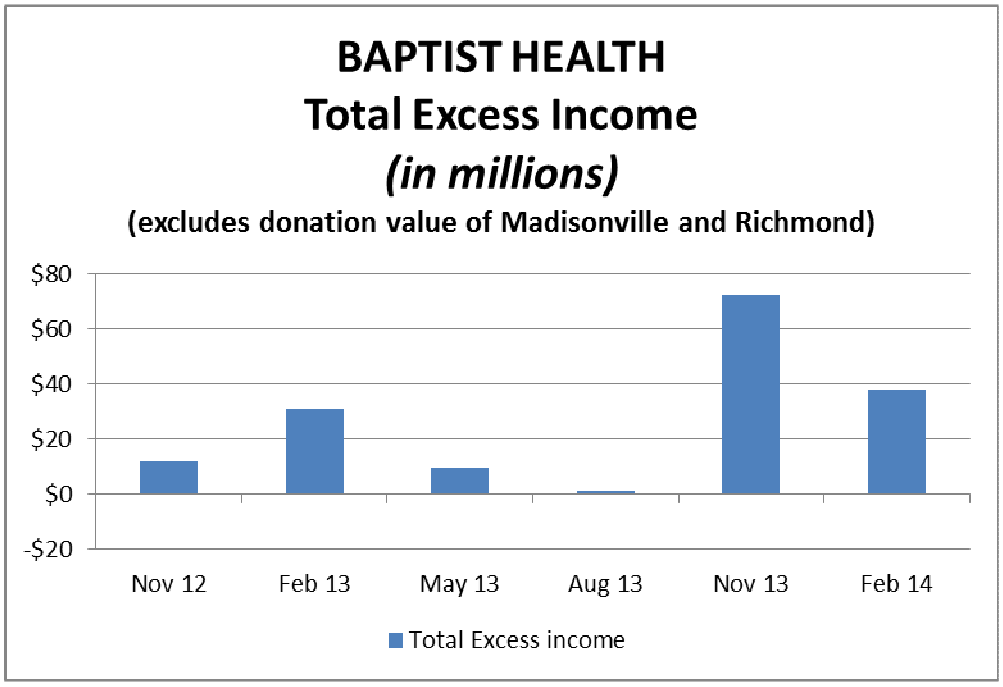
Below is chart of the trend in interest, dividends and realized and unrealized gains on investments:



Provision for income taxes:

The provision for income tax was $1.2 million for the quarter ended February 28, 2014 compared to $0.4 million in the prior year same quarter.

Below is a chart of the trend in excess of revenues, gains and other support over expenses:



Balance sheet:

At February 28, 2014, the fair value of the System's cash and total investments was $1.19 billion, representing an increase of $95 million from the fair value at February 28, 2013. In addition, approximately $22.9 million is remaining in the Series 2011 Bonds Project Fund and is excluded from the calculation of cash and total investments.

Key Ratios:

Total Days Cash for the System was 231 days as of February 28, 2014, representing an increase of seven days from February 28, 2013.

Days in Net Patient Accounts Receivable for the Obligated Group decreased from 58 days on February 28, 2013 to 55 days on February 28, 2014.

OBLIGATED GROUP FINANCIAL STATEMENTS AND OPERATING STATISTICS

For the quarter ended
February 28, 2014

Consolidated Obligated Group
Balance Sheets

	Unaudited February 28, 2014	Audited August 31, 2013
	(In Thousands)	
Assets		
Current assets		
Cash and cash equivalents	$ **111,629**	$ 77,798
Investments	**50,671**	50,279
Assets limited as to use – required for current obligations	**9,000**	9,000
Patient accounts receivable, net of contractual allowances and doubtful accounts; 2/2014-$558,502, 8/2013-$420,844	**205,040**	181,294
Inventories	**28,352**	27,037
Estimated third-party payor receivable	**-**	7,733
Other	**30,289**	17,737
Total current assets	**434,981**	370,878
Assets limited as to use		
Designated by Board for capital improvements	**835,819**	759,724
Designated by Board for perpetual trust	**-**	-
Held by trustee - bond indenture	**22,909**	46,177
Held by trustee - medical malpractice	**60,329**	55,670
Held by trustee - workers compensation	**16,604**	14,173
Less - required for current liabilities	**(9,000)**	(9,000)
Assets limited as to use	**926,661**	866,744
Intercompany assets	**32,136**	34,780
Property and equipment, net	**774,894**	780,111
Other assets	**347,463**	302,212
Total assets	$ **2,516,135**	$ 2,354,725
Liabilities and Net Assets		
Current liabilities		
Current portion of long term debt	$ **10,095**	$ 10,095
Accounts payable	**32,002**	45,892
Accrued expenses	**41,546**	71,635
Estimated third party payor settlements	**6,274**	-
Accrued interest payable	**700**	707
Current portion of liability for medical malpractice	**9,000**	9,000
Other current liabilities	**37,016**	17,694
Total current liabilities	**152,446**	155,023
Intercompany liabilities	**61**	132
Long-term debt	**590,015**	590,051
Other liabilities	**99,285**	95,954
Net assets		
Unrestricted net assets attributable to Baptist	**1,671,772**	1,510,999
Unrestricted net assets attributable to noncontrolling interest	**-**	-
Total unrestricted net assets	**1,671,772**	1,510,999
Temporarily restricted	**2,556**	2,566
Permanently restricted	**-**	-
Total net assets	**1,674,328**	1,513,565
Total liabilities and net assets	$ **2,516,135**	$ 2,354,725

Consolidated Obligated Group
Statement of Operations

	Unaudited Quarter Ended		Unaudited Six months Ended	
	February 28, 2014	February 28, 2013	February 28, 2014	February 28, 2013
	(In Thousands)		*(In Thousands)*	
Unrestricted revenues, gains and other support				
Net patient service revenue (net of contractual discounts and allowances)	$ **349,882**	$ 328,872	$ **694,872**	$ 659,035
Provision for uncollectible accounts	**9,520**	8,923	**21,639**	17,297
Net patient service revenue	**340,362**	319,949	**673,233**	641,738
Premium revenue	**-**	-	**-**	-
Other	**22,842**	13,298	**41,626**	24,864
Net assets released from restrictions used for operations	**144**	139	**318**	279
Total revenues, gains and other support	**363,348**	333,386	**715,177**	666,881
Expenses				
Salaries and benefits	**157,487**	158,771	**314,984**	316,719
Supplies	**83,734**	82,971	**164,571**	164,252
Purchased services	**21,330**	21,797	**42,961**	44,078
Utilities	**4,644**	4,146	**9,389**	8,529
Interest	**3,564**	3,103	**6,764**	6,321
Depreciation and amortization	**22,596**	22,019	**45,067**	43,761
Administration and other	**25,089**	19,400	**44,821**	37,264
Provider tax	**5,261**	5,264	**10,511**	10,521
Total expenses	**323,705**	317,471	**639,068**	631,445
Operating income	**39,643**	15,915	**76,109**	35,436
Other gains (losses)				
Investment income	**22,721**	11,101	**39,626**	20,326
Unrealized gains/(losses)	**(143)**	23,907	**37,724**	28,354
Contribution received in donation of PAC	**-**	-	**-**	-
Contribution received in donation of Trover	**-**	-	**-**	-
Other	**(378)**	(305)	**5,296**	(384)
Total other gains (losses)	**22,200**	34,703	**82,646**	48,296
Excess of revenues, gains and other support over expenses before provision (benefit) for income tax	**61,843**	50,618	**158,755**	83,732
Provision (benefit) for income tax	**29**	45	**29**	45
Excess of revenues, gains and other support over expenses	**61,814**	50,573	**158,726**	83,687

Consolidated Obligated Group
Statement of Changes in Net Assets

	Unaudited Quarter Ended		Unaudited Six months Ended	
	February 28, 2013	February 28, 2012	February 28, 2013	February 28, 2012
Unrestricted net assets:	*(In Thousands)*		*(In Thousands)*	
Excess of revenues, gains and other support over expenses	$ **61,814**	$ 50,573	$ **158,726**	$ 83,687
Post-retirement benefit plan				
Net gain/(loss) arising during period	**-**	-	**-**	-
Plus: amortization of prior service cost, transition obligation and loss included in net periodic pension cost	**-**	-	**-**	-
Change in post-retirement benefit plan	**-**	-	**-**	-
Unrestricted net assets attributable to noncontrolling interests:				
Excess of revenue over expenses	**-**	-	**-**	-
Contributions from noncontrolling interests	**-**	-	**-**	-
Distributions to noncontrolling interests	**-**	-	**-**	-
Change in unrestricted net assets due to noncontrolling interests				
Effect of unrealized (gains)/losses reclassification				
Net asset transfers	**1,080**	762	**2,037**	1,109
Increase/(decrease) in unrestricted net assets	**62,894**	51,335	**160,763**	84,796
Temporarily restricted net assets:				
Contributions and interest income	**198**	2,193	**308**	2,267
Contribution received in donation of PAC	**-**	-	**-**	-
Contribution received in donation of Trover	**-**	-		-
Net assets release from restrictions used for operations	**(144)**	(139)	**(318)**	(279)
Increase/(decrease) in temporarily restricted net assets	**54**	2,054	**(10)**	1,988
Permanently restricted net assets:				
Contributions and interest income	**-**	-	**-**	-
Contribution received in donation of PAC	**-**	-	**-**	-
Contribution received in donation of Trover	**-**	-	**-**	-
Investment return	**-**	-	**-**	-
Change in beneficial interest in perpetual trust	**-**	-	**-**	-
Increase/(decrease) permanently restricted net assets	**-**	-	**-**	-
Change in net assets	**62,948**	53,389	**160,753**	86,784
Net assets, beginning of period	**1,611,380**	1,402,304	**1,513,575**	1,368,909
Net assets, end of period	$ **1,674,328**	1,455,693	**1,674,328**	1,455,693

