Baptist Memorial Health Care Corporation and Affiliates

Combined Financial Statements as of and for the Years Ended September 30, 2013 and 2012, and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Baptist Memorial Health Care Corporation
Memphis, Tennessee

We have audited the accompanying combined financial statements of Baptist Memorial Health Care Corporation (a Tennessee nonprofit corporation) and affiliates (collectively, BMHCC), which comprise the combined balance sheets as of September 30, 2013 and 2012, and the related combined statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Baptist Memorial Health Care Corporation and affiliates as of September 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

December 19, 2013

BAPTIST MEMORIAL HEALTH CARE CORPORATION AND AFFILIATES

COMBINED BALANCE SHEETS AS OF SEPTEMBER 30, 2013 AND 2012 (Amounts in thousands)

	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 102,825	$ 135,763
Short-term investments	-	275
Patient accounts receivable — net of estimated uncollectible amounts of $68,668 and $68,524 in 2013 and 2012, respectively	242,567	262,348
Other receivables — net	18,540	13,720
Inventory, prepaid expenses, and other assets	91,555	85,349
Estimated settlements with third parties	9,051	11,228
Total current assets	464,538	508,683
INVESTMENTS	847,195	905,488
ASSETS WHOSE USE IS LIMITED	21,545	18,954
PROPERTY AND EQUIPMENT — Net	1,189,387	1,067,340
GOODWILL	74,675	57,289
OTHER LONG-TERM ASSETS	27,751	26,230
TOTAL	$ 2,625,091	$ 2,583,984
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital lease obligations	$ 125,818	$ 80,707
Accounts payable	35,690	32,570
Accrued expenses and other	157,411	142,515
Estimated settlements with third parties	13,564	23,280
Total current liabilities	332,483	279,072
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	313,989	330,757
OTHER LONG-TERM LIABILITIES	155,289	178,799
COMMITMENTS AND CONTINGENCIES (Note 18)		
NET ASSETS:		
Unrestricted net assets	1,766,149	1,746,192
Temporarily and permanently restricted net assets	57,181	49,164
Total net assets	1,823,330	1,795,356
TOTAL	$ 2,625,091	$ 2,583,984

See notes to combined financial statements.

BAPTIST MEMORIAL HEALTH CARE CORPORATION AND AFFILIATES

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012 (Amounts in thousands)

	2013	2012
UNRESTRICTED REVENUES AND OTHER SUPPORT:		
Patient service revenue — net of contractuals	$2,053,898	$2,003,059
Provision for bad debt	(250,715)	(249,356)
Net patient service revenue	1,803,183	1,753,703
Other revenue	81,242	70,513
Total unrestricted revenues and other support	1,884,425	1,824,216
EXPENSES:		
Salaries and benefits	1,008,871	936,719
Supplies and drugs	423,074	421,747
Purchased services and other	292,723	290,838
Professional fees	103,602	91,214
Depreciation and amortization	115,227	117,274
Interest	10,049	11,680
Loss on Asset impairment	1,765	-
Total expenses	1,955,311	1,869,472
LOSS FROM OPERATIONS	(70,886)	(45,256)
NONOPERATING INCOME (LOSS):		
Interest and dividend income from marketable portfolio	28,459	30,379
Net realized gains on investments from marketable portfolio	69,491	60,324
Noncontrolling interest and other — net	(6,590)	(592)
Total nonoperating income	91,360	90,111
REVENUES IN EXCESS OF EXPENSES	20,474	44,855

(Continued)

BAPTIST MEMORIAL HEALTH CARE CORPORATION AND AFFILIATES

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012
(Amounts in thousands)

	2013	2012
UNRESTRICTED NET ASSETS:		
Revenues in excess of expenses	$ 20,474	$ 44,855
Net unrealized (losses) gains on investments	(2,266)	44,673
Net contributions (distributions) made to/from joint venture partners and other	1,749	(803)
Change in unrestricted net assets	19,957	88,725
TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS:		
Gifts and donations	13,182	10,710
Investment income	86	56
Net unrealized (losses) gains on investments	(1,366)	4,390
Net distributions made to affiliates and others	(3,885)	(3,919)
Increase in temporarily and permanently restricted net assets	8,017	11,237
CHANGE IN NET ASSETS	27,974	99,962
NET ASSETS — Beginning of year	1,795,356	1,695,394
NET ASSETS — End of year	$ 1,823,330	$ 1,795,356

See notes to combined financial statements. (Concluded)