Consolidated Obligated Group
Statement of Cash Flows

	Unaudited Quarter Ended		Unaudited Six months Ended	
	February 28, 2013	February 28, 2012	February 28, 2013	February 28, 2012
	(In Thousands)		*(In Thousands)*	
Operating activities				
Change in net assets	$ **62,948**	$ 53,389	$ **160,753**	$ 86,784
Change in net assets attributable to noncontrolling interest	**-**	-	**-**	-
Change in net assets attributable to Baptist	**62,948**	53,389	**160,753**	86,784
Adjustments to reconcile change in net assets to net cash provided by operating activities				
Depreciation and amortization	**23,399**	22,018	**46,013**	43,760
Net asset transfers	**(1,080)**	(762)	**(2,037)**	(1,109)
Net realized and unrealized losses/(gains) on investments	**(10,785)**	19,095	**7,987**	17,178
Equity in net earnings of joint ventures	**(621)**	(1,448)	**(1,236)**	(2,303)
Loss (gain) on sale or disposition of PP&E	**(10)**	150	**41**	202
Contribution of net assets of PAC	**-**	-	**-**	-
Contribution of net assets of Trover	**-**	-	**-**	-
Changes in:				
Noncontrolling interest	**-**	-	**-**	-
Patient accounts receivable, net	**(6,674)**	4,411	**(25,332)**	(17,673)
Inventories and other current assets	**(5,832)**	(1,075)	**8,933**	4,898
Other assets	**(23,557)**	(18,746)	**(44,349)**	(19,806)
Accounts payable and accrued expenses	**(7,108)**	3,987	**(21,008)**	(7,405)
Estimated third-party payor settlements	**3,337**	-	**6,274**	-
Other current liabilities	**(412)**	10,038	**(4,916)**	14,855
Other liabilities	**10,983**	1,344	**12,332**	3,304
Net cash provided by operating activities	**44,588**	92,401	**143,455**	122,685
Investing activities				
Purchase of investments	**(1,091,287)**	(856,591)	**(1,513,492)**	(1,435,392)
Proceeds from disposition of investments	**1,081,163**	811,695	**1,445,195**	1,395,653
Purchase of property and equipment, net	**(21,360)**	(37,317)	**(40,722)**	(72,722)
Contribution of cash of PAC	**-**	-		-
Contribution of cash of Trover	**-**	-		-
Net asset transfers	**1,080**	762	**2,037**	1,109
Proceeds from sale of property and equipment	**189**	51	**216**	81
Contributions from noncontrolling interest	**-**	-	**-**	-
Investment in joint ventures	**-**	150	**-**	150
Distributions to noncontrolling interest	**-**	-	**-**	-
Distributions from joint ventures	**-**	1,637	**-**	3,972
Net cash used in investing activities	**(30,215)**	(79,613)	**(106,766)**	(107,149)
Financing activities				
Proceeds from issuance of 2011 bonds	**-**	-	**-**	-
Net cost of issuance from 2011 bonds	**-**	-	**-**	-
Original issue discount from 2011 bonds	**-**	-	**-**	-
Proceeds from/(payments on) intercompany accts	**(9,633)**	(1,705)	**(2,859)**	(13,288)
Principal payments on long-term debt	**-**	-	**-**	-
Net cash from/(used in) financing activities	**(9,633)**	(1,705)	**(2,859)**	(13,288)
Increase/(decrease) in cash and cash equivalents	**4,740**	11,083	**33,830**	2,248
Cash and cash equivalents, beginning of period	**106,889**	94,174	**77,799**	103,009
Cash and cash equivalents, end of period	$ **111,629**	$ 105,257	$ **111,629**	$ 105,257

Obligated Group Operating Statistics

Presented below is a summary of the locations, the number of licensed beds and beds in operation as of February 28, 2014, and the percentage of the Obligated Group's net patient service revenue from each of the Obligated Group hospitals for the six months ended February 28, 2014.

		Acute Care Beds		Sub-acute and Long-Term Beds		Total Beds		Percentage of Net Patient Service
Hospital	**Location**	**Licensed**	**Operating**	**Licensed**	**Operating**	**Licensed**	**Operating**	**Revenue**
Obligated Group:								
BH LOU	Louisville	468	437	51	51	519	488	35.9%
BH LAG	LaGrange	90	65	30	24	120	89	6.2
BH COR	Corbin	194 (a)	161	79	79	273	240	8.8
BH LEX	Lexington	383	344	0	0	383	344	32.6
BH PAD	Paducah	349	288	24	24	373	312	16.5
Obligated Group total		**1,484**	**1,295**	**184**	**178**	**1,668**	**1,473**	**100.0%**
Non-obligated entities:								
Oak Tree	Corbin	(a)	0	0	0	(a)	0	
BH MAD	Madisonville	370	156	40	40	410	196	
BH RIC	Richmond	105	64	0	0	105	64	
Total		**1,959**	**1,515**	**224**	**218**	**2,183**	**1,766**	

(a) Effective December 1, 2013 BH COR entered into a five year agreement with Oak Tree Hospital to lease 32 beds under the BH COR hospital's license. Oak Tree Hospital is operated by CHC Community Care, LLC.

Obligated Group Operating Statistics

The following table presents the licensed bed complement by medical service for each Obligated Group hospital as of February 28, 2014.

Medical Services	BH LOU	BH LAG	BH COR	BH LEX	BH PAD	Total Obligated Group
General:						
Medical/surgical	395	74	136	255	268	1,128
Pediatric	0	0	3	8	18	29
Obstetrical	35	8	5	52	25	125
Coronary care	16	4	0	12	12	44
Intensive care	18	4	10	32	20	84
Neonatal	4	0	8	24	6	42
Chemical dependency	0	0	15	0	0	15
Psychiatric	22	0	44	0	0	66
Rehabilitation	29	0	20	0	0	49
Nursing facility	0	30	0	0	24	54
Long-term acute care	0	0	32	0	0	32
Total	**519**	**120**	**273**	**383**	**373**	**1,668**

Medical Services	Obligated Group	BH RIC	BH MAD	Total Licensed Beds
General:				
Medical/surgical	1,128	76	282	1,486
Pediatric	29	0	29	58
Obstetrical	125	21	20	166
Coronary care	44	0	0	44
Intensive care	84	8	30	122
Neonatal	42	0	9	51
Chemical dependency	15	0	0	15
Psychiatric	66	0	20	86
Rehabilitation	49	0	0	49
Nursing facility	54	0	20	74
Long-term acute	32	0	0	32
Total	**1,668**	**105**	**410**	**2,183**

Each Obligated Group entity provides compensation and a range of benefits competitive with other health care providers within the respective market. No employees are represented by a labor union. Management considers relations with employees to be positive. Presented below is a summary of employees as of February 28, 2014.

	Full-time	Part-time	Total Employees	Full-time Equivalents
BH LOU	2,185	1,332	3,517	2,855
BH LAG	276	197	473	424
BH COR	917	240	1,157	941
BH LEX	1,846	797	2,643	2,098
BH PAD	1,291	319	1,610	1,369
Support Services	982	68	1,050	902
Obligated Group	**7,497**	**2,953**	**10,450**	**8,588**
Non-obligated group entities:				
BH RIC	473	123	596	509
BH MAD	1,378	459	1,837	1,075
BlueGrass Family Health, Inc.	200	0	200	200
Baptist Community Health Services	388	175	563	353
Employed Physicians	1,707	257	1,964	1,903
Other	60	27	87	72
Total	**11,703**	**3,994**	**15,697**	**12,700**

Obligated Group
Discharges and Charges By Payer

	Quarter Ended		Six months Ended	
	February 28, 2014	February 28, 2013	February 28, 2014	February 28, 2013
Discharges:				
Medicare	**39.9**%	42.1%	**39.9**%	41.7 %
Medicare advantage	**10.7**	9.5	**10.3**	8.6
Total Medicare	**50.6**	51.6	**50.2**	50.3
Medicaid	**2.1**	1.4	**2.0**	1.5
Medicaid managed care	**12.4**	11.1	**11.6**	11.5
Total Medicaid	**14.5**	12.5	**13.6**	13.0
Blue Cross	**6.6**	6.0	**6.6**	6.0
HMO	**18.8**	20.2	**19.2**	20.5
PPO	**1.3**	1.6	**1.6**	1.7
Commercial and other	**4.2**	3.6	**4.2**	3.6
Total other insurance	**30.9**	31.4	**31.6**	31.8
Total insured	**96.0**	95.5	**95.4**	95.1
Total uninsured	**4.0**	4.5	**4.6**	4.9
Total	**100.0**%	100.0%	**100.0**%	100.0%
Gross charges:				
Medicare	**36.1**%	39.7%	**38.1**%	40.0 %
Medicare advantage	**13.2**	10.2	**12.3**	9.3
Total Medicare	**49.3**	49.9	**50.4**	49.3
Medicaid	**1.9**	1.1	**1.6**	1.1
Medicaid managed care	**6.6**	7.1	**6.3**	7.2
Total Medicaid	**8.5**	8.2	**7.9**	8.3
Blue Cross	**8.1**	7.1	**7.7**	7.2
HMO	**23.8**	24.2	**23.3**	24.2
PPO	**1.9**	1.8	**1.7**	2.0
Commercial and other	**5.3**	4.6	**5.0**	4.6
Total other insurance	**39.1**	37.7	**37.7**	38.0
Total insured	**96.9**	95.8	**96.0**	95.6
Total uninsured	**3.1**	4.2	**4.0**	4.4
Total	**100.0**%	100.0%	**100.0**%	100.0%

Obligated Group
Net Patient Service Revenue by Payer

	Quarter Ended		Six months Ended	
	February 28, 2014	February 28, 2013	February 28, 2014	February 28, 2013
Net patient service revenue:				
Medicare	**25.9**%	30.8%	**27.6**%	31.1%
Medicare advantage	**8.1**	5.2	**7.5**	6.1
Total Medicare	**34.0**	37.5	**36.4**	37.2
Medicaid	**1.2**	0.7	**1.1**	0.7
Medicaid managed care	**5.0**	5.1	**4.8**	5.2
Total Medicaid	**6.2**	5.8	**5.9**	5.9
Blue Cross	**7.3**	6.9	**7.0**	6.9
HMO	**22.7**	24.2	**22.1**	24.4
PPO	**2.3**	2.2	**2.3**	2.4
Commercial and other	**5.9**	5.7	**5.7**	5.6
Total other insurance	**38.2**	39.0	**37.1**	39.3
Total insured	**78.4**	82.3	**78.1**	82.4
Total patient liability	**21.1**	17.1	**21.3**	17.1
Total uninsured	**0.5**	0.6	**0.8**	0.5
Total	**100.0**%	100.0%	**100.0**%	100.0

Obligated Group Patient Utilization

	Quarter Ended		Six months Ended	
	February 28, 2014	February 28, 2013	February 28, 2014	February 28, 2013
Inpatient acute (1)				
Patient days	**72,258**	75,765	**141,512**	149,780
Discharges	**15,379**	16,336	**30,886**	32,992
Average length of stay	**4.7**	4.7	**4.6**	4.5
Beds available	**1,295**	1,304	**1,295**	1,304
% occupancy – available	**62**%	64%	**60**%	63%
Beds licensed	**1,484**	1,484	**1,484**	1,484
% occupancy – licensed	**54**%	56%	**53**%	55%
Inpatient sub-acute and long-term				
Patient days	**9,096**	9,912	**18,306**	19,753
Discharges	**1,090**	1,068	**2,102**	2,222
Average length of stay	**8.3**	8.3	**8.7**	8.9
Beds available	**178**	178	**178**	178
% occupancy – available	**57**%	61%	**58**%	61%
Beds licensed	**184**	184	**184**	184
% occupancy – licensed	**55**%	59%	**55**%	59%
Inpatient total				
Patient days	**81,354**	85,677	**159,818**	169,533
Discharges	**16,469**	17,404	**32,988**	35,214
Average length of stay	**4.9**	4.9	**4.8**	4.8
Beds available	**1,473**	1,482	**1,473**	1,482
% occupancy – available	**61**%	64%	**60**%	63%
Beds licensed	**1,668**	1,668	**1,668**	1,668
% occupancy – licensed	**54**%	56%	**53**%	56%
Other inpatient statistics				
Deliveries	**2,202**	2,114	**4,579**	4,512
Surgery cases	**5,790**	5,980	**11,473**	11,853
Medicare case mix index	**1.7321**	1.7020	**1.7501**	1.6914
Overall case mix index	**1.5691**	1.5395	**1.5708**	1.5550
Other outpatient statistics				
Emergency room visits	**43,018**	44,043	**86,460**	87,803
Surgery cases	**11,778**	11,228	**23,688**	22,618
Other outpatient registrations	**201,444**	201,687	**406,561**	397,768

(1) Excludes normal newborn

Obligated Group Utilization
Baptist Health Louisville (BH LOU)
Six months ended

	February 28, 2014	February 28, 2013	February 29, 2012
Inpatient acute (1)			
Patient days	**58,808**	60,106	61,774
Discharges	**12,234**	12,497	13,077
Average length of stay	**4.8**	4.8	4.7
Beds available	**437**	445	445
% occupancy – available	**74**%	74%	77%
Beds licensed	**468**	468	468
% occupancy – licensed	**69**%	71%	73%
Inpatient sub-acute and long-term			
Patient days	**4,909**	6,039	5,827
Discharges	**505**	584	601
Average length of stay	**9.7**	10.3	9.7
Beds available	**51**	51	51
% occupancy – available	**53**%	65%	63%
Beds licensed	**51**	51	51
% occupancy – licensed	**53**%	65%	63%
Inpatient total			
Patient days	**63,717**	66,145	67,601
Discharges	**12,739**	13,081	13,678
Average length of stay	**5.0**	5.1	4.9
Beds available	**488**	496	496
% occupancy – available	**72**%	73%	75%
Beds licensed	**519**	519	519
% occupancy – licensed	**68**%	70%	72%
Other inpatient statistics			
Deliveries	**1,491**	1,383	1,470
Surgery cases	**5,241**	5,426	5,700
Medicare case mix index	**1.7849**	1.7769	1.7016
Overall case mix index	**1.6290**	1.6224	1.5509
Other outpatient statistics			
Emergency room visits	**27,046**	26,627	25,845
Surgery cases	**12,672**	11,801	12,508
Other outpatient registrations	**122,362**	133,660	118,113

(1) Excludes normal newborn

Obligated Group Utilization
Baptist Health LaGrange (BH LAG)
Six months ended

	February 28, 2014	February 28, 2013	February 29, 2012
Inpatient acute (1)			
Patient days	**4,181**	5,271	5,836
Discharges	**1,143**	1,562	1,625
Average length of stay	**3.8**	3.5	3.8
Beds available	**65**	65	65
% occupancy – available	**36**%	45%	50%
Beds licensed	**90**	90	90
% occupancy – licensed	**26**%	32%	36%
Inpatient sub-acute and long-term			
Patient days	**3,333**	3,064	2,930
Discharges	**146**	150	127
Average length of stay	**22.8**	20.4	23.1
Beds available	**24**	24	24
% occupancy – available	**77**%	71%	67%
Beds licensed	**30**	30	30
% occupancy – licensed	**61**%	56%	54%
Inpatient total			
Patient days	**7,514**	8,335	8,766
Discharges	**1,289**	1,712	1,752
Average length of stay	**6.5**	5.4	5.0
Beds available	**89**	89	89
% occupancy – available	**47**%	52%	54%
Beds licensed	**120**	120	120
% occupancy – licensed	**35**%	38%	40%
Other inpatient statistics			
Deliveries	**233**	295	264
Surgery cases	**356**	393	441
Medicare case mix index	**1.3698**	1.2811	1.2326
Overall case mix index	**1.2204**	1.1671	1.1451
Other outpatient statistics			
Emergency room visits	**6,629**	7,118	7,305
Surgery cases	**1,363**	1,292	1,337
Other outpatient registrations	**36,960**	20,989	21,521

(1) Excludes normal newborn

Obligated Group Utilization
Baptist Health Corbin (BH COR)
Six months ended

	February 28, 2014	February 28, 2013	February 29, 2012
Inpatient acute (1)			
Patient days	**14,166**	14,193	15,200
Discharges	**3,226**	3,415	3,673
Average length of stay	**4.4**	4.2	4.1
Beds available	**161**	162	162
% occupancy – available	**49%**	48%	52%
Beds licensed	**194**	194	194
% occupancy – licensed	**40%**	40%	43%
Inpatient sub-acute and long-term			
Patient days	**7,040**	7,803	7,733
Discharges	**1,153**	1,155	1,219
Average length of stay	**6.1**	6.8	6.3
Beds available	**79**	79	79
% occupancy – available	**49%**	54%	54%
Beds licensed	**79**	79	79
% occupancy – licensed	**49%**	54%	54%
Inpatient total			
Patient days	**21,206**	21,996	22,933
Discharges	**4,379**	4,570	4,892
Average length of stay	**4.8**	4.8	4.7
Beds available	**240**	241	241
% occupancy – available	**49%**	50%	53%
Beds licensed	**273**	273	273
% occupancy – licensed	**43%**	44%	46%
Other inpatient statistics			
Deliveries	**463**	446	443
Surgery cases	**835**	837	1,083
Medicare case mix index	**1.3581**	1.3145	1.2988
Overall case mix index	**1.1846**	1.1363	1.1101
Other outpatient statistics			
Emergency room visits	**20,134**	20,495	19,029
Surgery cases	**2,519**	2,214	2,381
Other outpatient registrations	**53,838**	54,988	44,943

(1) Excludes normal newborn

Obligated Group Utilization
Baptist Health Lexington (BH LEX)
Six months ended

	February 28, 2014	February 28, 2013	February 29, 2012
Inpatient acute (1)			
Patient days	**38,721**	41,152	43,016
Discharges	**8,536**	9,036	9,094
Average length of stay	**4.5**	4.6	4.7
Beds available	**344**	344	344
% occupancy – available	**62**%	66%	69%
Beds licensed	**383**	383	383
% occupancy – licensed	**56**%	59%	62%
Inpatient sub-acute and long-term			
Patient days	**0**	0	0
Discharges	**0**	0	0
Average length of stay	**0**	0	0
Beds available	**0**	0	0
% occupancy – available	**0**%	0%	0%
Beds licensed	**0**	0	0
% occupancy – licensed	**0**%	0%	0%
Inpatient total			
Patient days	**38,721**	41,152	43,016
Discharges	**8,536**	9,036	9,094
Average length of stay	**4.5**	4.6	4.7
Beds available	**344**	344	344
% occupancy – available	**62**%	66%	69%
Beds licensed	**383**	383	383
% occupancy – licensed	**56**%	59%	62%
Other inpatient statistics			
Deliveries	**1,694**	1,709	1,849
Surgery cases	**2,963**	3,045	3,190
Medicare case mix index	**1.9141**	1.8358	1.7788
Overall case mix index	**1.6595**	1.6059	1.5479
Other outpatient statistics			
Emergency room visits	**16,748**	16,403	15,395
Surgery cases	**2,513**	2,421	2,458
Other outpatient registrations	**124,761**	118,784	116,320

(1) Excludes normal newborn

Obligated Group Utilization
Baptist Health Paducah (BH PAD)
Six months ended

	February 28, 2014	February 28, 2013	February 29, 2012
Inpatient acute (1)			
Patient days	**25,636**	29,058	31,251
Discharges	**5,747**	6,482	7,141
Average length of stay	**4.5**	4.5	4.4
Beds available	**288**	288	254
% occupancy – available	**49**%	55%	68%
Beds licensed	**349**	349	349
% occupancy – licensed	**41**%	46%	49%
Inpatient sub-acute and long-term			
Patient days	**3,024**	2,847	2,895
Discharges	**298**	333	333
Average length of stay	**10.1**	8.5	8.7
Beds available	**24**	24	24
% occupancy – available	**70**%	65%	67%
Beds licensed	**24**	24	24
% occupancy – licensed	**70**%	65%	67%
Inpatient total			
Patient days	**28,660**	31,905	34,146
Discharges	**6,045**	6,815	7,474
Average length of stay	**4.7**	4.7	4.6
Beds available	**312**	312	278
% occupancy – available	**51**%	56%	68%
Beds licensed	**373**	373	373
% occupancy – licensed	**42**%	47%	51%
Other inpatient statistics			
Deliveries	**698**	679	676
Surgery cases	**2,078**	2,152	2,191
Medicare case mix index	**1.7406**	1.6380	1.5322
Overall case mix index	**1.6229**	1.5484	1.4464
Other outpatient statistics			
Emergency room visits	**15,903**	17,160	18,338
Surgery cases	**4,621**	4,784	5,268
Other outpatient registrations	**68,640**	69,347	71,900

(1) Excludes normal newborn

Non-Obligated Group Utilization
Baptist Health Richmond (BH RIC)
Six months ended