BAPTIST MEMORIAL HEALTH CARE CORPORATION AND AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012
(Amounts in thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES AND NONOPERATING INCOME:		
Change in net assets	$ 27,974	$ 99,962
Adjustments to reconcile change in net assets to net cash provided by operating activities and nonoperating income:		
Depreciation and amortization	114,683	117,274
Net realized gain on sales of investments and fixed assets	(68,897)	(53,113)
Net unrealized loss (gain) on investments	3,632	(49,063)
Loss on asset impairment	1,765	-
Changes in operating assets and liabilities:		
Net patient accounts receivable	19,781	(57,429)
Inventory, prepaid expenses, and other assets	(7,324)	(14,223)
Accounts payable, accrued expenses, and other liabilities	7,110	13,984
Other long-term liabilities	(20,053)	13,961
Net cash provided by operating activities and nonoperating income	78,671	71,353
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions	(27,773)	(4,952)
Capital expenditures	(227,377)	(190,230)
Proceeds from sales of fixed assets	969	6,947
Purchases of long-term investments	(273,509)	(246,138)
Sales of long-term investments	392,406	354,589
Decrease in short-term investments	275	1,326
Increase in assets whose use is limited	(2,591)	(2,891)
Other	(1,823)	(8,428)
Net cash used in investing activities	(139,423)	(89,777)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of debt	53,013	154,718
Principal payments on debt and capital lease obligations	(25,199)	(94,944)
Net cash provided by financing activities	27,814	59,774
NET CHANGE IN CASH AND CASH EQUIVALENTS	(32,938)	41,350
CASH AND CASH EQUIVALENTS — Beginning of year	135,763	94,413
CASH AND CASH EQUIVALENTS — End of year	$ 102,825	$ 135,763
CASH PAID FOR INTEREST DURING THE YEAR	$ 11,863	$ 11,785

See notes to combined financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Affiliation and Combination — Baptist Memorial Health Care Corporation (the "Corporation") is a nonprofit corporation. The accompanying combined financial statements include the financial statements of the Corporation and its affiliates under common ownership and common management (collectively, BMHCC). The Corporation is the member (parent) organization of most of the not-for-profit affiliates that comprise BMHCC. Such affiliates include hospitals offering both inpatient and outpatient services, as well as surgery centers, physician practices, and other ancillary businesses. Significant intercompany accounts and transactions have been eliminated. Investments in 50% or less-owned companies and partnerships are generally accounted for using the equity method.

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

Cash and Cash Equivalents — For purposes of the combined statements of cash flows, BMHCC considers certificates of deposit, overnight reverse repurchase agreements, and other highly liquid investments with original maturities of less than three months to be cash equivalents.

Investments — Investments classified as current assets are available to BMHCC entities for current working capital needs. Investments classified as noncurrent are managed under BMHCC's long-term investment policy and are reported at fair value. Investment income or loss (including realized gains and losses on investments, other-than-temporary impairments, interest, and dividends) is included in the excess of revenues over expenses, unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses, but are reflected in changes in net assets for each period.

Allowance for Doubtful Accounts — Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, BMHCC analyzes accounts receivable by payor category in determining the appropriate allowance for doubtful accounts. Additionally, BMHCC also considers past history, collection trends, the age of accounts receivable, and recoveries of amounts previously written off in determining and evaluating the amount of the allowance for doubtful accounts. Historically, BMHCC has not had significant bad debts on accounts receivable from third-party payors. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductibles and co-payment balances due for which third-party coverage exists for part of the bill), BMHCC records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if offered) and the amounts actually collected after all reasonable collection efforts have been exhausted is written off against the allowance for doubtful accounts.

BMHCC's allowance for doubtful accounts increased from 20.71% of accounts receivable (net of contractuals) as of September 30, 2012, to 22.06% as of September 30, 2013. This increase in the percentage was largely the result of decreases in collection rates experienced in 2013.

Financial Instruments and Hedging — BMHCC is using an interest rate swap agreement to convert a portion of its variable-rate debt to a fixed rate. This derivative was originally designated as a cash flow hedge; however, it no longer qualifies for hedge accounting. Therefore, all changes in market value are immediately included in interest in the combined statements of operations and changes in net assets.

Inventory — Inventory is stated at the lower of cost (weighted-average method) or market (replacement cost).

Property and Equipment — Property and equipment is recorded at cost when purchased or at fair market value when received by donation. Property and equipment is depreciated on a straight-line basis over its estimated useful life. Property and equipment held under capital leases is amortized evenly over the lesser of the lease term or its estimated useful life.

Property and equipment also consists of capitalized software costs, which are amortized on a straight-line basis over the estimated useful life of the software, which ranges from three to five years. As of September 30, 2013, capitalized software costs included in property and equipment is approximately $53,693,000, and accumulated amortization on those costs is approximately $2,340,000.