	February 28, 2014	February 28, 2013	February 29, 2012
Inpatient acute (1)			
Patient days	**6,551**	5,771	
Discharges	**1,665**	1,592	
Average length of stay	**3.9**	3.7	
Beds available	**64**	64	
% occupancy – available	**57**%	50%	
Beds licensed	**105**	105	
% occupancy – licensed	**34**%	30%	
Inpatient sub-acute and long-term			
Patient days	**0**	0	
Discharges	**0**	0	
Average length of stay	**0.0**	0.0	
Beds available	**0**	0	
% occupancy – available	**0**%	0	
Beds licensed	**0**	0	
% occupancy – licensed	**0**%	0	
Inpatient total			
Patient days	**6,551**	5,771	
Discharges	**1,665**	1,592	
Average length of stay	**3.9**	3.7	
Beds available	**64**	64	
% occupancy – available	**57**%	50%	
Beds licensed	**105**	105	
% occupancy – licensed	**34**%	30%	
Other inpatient statistics			
Deliveries	**366**	367	
Surgery cases	**701**	535	
Medicare case mix index	**1.4605**	1.3848	
Overall case mix index	**1.2416**	1.2093	
Other outpatient statistics			
Emergency room visits	**14,727**	14,917	
Surgery cases	**2,783**	2,411	
Other outpatient registrations	**20,653**	26,477	

(1) Excludes normal newborn

Non-Obligated Group Utilization
Baptist Health Madisonville (BH MAD)
Six months ended

	Six months ended February 28, 2014	**Four months ended** February 28, 2013	February 29, 2012
Inpatient acute (1)			
Patient days	**16,361**	11,399	
Discharges	**3,659**	2,741	
Average length of stay	**4.4**	4.1	
Beds available	**156**	158	
% occupancy – available	**58**%	60%	
Beds licensed	**370**	370	
% occupancy – licensed	**24**%	25%	
Inpatient sub-acute and long-term			
Patient days	**3,130**	2,048	
Discharges	**367**	227	
Average length of stay	**8.6**	9.3	
Beds available	**40**	40	
% occupancy – available	**43**%	42%	
Beds licensed	**40**	40	
% occupancy – licensed	**43**%	42%	
Inpatient total			
Patient days	**19,491**	13,447	
Discharges	**4,026**	2,968	
Average length of stay	**4.8**	4.5	
Beds available	**196**	198	
% occupancy – available	**55**%	56%	
Beds licensed	**410**	410	
% occupancy – licensed	**26**%	27%	
Other inpatient statistics			
Deliveries	**479**	327	
Surgery cases	**768**	501	
Medicare case mix index	**1.5280**	1.4775	
Overall case mix index	**1.3849**	1.3581	
Other outpatient statistics			
Emergency room visits	**13,899**	9,427	
Surgery cases	**2,076**	1,371	
Other outpatient registrations	**31,142**	20,377	

(1) Excludes normal newborn

Non-Obligated Group Utilization
Oak Tree Hospital
Six months ended

	Three Months ended November 30, 2013	February 28, 2013	February 29, 2012
Inpatient acute (1)			
Patient days	**2,396**	3,735	4,359
Discharges	**70**	121	178
Average length of stay	**26.4**	20.8	23.3
Beds available (**2**)	**32**	32	32
% occupancy – available	**82**%	64%	75%
Beds licensed **(3)**	**0**	0	0
% occupancy – licensed	**0**%	0%	0%
Inpatient sub-acute and long-term			
Patient days	**0**	0	0
Discharges	**0**	0	0
Average length of stay	**0**	0	0
Beds available	**0**	0	0
% occupancy – available	**0**%	0%	0%
Beds licensed	**0**	0	0
% occupancy – licensed	**0**%	0%	0%
Inpatient total			
Patient days	**2,396**	3,735	4,359
Discharges	**70**	121	178
Average length of stay	**26.4**	20.8	23.3
Beds available	**32**	32	32
% occupancy – available	**82**%	64%	75%
Beds licensed	**0**	0	0
% occupancy – licensed	**0**%	0%	0%
Other inpatient statistics			
Deliveries	**0**	0	0
Surgery cases	**0**	0	0
Medicare case mix index	**0**	0	0
Overall case mix index	**0**	0	0
Other outpatient statistics			
Emergency room visits	**0**	0	0
Surgery cases	**0**	0	0
Other outpatient registrations	**0**	0	0

(**1**) Excludes normal newborn
(**2**) All 32 Oak Tree hospital beds are leased from BH COR
(**3**) Operations of Oak Tree were transferred to CHC on December 1, 2013.

SYSTEM FINANCIAL STATEMENTS

For the quarter and six months ended
February 28, 2014

Consolidated System
Balance Sheets

Assets	Unaudited February 28, 2014	Audited August 31, 2013
	(In Thousands)	
Current assets		
Cash and cash equivalents	$ **145,078**	$ 110,012
Investments	**150,509**	148,095
Assets limited as to use – required for current obligations	**10,690**	10,690
Patient accounts receivable, net of contractual allowances and doubtful accounts; 02/2014-$636,573, 8/2013-$491,667	**258,585**	231,101
Inventories	**35,103**	33,934
Estimated third-party receivable	**-**	4,140
Other	**41,511**	30,743
Total current assets	**641,476**	568,715
Assets limited as to use		
Designated by Board for capital improvements	**890,143**	814,635
Designated by Board for endowment	**2,210**	2,210
Held by trustee - bond indenture	**22,909**	46,177
Held by trustee - medical malpractice	**65,345**	61,287
Held by trustee - workers compensation	**16,604**	14,173
Held by trustee – perpetual trust	**19,208**	17,608
Less - required for current liabilities	**(10,690)**	(10,690)
Assets limited as to use	**1,005,729**	945,400
Property and equipment, net	**890,119**	898,890
Other assets	**52,540**	55,687
Total assets	$ **2,589,864**	$ 2,468,692
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ **74,054**	$ 78,390
Accrued expenses	**83,136**	96,853
Estimated third-party payer settlements	**10,488**	-
Accrued interest payable	**825**	826
Current installments of long-term debt	**12,018**	11,988
Current portion of liability for medical malpractice	**11,700**	10,690
Other	**52,587**	30,500
Total current liabilities	**238,187**	229,247
Long-term debt	**610,201**	611,199
Other liabilities	**121,335**	117,689
Net assets		
Unrestricted net assets attributable to Baptist	**1,588,549**	1,479,768
Unrestricted net assets attributable to noncontrolling interest	**1,586**	1,446
Temporarily restricted net assets	**9,017**	11,735
Permanently restricted net assets	**20,989**	17,608
Total net assets	**1,620,141**	1,510,557
Total liabilities and net assets	$ **2,589,864**	$ 2,468,692

Consolidated System
Statement of Operations

	Unaudited Quarter Ended		Unaudited Six Months Ended	
	February 28, 2014	February 28, 2013	February 28, 2014	February 28, 2013
	(In Thousands)		*(In Thousands)*	
Unrestricted revenues, gains and other support				
Net patient service revenue (net of contractual discounts and allowances)	$ **467,440**	$ 440,356	$ **931,569**	$ 847,118
Provision for uncollectible accounts	**16,554**	19,170	**38,168**	34,990
Net patient service revenue	**450,886**	421,186	**893,401**	812,128
Premium revenue	**36,307**	39,164	**72,319**	82,053
Other	**21,713**	18,620	**39,745**	34,032
Net assets released from restrictions used for operations	**3,531**	611	**3,803**	859
Total revenues, gains and other support	**512,437**	479,581	**1,009,268**	929,072
Expenses				
Salaries and benefits	**253,710**	248,379	**507,297**	474,320
Supplies	**101,162**	98,053	**200,426**	189,892
Purchased services	**26,953**	28,545	**54,172**	54,940
Utilities	**6,420**	5,804	**12,920**	11,270
Interest	**3,829**	3,444	**7,313**	6,856
Depreciation and amortization	**28,263**	27,396	**56,375**	52,155
Administration and other	**70,345**	67,392	**134,311**	135,436
Provider tax	**6,188**	6,246	**12,418**	12,059
Total expenses	**496,870**	485,259	**985,232**	936,928
Operating income (loss)	**15,567**	(5,678)	**24,036**	(7,856)
Other gains (losses)				
Investment income	**23,626**	12,011	**41,165**	21,700
Unrealized gains/(losses) on trading securities	**770**	25,216	**42,118**	30,074
Contribution received in donation of PAC	**-**	-	**-**	5,112
Contribution received in donation of Trover	**-**	-	**-**	142,486
Other	**(529)**	(263)	**5,033**	(552)
Total other gains (losses)	**23,867**	36,964	**88,316**	198,820
Excess of revenues, gains and other support over expenses before provision (benefit) for income tax	**39,434**	31,286	**112,352**	190,964
Provision (benefit) for income tax	**1,154**	432	**1,573**	335
Excess of revenues, gains and other support over expenses	$ **38,280**	$ 30,854	$ **110,779**	$ 190,629

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Consolidated System
Statement of Changes in Net Assets

	Unaudited Quarter Ended		Unaudited Six Months Ended	
	February 28, 2014	February 28, 2013	February 28, 2014	February 28, 2013
Unrestricted net assets:	*(In Thousands)*		*(In Thousands)*	
Excess of revenues, gains and other support over expenses	$ **38,280**	$ 30,854	$ **110,779**	$ 190,629
Post-retirement benefit plan				
Net gain/(loss) arising during period	**-**	-	**-**	-
Plus: amortization of prior service cost, transition obligation and loss included in net periodic pension cost	**-**	-	**-**	-
Change in post-retirement benefit plan	**-**	-	**-**	-
Unrestricted net assets attributable to noncontrolling interests				
Excess of revenue over expenses	**263**	167	**639**	577
Contributions from noncontrolling interests	**60**	-	**60**	-
Distributions to noncontrolling interests	**(400)**	(376)	**(560)**	(668)
Change in unrestricted net assets attributable to noncontrolling interests	**(77)**	(209)	**139**	(91)
Effect of unrealized (gains)/losses reclassification	**-**	-	**-**	-
Increase/(decrease) in unrestricted net assets	**38,203**	30,645	**110,918**	190,538
Temporarily restricted net assets				
Contributions, interest income and other	**570**	2,734	**1,082**	3,776
Contribution in donation of PAC	**-**	-	**-**	2,239
Contribution in donation of Trover	**-**	-	**-**	159
Net assets released from restrictions used for operations	**(3,531)**	(611)	**(3,803)**	(859)
Increase/(decrease) in temporarily restricted net assets	**(2,961)**	2,123	**(2,721)**	5,315
Permanently restricted net assets				
Contributions, interest income and other	**-**	-	**-**	-
Contribution in donation of PAC	**-**	-	**-**	15,342
Contribution in donation of Trover	**-**	-	**-**	-
Investment return	**-**	-	**-**	-
Change in beneficial interest in perpetual trust	**481**	761	**1,380**	1,008
Increase/(decrease) in permanently restricted net assets	**481**	761	**1,380**	16,350
Change in net assets	**35,723**	33,529	**109,577**	212,203
Net assets, beginning of period	**1,584,418**	1,453,462	**1,510,564**	1,274,787
Net assets, end of period	$ **1,620,141**	$ 1,486,991	$ **1,620,141**	$ 1,486,990

Consolidated System
Statement of Cash Flows

	Unaudited Quarter Ended		Unaudited Six months Ended	
	February 28, 2014	February 28, 2013	February 28, 2014	February 28, 2013
	(In Thousands)		*(In Thousands)*	
Operating activities				
Change in net assets	$ **35,723**	$ 33,529	$ **109,577**	$ 212,203
Less: Change in net assets attributable to noncontrolling interest	**(77)**	(209)	**139**	(91)
Change in net assets attributable to Baptist	**35,800**	33,738	**109,438**	212,294
Adjustments to reconcile change in net assets to net cash provided by operating activities				
Depreciation and amortization	**28,922**	27,395	**57,033**	52,154
Net asset transfers	**-**	-	**-**	-
Net realized and unrealized losses/(gains) on investments	**(10,160)**	20,407	**11,306**	19,005
Equity in net earnings of joint ventures	**(830)**	(1,624)	**(1,678)**	(2,693)
Loss (gain) on sale or disposition of PP&E	**(10)**	150	**41**	208
Contribution of net assets of PAC	**-**	-	**-**	(22,693)
Contribution of net assets of Trover	**-**	-	**-**	(142,645)
Changes in:				
Noncontrolling interest	**263**	167	**639**	577
Patient accounts receivable, net	**(9,287)**	(398)	**(29,070)**	(22,567)
Inventories and other current assets	**(4,364)**	5,046	**7,207**	25,974
Other assets	**723**	1,370	**4,404**	11,109
Accounts payable and accrued expenses	**(13,854)**	8,137	**(17,594)**	2,809
Estimated third-party payor settlements	**3,049**	(477)	**10,488**	(390)
Other current liabilities	**(6,210)**	5,672	**(6,665)**	16,630
Other liabilities	**12,007**	1,421	**12,645**	2,899
Net cash provided by operating activities	**36,049**	101,004	**158,194**	152,671
Investing activities				
Purchase of investments	**(1,100,683)**	(887,073)	**(1,552,411)**	(1,484,189)
Proceeds from disposition of investments	**1,090,996**	826,895	**1,477,658**	1,419,134
Purchase of property and equipment, net	**(25,578)**	(42,534)	**(48,187)**	(78,909)
Contribution of cash of PAC	**-**	-	**-**	3,088
Contribution of cash of Trover	**-**	-	**-**	37,441
Net asset transfers	**-**	-	**-**	-
Proceeds from sale of property and equipment	**189**	51	**216**	81
Contributions from noncontrolling interest	**60**	-	**60**	-
Investment in joint ventures	**-**	150	**-**	150
Distributions to noncontrolling interest	**(400)**	(376)	**(560)**	(668)
Distributions from joint ventures	**326**	1,637	**326**	3,972
Net cash used in investing activities	**(35,090)**	(101,250)	**(122,898)**	(99,900)
Financing activities				
Proceeds from issuance of 2011 bonds	**-**	-	**-**	-
Net cost of issuance from 2011 bonds	**-**	-	**-**	-
Original issue discount from 2011 bonds	**-**	-	**-**	-
Proceeds from/(payments on) intercompany accts	**-**	-	**-**	-
Principal payments on long-term debt	**(466)**	(452)	**(932)**	(15,209)
Net cash from/(used in) financing activities	**(466)**	(452)	**(932)**	(15,209)
Increase/(decrease) in cash and cash equivalents	**493**	(698)	**34,364**	37,562
Cash and cash equivalents, beginning of period	**144,585**	149,449	**110,714**	111,189
Cash and cash equivalents, end of period	$ **145,078**	$ 148,751	$ **144,078**	$ 148,751

OTHER INFORMATION

For the six months ended
February 28, 2014

Financial and Operating Ratios

	Obligated Group Six months Ended		Consolidated Six months Ended	
	February 28, 2014	February 28, 2013	February 28, 2014	February 28, 2013
	(dollars in thousands)		*(dollars in thousands)*	
Profitability				
Operating income	$ **76,109**	$ 35,436	$ **24,036**	$ (7,856)
Operating margin	**10.6**%	5.3%	**2.4** %	-0.8%
Operating cash flow	$ **127,940**	$ 85,518	$ **87,724**	$ 51,155
Operating cash flow margin	**17.9**%	12.8%	**8.7** %	5.5%
Excess revenue over expenses	$ **158,726**	$ 83,687	$ **110,779**	$ 190,629
Excess margin	**22.2**%	12.5%	**11.0** %	20.5%
EBITDA	$ **210,586**	$ 133,814	$ **176,040**	$ 249,975
EBITDA margin	**29.4**%	20.1%	**17.4** %	26.9%
Liquidity				
Cash on hand	$ **998,119**	$ 900,253	$ **1,855,730**	$ 1,090,470
Cash on hand – days	**304**	279	**231**	224
Patient accounts receivable	$ **205,040**	$ 190,345	$ **258,585**	$ 238,024
Patient accounts receivable – days	**57**	54	**55**	58
Leverage				
Historical debt service coverage	**11.5**x	7.0 x	**8.2**x	4.5x
Maximum annual debt service coverage	**9.1**x	5.6 x	**6.2**x	3.4x
Total debt % of total capitalization	**26.4**%	29.6%	**28.1** %	30.4%
Cash to total debt	**1.66**	1.48	**1.91**	1.72
Total debt to cash flow	**1.5**	2.4	**1.9**	3.3
Productivity				
Salary and benefit % of total revenue	**44.0**%	47.5%	**50.3** %	51.1%
Supplies % of total revenue	**23.0**%	24.6%	**19.9** %	20.4%
Purchased services % of total revenue	**6.1**%	6.0%	**5.4** %	5.9%
Capital expense % of total revenue	**7.3**%	7.2%	**6.3** %	6.4%
Full-time equivalents (FTE's)	**8,588**	8,974	**12,700**	12,835
FTE's per adjusted occupied bed	**4.1**	4.3	**4.1**	4.5
FTE's per adjusted occupied bed – adjusted for case mix	**2.7**	2.9	**2.8**	3.1

Debt Service Coverage Ratio

	Obligated Group Three months ended		Consolidated Six months ended	
	February 28, 2014	February 28, 2013	February 28, 2014	February 28, 2013
Excess of revenue over expenses	$ **158,726**	$ 83,687	$ **110,779**	$ 190,629
Less:				
ASC Topic 320 current unrealized losses/(gains)	**(37,724)**	(28,354)	**(42,118)**	(30,074)
FAS 164 contributions	**-**	-	**-**	(147,598)
Plus:				
Depreciation and amortization	**45,067**	43,761	**56,375**	52,155
Interest expense	**6,764**	6,321	**7,313**	6,856
Funds available for debt service	$ **172,833**	$ 105,415	$ **132,349**	$ 35,493
Actual debt service:				
Interest expense	**6,764**	6,321	**7,313**	6,856
Capitalized interest expense	**2,770**	3,419	**2,770**	3,419
Principal payment on long-term (a)	**5,048**	4,815	**6,009**	5,747
20% interest expense on non-obligated debt	**231**	253	**-**	
20% principal on non-obligated debt	**239**	307	**-**	
Actual debt service	$ **15,051**	$ 15,115	$ **16,092**	$ 16,022
Annual debt service coverage ratio	**11.5** x	7.0 x	**8.2** x	4.5x
Maximum annual debt service	$ **37,900**	$ 37,900	$ **42,735**	$ 42,735
Maximum annual debt service coverage ratio	**9.1** x	5.6 x	**6.2** x	3.4x

(a) Prorated for six months

Capitalization

	Obligated Group		Consolidated	
	February 28, 2014	February 28, 2013	February 28, 2014	February 28, 2013
	(In Thousands)		*(In Thousands)*	
Long-term debt				
Series 2009A Bonds (a)	$ **180,060**	$ 189,690	$ **180,060**	$ 189,690
Series 2009A unamortized premium	**685**	1,099	**685**	1,099
Series 2009A unamortized discount	**(1,445)**	(1,605)	**(1,445)**	(1,605)
Series 2009B Bonds	**284,435**	284,435	**284,435**	284,435
Series 2010 Bonds	**-**	-	**22,109**	24,424
Series 2011 Bonds	**140,000**	140,000	**140,000**	140,000
Series 2011 unamortized discount	**(3,625)**	(3,749)	**(3,625)**	(3,749)
Long-term debt	**600,110**	609,870	**622,219**	633,842
Total debt	**600,110**	609,870	**622,219**	633,842
Unrestricted net assets attributable to Baptist	**1,671,772**	1,450,633	**1,588,549**	1,453,657
Total capitalization	$ **2,271,882**	$ 2,060,503	$ **2,210,768**	$ 2,087,499
Total debt as a percentage of total capitalization	**26.4**%	29.6%	**28.1**%	30.4%

Days Cash on Hand Ratio

	Obligated Group Three months ended		Consolidated Six months ended	
	February 28, 2014	February 28, 2013	February 28, 2014	February 28, 2013
Cash:				
Cash and cash equivalents	$ **111,629**	$ 105,257	$ **145,078**	$ 148,751
Investments	**50,671**	50,197	**150,509**	139,201
Assets limited as to use – designated by Board for capital improvements	**835,819**	744,799	**890,143**	802,518
Total Cash and investments	$ **998,119**	$ 900,253	$ **1,185,730**	$ 1,090,470
Average daily cash expense:				
Total expenses	$ **639,068**	$ 631,445	$ **985,232**	$ 936,928
Depreciation and amortization	**(45,067)**	(43,761)	**(56,375)**	(52,155)
Total cash expenses	$ **594,001**	$ 587,684	$ **928,857**	$ 884,773
Days in period	**181**	182	**181**	182
Average daily expense	$ **3,282**	$ 3,229	$ **5,132**	$ 4,861
Days cash on hand ratio	**304**	279	**231**	224