BMHCC capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest is added to the cost of underlying assets and is amortized over the useful lives of the assets. Interest capitalized in 2013 and 2012 was approximately $851,000 and $314,000, respectively.

Goodwill — Goodwill is included in other long-term assets in the accompanying combined balance sheets and represents the excess of costs over the fair value of assets of businesses acquired. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*, BMHCC performs an annual impairment assessment of goodwill. BMHCC performs the impairment test at the reporting unit level at least annually or when events occur that require an evaluation to be performed at an interim date. If BMHCC determines the carrying value of goodwill is impaired, or if the carrying value of a business that is to be sold or otherwise disposed of exceeds its fair value, then management reduces the carrying value, including any allocated goodwill, to fair value. Estimates of fair value are based on appraisals, established market prices for comparative assets, or internal estimates of future net cash flows. BMHCC has selected June 30 as the date on which it will perform its annual impairment assessment. There has been no impairment of goodwill during the years ended September 30, 2013 and 2012. There can be no assurance that future goodwill impairment tests will not result in a charge to operations.

Impairment of Long-Lived Assets — BMHCC evaluates the carrying value of its long-lived assets under the provisions of FASB ASC Topic 360, *Property, Plant, and Equipment*. Under FASB ASC Topic 360, when events, circumstances, and operating results indicate that the carrying value of property and equipment assets may be impaired, BMHCC prepares projections of the undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the projections identify impairment, BMHCC compares the assets' current carrying value to the assets' fair value. Fair value is based on current market values or discounted future cash flows. An impairment of approximately $1,765,000 has been recorded on certain long-lived assets at an affiliated hospital in 2013. No impairment charge was recorded in 2012.

Temporarily and Permanently Restricted Net Assets — Temporarily restricted net assets are those whose use by BMHCC has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by BMHCC in perpetuity.

Net Patient Service Revenue — Net patient service revenue is reported at the estimated net amounts realizable from patients, third-party payors, and others for services rendered, including estimated settlements under reimbursement agreements with third-party payors. Settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, if necessary, as new information becomes available or final settlements are determined. Amounts relative to the reopening or appeal of prior-year cost report filings are recognized as revenue when cash is received.

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

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized is as follows (in thousands):

	2013	2012
Medicare	$ 764,457	$ 702,431
Medicaid	177,139	184,795
Commercial and Blue Cross	565,265	590,921
Managed care	187,805	151,879
Other	359,232	373,033
Total	$ 2,053,898	$ 2,003,059

Charity Care — BMHCC provides care to medically indigent patients (those patients with a demonstrated inability to pay) at either no charge or at substantially reduced rates. No effort is made to pursue collection of any amounts charged after the determination of medical indigency of the patient has been made. Since management does not expect payment for charity care, the charges forgone are excluded from net patient service revenue. The amount of charity care provided, based upon charges forgone, was approximately $210,427,000 and $176,432,000 in 2013 and 2012, respectively. BMHCC estimates the cost of charity care by calculating a ratio of cost to gross charges and applying that ratio to the gross uncompensated charges associated with providing care to patients that qualify for charity care. The estimated cost of charity care provided in 2013 and 2012 was approximately $60,120,000 and $54,706,000, respectively (see Note 3).

Electronic Health Record Initiatives — Under certain provisions of the American Recovery and Reinvestment Act of 2009 (ARRA), federal incentive payments are available to hospitals, physicians, and certain other professionals ("Providers") when they adopt, implement, or upgrade (AIU) certified electronic health record (EHR) technology or become "meaningful users," as defined by ARRA, of EHR technology in ways that demonstrate improved quality, safety, and effectiveness of care. Providers can become eligible for annual Medicare incentive payments by demonstrating meaningful use of EHR technology in each period over four periods. Medicaid providers can receive their initial incentive payment by satisfying AIU criteria, but must demonstrate meaningful use of EHR technology in subsequent years in order to qualify for additional payments. Hospitals may be eligible for both Medicare and Medicaid EHR incentive payments; however, Providers may be eligible for either Medicare or Medicaid incentive payments, but not both. Hospitals that are meaningful users under the Medicare EHR incentive payment program are deemed meaningful users under the Medicaid EHR incentive payment program and do not need to meet additional criteria imposed by a state. Medicaid EHR incentive payments to Providers are 100% federally funded and administered by the states. The Centers for Medicare and Medicaid Services (CMS) established calendar year 2011 as the first year states could offer EHR incentive payments. Before a state may offer EHR incentive payments, the state must submit and CMS must approve the state's incentive plan.