Financial Indicators by Division

	Six months ended February 28, 2014	February 28, 2013	February 28, 2012
	(dollars in thousands)		
Total revenue, gains and other support:			
Obligated Group (a)	**$ 682,837**	$ 655,332	$ 625,055
Non-Obligated Group:			
Baptist Health Richmond	**33,359**	30,956	-
Baptist Health Madisonville (b)	**78,237**	49,212	-
BlueGrass Family Health, Inc.	**78,784**	87,692	95,009
Baptist Health Community Services	**23,769**	23,209	23,644
Employed Physicians	**103,938**	78,427	73,619
Other	**8,344**	4,244	2,240
Total Non-Obligated Group	**326,431**	273,740	194,512
Total System	**$ 1,009,268**	$ 929,072	$ 819,567
Operating income/(loss):			
Obligated Group	**$ 76,109**	$ 35,436	$ 22,983
Non-Obligated Group:			
Baptist Health Richmond	**(1,437)**	(2,160)	-
Baptist Health Madisonville (b)	**309**	635	-
BlueGrass Family Health, Inc.	**(13)**	(13)	2,644
Baptist Health Community Services	**(344)**	(1,474)	(445)
Employed Physicians	**(51,531)**	(40,264)	(40,323)
Other	**943**	(16)	(92)
Total Non-Obligated Group	**(52,073)**	(43,292)	(38,216)
Total System	**$ 24,036**	(7,856)	(15,233)
Excess/(deficit) of revenue over expenses:			
Obligated Group	**$ 158,726**	$ 83,687	$ 65,833
Non-Obligated Group:			
Baptist Health Richmond	**(354)**	3,746	-
Baptist Health Madisonville (b)	**1,550**	158,240	-
BlueGrass Family Health, Inc.	**1,840**	1,435	2,954
Baptist Health Community Services	**(955)**	(2,031)	(1,138)
Employed Physicians	**(51,595)**	(54,878)	(40,382)
Other	**1,567**	430	329
Total Non-Obligated Group	**(47,947)**	106,942	(38,237)
Total System	**$ 110,779**	$ 190,629	$ 27,596

(a) net of eliminated inter-company accounts

(b) for the three months ended February 28, 2013 and six months ended February 28, 2014

Financial Indicators by Division

	Three months ended February 28, 2014	February 28, 2013	February 28, 2012
	(dollars in thousands)		
Total assets:			
Obligated Group (a)	**$ 2,164,024**	$ 2,072,120	$ 2,005,377
Non-Obligated Group:			
Baptist Health Richmond	**70,076**	56,988	-
Baptist Health Madisonville	**162,705**	168,298	-
BlueGrass Family Health, Inc.	**106,517**	97,557	83,327
Baptist Health Community Services	**28,066**	26,284	24,021
Employed Physicians	**41,353**	44,049	13,463
Other	**17,123**	18,128	15,601
Total Non-Obligated Group	**425,840**	411,304	136,412
Total System	**$ 2,589,864**	$ 2,483,424	$ 2,141,789

(a) net of eliminated intercompany accounts

Baptist Healthcare System, Inc. And Affiliates
Notes to Financial Statements

Basis of Presentation

The accompanying consolidated financial statements represent the consolidated operations of BHS, the affiliates in which it has sole ownership or membership and the entities in which it has greater than 50% equity interest with commensurate control. All significant intercompany accounts and transactions are eliminated in consolidation.

BHS is responsible for the accompanying unaudited consolidated financial statements. These unaudited consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Mission and vision statement

The System's mission is to continue the Christian heritage of service and to enhance the health of the people and communities it serves. The System is guided by the vision to be the healthcare leader in Kentucky. The System will live out its Christ-centered mission and achieve its vision guided by:

- Integrity
- Respect
- Stewardship
- Excellence
- Collaboration

Fair value of assets and liabilities

Cash and cash equivalents, investments and assets limited as to use are valued using quoted prices in active markets for identical assets or where quoted market prices are not available, using fair values estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. The System does not hold investments that are unobservable or that are supported by little or no market activity.

The fair value of long term debt obligations is estimated based on the borrowing rates currently available to Baptist for bank loans with similar terms and maturities.

Cash equivalents

The System considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At February 28, 2014, August 31, 2013 and February 28, 2014 cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

Patient accounts receivable

The System reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. In evaluating the ability to collect accounts receivable, the System analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate provisions and allowances. The System regularly reviews data regarding these major payer sources of revenue in evaluating the sufficiency of the allowances.

Inventories

Inventories are stated at the lower of cost or market on a first-in, first-out basis.

Assets limited as to use

Assets limited as to use are recorded at fair value and include: (1) assets set aside by the board for capital improvements over which the board retains control and may, at its discretion, subsequently use for other purposes, (2) assets set aside by the board for endowment, (3) assets held by trustee under bond indenture, (4) assets held by trustee for the medical malpractice and workers' compensation self-insurance funding arrangements and (5) assets held by trustee in perpetual trust. Amounts required to meet current liabilities are reported as current assets in the consolidated balance sheets.

The System invests in various securities including money market funds, U.S. Government securities, corporate debt instruments, corporate stocks and mutual funds, which are classified as available-for-sale. The unrealized gains and losses of these securities are recognized as net investment return in the consolidated statements of operations.

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities could occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheets and consolidated statements of operations.

Property and equipment

Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets, unless the donor restricts use of the assets. Monetary gifts that must be used to acquire property and equipment are reported as donor-restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

The system capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing net of interest earned on investments acquired with the proceeds of the borrowing or based on the weighted-average rates paid for long-term borrowing. Total interest capitalized and incurred was:

	6 Months ended February 28, 2014	6 Months ended February 28, 2013
	(In Thousands)	
Interest expense capitalized	$ 2,802	$ 3,596
Interest income capitalized from investment of proceeds on borrowings for project	(32)	(177)
Net interest capitalized	$ 2,770	$ 3,419

	6 Months ended February 28, 2014	6 Months ended February 28, 2013
	(In Thousands)	
Net interest capitalized	$ 2,770	$ 3,419
Interest charged to expense	7,313	6,856
Total interest incurred	$ 10,083	$ 10,275

Long-term debt

The bonds are collateralized by a pledge of revenues. The agreements also contain several covenants, the most significant of which places limitations on additional indebtedness and required levels of unrestricted cash. The System was in compliance with all debt covenants at February 28, 2014.

	Obligated Group February 28,		Consolidated February 28,	
	2014	2013	2014	2013
	(In Thousands)		*(In Thousands)*	
Long-term debt				
Series 2009A Bonds	$ **180,060**	$ 189,690	$ **180,060**	$ 189,690
Series 2009A unamortized premium	**685**	1,099	**685**	1,099
Series 2009A unamortized discount	**(1,445)**	(1,605)	**(1,445)**	(1,605)
Series 2009B Bonds	**284,435**	284,435	**284,435**	284,435
Series 2010 Bonds	**-**	-	**22,109**	24,424
Series 2011 Bonds	**140,000**	140,000	**140,000**	140,000
Series 2011 unamortized discount	**(3,625)**	(3,749)	**(3,625)**	(3,749)
Total debt	**600,110**	609,870	**622,219**	633,842
Less: current portion	**(10,095)**	(9,630)	**(12,018)**	(11,493)
Long-term debt	**590,015**	600,240	**610,201**	622,349

- The Series 2009A Revenue Bonds were issued on February 19, 2009 to redeem the Series 1999A Bonds and to deposit $99,287,000 into the project fund used to reimburse the System for the costs of acquiring and constructing hospital facilities and equipment. Interest on the bonds is fixed and is payable semiannually on each February 15 and August 15, commencing August 15, 2009. Interest rates range from 3.000% to 5.625%. Principal payments began August 2011 with a maturity date of August 2027.

- The Series 2009B Variable Rate Demand Hospital Revenue Bonds were issued on February 19, 2009. Principal payments begin August 2027 through August 2038. The 2009B Bonds are secured by direct letters of credit issued by Branch Banking and Trust Company for $154,906,515 and JP Morgan Chase Bank, N.A. for $133,619,675, which expire February 19, 2016, and December 15, 2015, respectively. If the 2009B Bonds fail to remarket and Baptist draws on the letters of credit, JP Morgan Chase Bank, N.A. requires Baptist to repay principal and interest over 12 equal quarterly installments commencing 367 days after the liquidity drawing and Branch Banking and Trust Co. requires monthly interest payments and after 367 days, principal and interest in 24 equal monthly installments. Interest for the 2009B-1 and 2009B-2 Bonds ($131,725,000) which are re-priced daily were 0.03% and 0.04% at August 31, 2013. Interest for the 2009B-3 and 2009B-4 Bonds ($152,710,000) which are re-priced weekly was 0.03% at February 28, 2014 and 0.06% and 0.05% at August 31, 2013, respectively.

- The Series 2010 Variable Rate Demand Hospital Revenue Bonds were issued by BH MAD on December 15, 2010 in the amount of $25,780,000 to extinguish the remaining Series 2006 Bonds, finance the construction, rehabilitation and equipping of certain facilities and pay costs related to the issuance of the Series 2010 Bonds. The Series 2010 Bonds are variable rate demand bonds which were issued as bank qualified tax-exempt obligations. Interest on the bonds is at a fixed rate of 2.49 percent and is payable quarterly through December 15, 2015, at which time the fixed rate is reset in accordance with the provisions of the trust indenture and is subject to a mandatory tender if elected. The Series 2010 Bonds are subject to retirement in varying annual principal payments of $452,000 to $633,250 from March 2012 through 2023. The Series 2010 Bonds are secured by gross receipts and certain property and equipment.

- The Series 2011 Fixed Rate Hospital Revenue Bonds were issued on December 15, 2011 in the amount of $140,000,000 to pay or reimburse the System for the costs of certain hospital projects including a portion of the costs of constructing and equipping a new seven-story, approximately 400,000 square foot medical structure connected to the existing hospital building at BH LEX. Principal payments for the 2042 term bond in the amount of $63,060,000 will begin August 15, 2039 with a maturity date of August 15, 2042 and an interest rate of 5.00%. Principal payments for 2046 term bond in the amount of $76,940,000 will begin August 15, 2043 with a maturity date of August 15, 2046 and an interest rate of 5.25%. Interest on the bonds is fixed and is payable semiannually on each February 15 and August 15.

Deferred financing costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt and are amortized over the term of the respective debt using the effective-interest method. Deferred financing costs are reported in the consolidated balance sheets in other assets.

Temporarily restricted net assets

Temporarily restricted net assets are those whose use by the System has been limited by donors to a specific time period or purpose. Investment income from restricted funds is included in temporarily restricted net assets when earned.

In 2006, BH RIC received capital assets in the amount of $6,398,049 from the Chemical Stockpile Emergency Preparedness Program (CSEPP). As a part of the acquisition of BH RIC September 1, 2012, the fair value of those assets was $2,239,436. CSEPP is conducting a chemical stockpile disposal project at the nearby Blue Grass Army Depot. The chemical stockpile disposal project is expected to last approximately 15 years. In the event of any chemical leak or airborne contamination, BH RIC will be used as a first response center. At the end of the disposal project, BH RIC has the option to retain any or all of the capital assets contributed as part of the project or have CSEPP remove them from the facility. Currently, BH RIC intends to retain all of the capital assets until after the completion of the disposal project, the assets are temporarily restricted due to the passage of time. These assets are being depreciated over their estimated useful lives and each year's depreciation expense on these assets will be recorded as released from restrictions in the consolidated statement of operations. Depreciation expense on restricted capital assets for the quarter ended February 28, 2014, was $68,783.

Permanently restricted net assets

Permanently restricted net assets are those that have been restricted by donors to be maintained in perpetuity. Permanently restricted net assets represent the System's beneficial interest in perpetual trusts. Investment income from restricted funds is included in permanently restricted net assets when earned.

Charity care

The System provides care to patients who meet certain criteria under its charity care policy, without charge or at amounts less than its established rates. The System also provides discounts from established rates to all uninsured patients. Because the System does not pursue collection of charity or uninsured discounts, such amounts are not reported as revenue.

Patient service revenue

Patient service revenues are derived from services provided to patients who are directly responsible for payment or are covered by various insurance programs including the Medicare and Medicaid programs. The System has agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge and/or per day, discounts from established charges, fee schedules and other methods.

The System recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. These payment arrangements include:

Medicare. Substantially all inpatient and outpatient services are paid at prospectively determined rates. These rates vary according to the patient classification system that is based on clinical, diagnostic, acuity and other factors. Certain defined medical education costs are paid based on a cost reimbursement methodology. The System is also reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare administrative contractor.

Medicaid. Inpatient services are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for other services. The System is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicaid administrative contractor

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Patient liability. The System recognizes patient deductible and co-payment revenue for patients who have third-party insurance. A provision for uncollectible accounts is recorded in the period of service on the basis of its past experience, which indicates that some patients are unwilling to pay the portion of their bill for which they are financially responsible. The System offers financial assistance programs to patients who are unable to pay the portion of their bill for which they are financially responsible and records a provision for charity in the period of service on the basis of its past experience.

The System recognizes patient service revenue associated with services provided to patients who do not have third-party payer coverage as follows:

Uninsured patients. The System provides a significant discount from standard charges to all uninsured patients who receive medically necessary care. An uninsured discount provision is recorded in the period of service. The amount for which the patient is responsible is recognized as patient service revenue. The System offers financial assistance programs to patients who are unable to pay the portion of their bill for which they are financially responsible and records a provision for charity in the period of service on the basis of its past experience. A provision for uncollectible accounts is recorded in the period of service on the basis of past experience for patients who are unwilling to pay the portion of their bill for which they are financially responsible.

The provision for uninsured discounts, charity care and uncollectible accounts were as follows:

Provision for	Six Months Ended February 28, 2014	2013	Change
		(In Thousands)	
Uninsured discounts	$ 59,608	$ 26,472	$ 33,136
Charity	53,337	60,581	(7,244)
Uncollectible accounts	38,168	34,990	3,178
Total	$ 151,113	$ 122,043	$ 29,070

Premium revenue

The System, through BFH, enters into membership contracts with employer groups. The contracts contain varying terms subject to cancellation by the employer group or BFH upon 60 days' written notice. Premiums are due at the beginning of each month and are recognized as revenue during the period in which BFH is obligated to provide services to members.

Premiums billed and collected in advance recorded as unearned premiums are included in the consolidated balance sheets in other current liabilities.

Estimated medical services provided but not reported to BFH are included in the consolidated balance sheets in accounts payable.

Electronic Health Records Incentive Program

Other revenue includes the Electronic Health Records Incentive Program (EHRIP), enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology.

Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payments under both programs are contingent upon hospitals and physicians continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The System recognizes EHRIP revenue under the grant method and the contingency method, depending on the specific circumstances at each entity regarding the likelihood of meeting the requirements necessary to demonstrate meaningful use.

For the entities being accounted under the grant method, the System recognized revenue **ratably** over the reporting period starting at the time when management was reasonably assured it would meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period. However, the System decided to replace its core computer technology in the near future, including clinical and financial systems. Given the current limitations of existing computer systems and the potential reluctance by physicians to use the existing computerized provider order entry (CPOE) system which will soon be replaced, the System is not "reasonably assured" at this time that it would comply with all requirements necessary to achieve stage 2 certification. As a result, the entities that were previously being accounted for **ratably** will be accounted for using **cliff recognition**. This means that the System will record EHRIP payments at the time the requirements are met and verified. Accordingly, no EHRIP payments were included in the quarter ended February 28, 2014.

For the hospitals being accounted under the contingency method, the System recognized revenue when the hospital received confirmation of meeting the meaningful use requirements. This accounting treatment will continued during the current quarter. No EHRIP payments were recorded for the quarter ended February 28, 2014.

Contributions

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined by using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Donor-restricted stipulations that limit the use of contributions are initially reported as temporarily or permanently restricted net 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 consolidated statements of changes in net assets as net assets released from restriction.

Investments and investment return

Investments in equity securities with readily determinable fair values and in all debt securities are carried at fair value in the consolidated balance sheets. Investments in an equity investee are reported on the equity method of accounting. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value.

Investment income or loss (including realized gains and losses on investments, dividends, interest and unrealized gains and losses on trading and available-for-sale investments) is included in the excess of revenues, gains and other support over expenses unless donor or law restricts the income or loss.

The System's investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in these risks in the near term could materially affect the amounts reported in the consolidated balance sheets and consolidated statements of operations.

Beneficial interest in perpetual trusts

The System is an income beneficiary of several perpetual trusts controlled by unrelated third-party trustees. The beneficial interests in the assets of these trusts are included in the System's consolidated financial statements as permanently restricted net assets. Income is distributed in accordance with the individual trust documents and is included in investment return.

Malpractice costs

The System, (excluding BH RIC), is self-insured with respect to medical malpractice risks and has established an irrevocable trust fund for the payment of medical malpractice claim settlements. Professional insurance consultants have been retained to assist the System in determining liability amounts to be recognized, as well as amounts to be deposited into the trust fund.

The System is self-insured for the first $6,000,000 per occurrence and not to exceed $20,000,000 in the aggregate for all System hospitals combined (excluding BH MAD and BH RIC). The System participates in the American Excess Insurance Exchange (AEIX), Risk Retention Group, a Vermont-chartered "captive" insurance company organized as a reciprocal for coverage above the self-insurance limits. The System currently has a 9.14% ownership in AEIX, the value of which is reported using the equity method of accounting.

BH MAD is self-insured for the first $1,500,000 per occurrence through January 1, 2008, and $2,000,000 per occurrence thereafter and not to exceed $14,000,000 in aggregate. BH MAD purchases commercial insurance coverage on a claims-made basis over the self-insurance limits and has established an irrevocable trust fund for the payment of medical malpractice claim settlements. Losses from asserted and unasserted claims are accrued based on estimates that incorporate past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. Professional insurance consultants have been retained to assist the System in determining liability amounts to be recognized, as well as amounts to be deposited into the trust fund.

BH RIC is insured for medical malpractice claims through claims-made policies. This provides protection from liability in amounts not to exceed $1,000,000 per claim and $3,000,000 in the aggregate. In addition, BH RIC has purchased a $10,000,000 umbrella policy.

Liabilities for incurred but not reported losses at February 28, 2014 and 2013, if any, will not have a material effect on the BH RIC's financial position and its malpractice and general liability insurance is adequate to cover losses, if any. Should the claims-made policies not be renewed or replaced with appropriate insurance coverage, claims based upon occurrences during these terms, but reported subsequently, will be uninsured. BH RIC intends to continue carrying such insurance.

Workers compensation

The System is self-insured with respect to workers' compensation risks and has established an irrevocable trust fund for the payment of workers' compensation claim settlements. Professional insurance consultants have been retained to assist the System in determining liability amounts to be recognized, as well as amounts to be deposited into the trust fund.

Employee benefit plans

The System employees who meet eligibility requirements are covered by a Retirement Accumulation Plan (RAP), which includes a defined contribution plan funded entirely by the System and a 401(k) plan to which the employees of BFH are the only participants permitted to make 401(k) deferrals. The finance committee of the board of directors of the System controls and manages the operation of the RAP. Participants are immediately fully vested in participant contributions and related earnings and are fully vested in the System's contributions after five years of service, or after reaching age 65, whichever occurs first.

The System offers a Thrift 403(b) Plan to which employees may defer up to 10% of their earnings on a pre-tax basis. Through December 31, 2013, the System matched $.50 on each dollar for the first 4% of the employees' contributions and $.25 on each dollar for contributions of 5 – 6% of the employees' contributions. Beginning January 1, 2014, the System matches $.50 on each dollar for the first 6% of the employees' contributions. Employees are immediately vested in their contributions and related earnings. Employee vesting in employer contributions is graduated with full vesting after five years.

The System provides an Executive Severance and Deferred Compensation Plan; a nonqualified plan designed to provide severance benefits for select management or highly compensated employees of the System and to provide deferred compensation for those adversely affected by the required compensation limits of qualified retirement plans or Section 403(b) plans.

BH MAD has a defined contribution pension plan covering substantially all employees. Under terms of the plan, BH MAD contributes 4.6 percent of eligible compensation up to $150,000 for eligible employees with two years of service.

BH RIC employees hired January 1, 2005 or later are eligible to participate in a defined contribution pension plan. BH RIC matches a portion of the employees' basic voluntary contributions, as determined by the provisions of the plan.

BH RIC has a noncontributory defined benefit pension plan covering substantially all of its employees employed prior to 2005. BH RIC's funding policy is to make the minimum annual contribution that is required by applicable regulations. Effective December 31, 2004, the defined benefit pension plan was frozen and does not allow any new participants. Effective December 31, 2007, BH RIC resolved to freeze the accrued benefits of the defined benefit plan as part of its plan to restructure employee benefits of its employees.