BMHCC recognizes Medicaid EHR incentive payments in the accompanying combined statements of operations and changes in net assets for the first payment year when: (1) CMS approves a state's EHR incentive plan, and (2) a hospital or employed physician acquires certified EHR technology. Medicaid EHR incentive payments for subsequent payment years are recognized in the period during which management becomes reasonably assured of meeting the meaningful use criteria. BMHCC recognizes Medicare EHR incentive payments when compliance with specified meaningful use criteria is reasonably assured. As a result, BMHCC recognized approximately $8,189,000 of Medicare and Medicaid EHR incentive payments as other revenue in the accompanying combined statement of operations and changes in net assets for the year ended September 30, 2013. No EHR incentive payments were recognized in 2012.

Income Taxes — The majority of BMHCC is a nonprofit corporation and has been recognized as tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. Certain affiliates are subject to income taxes. Such activities and income taxes are not significant to the combined financial statements.

As of September 30, 2013 and 2012, BMHCC had not identified any uncertain tax positions under FASB ASC Topic 740, *Income Taxes*, requiring adjustments to its combined financial statements. In the event BMHCC were to recognize interest and penalties related to uncertain tax positions, it would be recognized in the combined financial statements as interest expense. Generally, tax years 2010 through 2013 are open to examination by the federal and state taxing authorities. There are no income tax examinations currently in process.

Fair Value Measurements — BMHCC follows the authoritative guidance contained in FASB ASC Topic 820, *Fair Value Measurements and Disclosures*. Fair value is generally defined as the exit price at which an asset or liability could be exchanged in a current transaction between willing unrelated parties, other than in a forced liquidation or sale. The guidance establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data, and requires disclosures for assets and liabilities measured at fair value based on their level in the hierarchy.

The fair value framework requires the categorization of assets and liabilities into three levels based upon the assumptions used to value the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 — Observable inputs other than those included in Level 1. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.

Level 3 — Unobservable inputs reflecting management's own assumption about the inputs used in pricing the asset or liability at the measurement date.

Assets measured at fair value based on the three-level hierarchy include investments, long-lived assets acquired in a business combination, and goodwill.

Recent Accounting Pronouncements — In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which amends ASC Topic 820. ASU No. 2011-04 also requires the categorization by level for items that are only required to be disclosed at fair value and information about transfers between Level 1 and Level 2. In addition, ASU No. 2011-04 provides guidance on measuring the fair value of financial instruments managed within a portfolio and the application of premiums and discounts on fair value measurement. ASU No. 2011-04 requires additional disclosure for Level 3 measurements regarding the sensitivity of fair value changes in unobservable inputs and any interrelationships between those inputs. The new guidance is effective for reportable periods beginning after December 15, 2011. The adoption of this ASU in 2013 had no impact on BMHCC's combined financial statements, but resulted in additional disclosures at Note 7.

Subsequent Events — Management has evaluated events and transactions that have occurred between September 30, 2013, and December 19, 2013, which is the date that the combined financial statements were available to be issued for possible recognition or disclosure in the combined financial statements.

2. ACQUISITIONS

During 2013, Baptist Memorial Medical Group, Inc. (BMMG), a nontaxable affiliate of BMHCC, purchased the assets of 13 physician practices for approximately $30,638,000. Nine of these transactions include promissory notes to the sellers for a total of approximately $2,865,000.

The consideration paid for the assets acquired during the year ended September 30, 2013, is as follows (in thousands):

Cash consideration for real and personal property	$ 27,773
Issuance of promissory notes	2,865
Total purchase price	$ 30,638

Allocation of purchase price (including assumed liabilities) (in thousands):

Current assets	$ 1,524
Property and equipment	12,933
Goodwill	17,386
Current liabilities	(1,205)
Total purchase price	$ 30,638

During 2012, BMMG purchased the assets of two physician practices for approximately $9,405,000. These transactions include promissory notes to the sellers for a total of approximately $4,453,000.

The consideration paid for the assets acquired during the year ended September 30, 2012, is as follows (in thousands):

Cash consideration for real and personal property	$ 4,952
Issuance of promissory notes	4,453
Total purchase price	$ 9,405

Allocation of purchase price (including assumed liabilities) (in thousands):

Current assets	$ 192
Property and equipment	4,390
Goodwill	5,629
Current liabilities	(806)
Total purchase price	$ 9,405

3. COMMUNITY BENEFIT

The summary of the costs (estimated using applicable cost to charge ratio) of certain of BMHCC's community services provided to the indigent and to the broader community for the years ended September 30, 2013 and 2012, is as follows (in thousands):

	2013	2012
Benefits for the indigent:		
Traditional charity care — at cost	$ 60,120	$ 54,706
Unpaid costs of Medicaid/TennCare programs	69,120	39,505
Total benefits for the indigent	129,240	94,211
Benefits for the broader community:		
Uncompensated care — uninsured and underinsured — at cost	72,816	78,400
Unpaid costs of Medicare programs	146,401	139,652
Total benefits for the broader community	219,217	218,052
Total	$ 348,457	$ 312,263

This summary of community services costs above does not include impact of assessment programs. See Note 4 for additional disclosures.