The System has a post-retirement benefit plan covering all employees who meet the eligibility requirements. The plan provides for a continuation of medical benefits at the division from which the employee retires until the retiree reaches the age of 65 and for death benefits that vary with retirement date and position.

The post-retirement medical benefits plan is contributory, with retiree contributions adjusted annually. Funding by the System is on a cash basis as benefits are paid.

The System amended the post-retirement benefit plan that became effective beginning on January 1, 2014. The amendment increased the employee responsibility for plan funding and restricted retiree medical benefits to existing participants and to employees who will become eligible to participate before January 1, 2019.

Acquisition of Pattie A. Clay

On September 1, 2012, the System acquired the net assets of Pattie A. Clay Infirmary Association and Pattie A. Clay Foundation (collectively Pattie A. Clay and renamed to Baptist Health Richmond (BH RIC)) a not-for-profit hospital that provides a continuum of health care services such as orthopedics, pediatrics, obstetrics, gynecology, cardiology and internal medicine, sports medicine and a full array of outpatient, diagnostic and emergency services. BH RIC is located in Richmond, Kentucky approximately two miles off Interstate 75, adjacent to Eastern Kentucky University. It's located approximately 25 miles south of downtown Lexington, Kentucky and 28 miles from BH LEX.

As a result of the acquisition, the System will expand its primary service area to include Estill, Madison and Jackson counties which are adjacent to counties the System currently serves. The System also expects the acquisition will allow it to provide more comprehensive health care services to these counties through integrating clinically with current System providers in the Lexington area. The System also believes the acquisition will provide the ability to achieve cost savings, both clinically and through the elimination of duplicative administrative support functions.

The acquisition was accomplished by the System becoming the sole member of BH RIC, and no consideration was or will be transferred for the acquisition. However, in connection with the acquisition, the System agreed to fund at least $50,000,000 of capital improvements benefiting BH RIC within five years from the date of the acquisition and provide $3,000,000 of funds to the foundation at BH RIC. In addition, immediately prior to the acquisition, all outstanding debt in the amount of $14,757,110 was redeemed by the System on behalf of Pattie A. Clay Infirmary Association, and a note payable between the System and Pattie A. Clay Infirmary Association was established.

The acquisition resulted in an inherent contribution received of $22,693,119, which represents the net recognized amount in the identifiable assets acquired over the liabilities assumed. Of this amount, $5,111,847 has been included in unrestricted net assets – contribution received in donation of Pattie A. Clay in the consolidated statement of operations, $2,239,436 has been included in temporarily restricted net assets – contribution received in donation of Pattie A. Clay, and $15,341,836 has been included in permanently restricted net assets – contribution received in donation of Pattie A. Clay

Recognized Amounts of Identifiable Assets Acquired and Liabilities Assumed

	Sep 2012
Assets	
Current assets	$ 17,473,732
Assets limited as to use	15,341,836
Property, plant and equipment	22,673,021
Identifiable intangible assets (indefinite life)	1,000,000
Liabilities	
Current liabilities	(6,980,258)
Long term debt to Baptist	(14,757,110)
Other liabilities (primarily pension and capital lease obligations)	(12,058,102)
Total identifiable net assets (contribution received)	$ 22,693,119
Contribution received	
Unrestricted net assets	$ 5,111,847
Temporarily restricted net assets	2,239,436
Permanently restricted net assets	15,341,836
Total identifiable net assets (contribution received)	$ 22,693,119

Acquisition of Trover Health System

On November 1, 2012, the System acquired the net assets of Trover Clinic Foundation, Mutual Credit Services and Western Kentucky Medical Management Services (collectively Trover Health System and renamed to Baptist Health Madisonville (BH MAD)), a not-for-profit system that provides over 50 clinical services such as orthopedics, obstetrics, gynecology, general surgery, cardiology, acute rehab, internal medicine and a full array of outpatient, diagnostic and emergency services on and off their main campus.

BH MAD is the major medical center within its seven county primary service area. As a result of the acquisition, the System will expand its primary service area to include the counties of Hopkins, Mclean, Muhlenberg, Christian, Caldwell, Crittenden and Webster. Several of these counties are adjacent to the primary service area of BH PAD, located approximately 80 miles from BH MAD.

The System also expects the acquisition will allow it to provide more comprehensive health care services to these counties through integrating clinically with both BH PAD and BH LOU. In doing so, many of the patients currently leaving the area for care will be able to receive care closer to home. In addition, the acquisition will provide the ability to achieve cost savings, both clinically and through the elimination of duplicative administrative support functions.

The acquisition was accomplished by the System becoming the sole member of BH MAD, and no consideration was or will be transferred for the acquisition. The System incurred approximately $675,000 of third-party acquisition-related costs in connection with this acquisition. These costs are included in general and administrative costs in the consolidated statement of operations.

The acquisition resulted in an inherent contribution received of $142,644,867, which represents the net recognized amount in the identifiable assets acquired over the liabilities assumed. Of this amount, $142,485,463 has been included in unrestricted net assets – contribution received in donation of Trover Health System in the consolidated statement of operations and $159,404 has been included in temporarily restricted net assets – contribution received in donation of Trover Health System.

The following table summarizes the amounts of the assets acquired and liabilities assumed, recognized at the acquisition date.

Recognized Amounts of Identifiable Assets Acquired and Liabilities Assumed

	Nov 2012
Assets	
Current assets	$ 63,434,657
Assets limited as to use	46,297,867
Property, plant and equipment	84,438,011
Other assets	3,249,899
Identifiable intangible assets (indefinite life)	3,637,500
Liabilities	
Current liabilities	(21,985,899)
Long term debt	(24,424,000)
Other liabilities (primarily for malpractice and workers compensation)	(12,003,168)
Total identifiable net assets (contribution received)	$ 142,644,867
Contribution received	
Unrestricted net assets	$ 142,485,463
Temporarily restricted net assets	159,404
Total identifiable net assets (contribution received)	$ 142,644,867

Use of estimates

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include net patient service revenue, malpractice, workers' compensation, litigation matters, post-retirement benefits and medical service claims incurred but not yet reported.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses for the periods presented. Actual results could differ from those estimates.

Litigation

During the normal course of business, the System may be subject to allegations that result in litigation. Some of these allegations are in areas not covered by the System's self-insurance program or by commercial insurance. Based on the advice and assistance from professional and legal counsel, the System assesses the probable outcome of unresolved litigation and records an estimate of the ultimate expected loss. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Reclassifications

Certain reclassifications have been made to the prior year quarter and year-to-date consolidated financial statements to conform to the current quarter and year-to-date consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

Appendix A

Previous Entity Name	*New Entity Name Included in This Report*	*Legal Name*
Obligated Group		
Baptist Hospital East (East)	Baptist Health Louisville (BH LOU)	Baptist Healthcare System, Inc.
Baptist Regional Medical Center (Regional)	Baptist Health Corbin (BH COR)	Baptist Healthcare System, Inc.
Central Baptist Hospital (Central)	Baptist Health Lexington (BH LEX)	Baptist Healthcare System, Inc.
Western Baptist Hospital (Western)	Baptist Health Paducah (BH PAD)	Baptist Healthcare System, Inc.
Baptist Hospital Northeast (Northeast)	Baptist Health LaGrange (BH LAG)	Baptist Healthcare Affiliates, Inc.
Acquisitions (Non-obligated Affiliates)		
Pattie A. Clay	Baptist Health Richmond (BH RIC)	Baptist Health Richmond, Inc.
Trover Health System	Baptist Health Madisonville (BH MAD)	Baptist Health Madisonville, Inc.
Other Non-obligated Affiliates		
Baptist Community Health Services (BCHS)	Baptist Health Community Services (CH LOU)	Baptist Community Health Services, Inc.
Baptist Physicians Surgery Center (BPSC)	Baptist Physicians Surgery Center (BPSC)	Baptist Community Health Services, Inc.
Baptist Eastpoint Surgery Center (BESC)	Baptist Eastpoint Surgery Center (BESC)	Baptist Community Health Services, Inc.
St. Matthews Surgery Center (SMSC)	St. Matthews Surgery Center (SMSC)	Baptist Community Health Services, Inc.
Oak Tree Hospital at Regional	Baptist Health Continuing Care Hospital Corbin (OT COR)	Baptist Community Health Services, Inc.
Baptist Medical Associates, Inc. (BMA)	Baptist Health Medical Associates Louisville (MD LOU)	Baptist Medical Associates, Inc.
Baptist Physicians Lexington, Inc. (BPL)	Baptist Health Medical Associates Lexington (MD LEX)	Baptist Physicians Lexington, Inc.
Baptist Physicians Southeast, Inc. (BPS)	Baptist Health Medical Associates Corbin (MD COR)	Baptist Physicians Southeast, Inc.
Western Baptist Medical Ventures, Inc. (WBMV)	Baptist Health Medical Associates Paducah (MD PAD)	Western Baptist Medical Ventures, Inc.
Baptist Ventures, Inc. (BVI)	Baptist Health Ventures (BHV)	Baptist Ventures, Inc.
PET/CT Management, LLC (PET MGT)	Baptist Health Bodyscan Louisville (BS LOU)	PET/CT Management, LLC
Baptist Health Network, Inc. (BHNET)	Baptist Health Employer Solutions (ES LOU)	Baptist Health Employer Solutions, Inc.
Purchase Health Quality Collaborative, LLC (PHQC)	Purchase Health Quality Collaborative (PHQ PAD)	Purchase Health Quality Collaborative, LLC
Baptist Hospital Foundation of Greater Louisville	Baptist Health Foundation Greater Louisville, Inc. (FND LOU)	Baptist Health Foundation Greater Louisville, Inc.
Baptist Healthcare Foundation, Inc.	Baptist Health Foundation, Kentucky (FND KY)	Baptist Health Foundation, Inc.
Baptist Regional Medical Center re Foundation, Inc.	Baptist Health Foundation, Corbin (FND COR)	Baptist Health Foundation, Inc.
Central Baptist Hospital Foundation	Baptist Health Foundation Lexington, Inc. (FND LEX)	Baptist Health Foundation Lexington, Inc.
Western Baptist Hospital Foundation	Baptist Health Foundation Paducah, Inc. (FND PAD)	Baptist Health Foundation Paducah, Inc.
Lexington Cardiac Research Foundation	Baptist Health Foundation Cardiac Research, Inc. (FND CRF)	Lexington Cardiac Research Foundation, Inc.