Benefits for the indigent include services provided to persons who cannot afford health care because of inadequate resources and/or who are uninsured. This includes the cost of providing traditional charity care and the unpaid costs of treating Medicaid/TennCare beneficiaries. Services provided to traditional charity care patients are not reported as patient revenue in the accompanying combined statements of operations and changes in net assets.

Benefits for the broader community include the cost of services provided for which a fee has been assessed, but not collected, or only a portion of the cost of the rendered service has been recovered and unpaid costs in excess of government payments for treating Medicare beneficiaries.

BMHCC provides many educational programs and activities, including professional and technical schools, a graduate medical education program, and numerous continuing education programs for doctors, nurses, and other staff. BMHCC also broadly participates in medical research activities.

BMHCC engages in numerous health promotion and other community service activities. It sponsors health fairs and screenings, including inner city health screenings for cancer detection and prevention, diabetes, and high blood pressure, etc. It also works through other community organizations, such as United Way, Goals for Memphis, and charitable foundations for medical research, such as the American Cancer Society, American Heart Association, and Kidney Foundation, among others.

The value of BMHCC's overall charitable, educational, health promotion, and community services is not readily determinable.

4. NET PATIENT SERVICE REVENUE

BMHCC has agreements with third parties that provide for payments to BMHCC at amounts different from its established rates. Net patient service revenue included in the accompanying combined statements of operations and changes in net assets is stated net of contractual adjustments of approximately $4,099,192,000 and $3,411,199,000 in 2013 and 2012, respectively. A summary of the payment arrangements with major third-party payors is as follows:

Medicare — Payment for inpatient services and most outpatient services is generally based on prospectively determined rates.

Arkansas Medicaid — Payment for inpatient services is generally based on prospectively determined daily rates. For most outpatient and selected inpatient services, payment is generally based on a percentage of cost.

Mississippi Medicaid — In 2012, payment for inpatient services is generally based on prospectively determined daily rates. For most outpatient and selected inpatient services, payment is generally based on a percentage of cost. In 2013, payment for inpatient and outpatient services is generally based on prospectively determined rates.

TennCare — TennCare covers the medical needs of Tennessee's indigent and uninsured population. Eligible enrollees are generally persons who previously qualified for Medicaid and certain uninsured persons. TennCare is administered by state-approved managed care organizations (MCOs). The MCOs are third-party administrators, which enroll eligible participants and contract with providers (both physicians and hospitals) for medical services.

Blue Cross — Inpatient services are reimbursed at prospectively determined daily rates.

BMHCC has also entered into payment agreements with numerous commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to BMHCC under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

The final settlements of amounts to be paid to or from BMHCC by the Medicare and Medicaid programs are subject to audit and adjustment by the respective programs. Estimated settlements to or from Medicare and Medicaid represent the difference between interim payments and tentative settlements received and estimated reimbursable costs.

During 2013 and 2012, BMHCC adjusted its estimates of settlement of prior years' cost reports and other revenue recognition estimates. The revised estimates reflect filings during 2013 and 2012 of the cost reports for 2012 and 2011, final settlement of previously filed cost reports, reopening or appeal of past cost report filings, as well as other changes in revenue recognized for prior years' services. The net effect of these adjustments was to increase net patient service revenue by approximately $7,511,000 and $23,587,000 for the years ended September 30, 2013 and 2012, respectively. The adjustments recorded in 2012 included a net amount received of approximately $12,795,000 resulting from the industry-wide settlement with the Department of Human Services and the Center for Medicare and Medicaid Services of the Rural Floor Budget Neutrality group appeal during the year.

Currently, each of the states in which BMHCC operates participate in supplemental reimbursement programs for the purpose of providing reimbursement to providers to offset a portion of the cost of providing care to Medicaid patients. These programs are designed with input from Centers for Medicare and Medicaid Services and are funded with a combination of state and federal resources, including, in certain instances, fees or taxes levied on the providers. After these supplemental programs are signed into law, BMHCC recognizes revenue and related expenses in the period in which amounts are estimable and collection is reasonably assured. Reimbursement received via these programs, as reflected in net patient service revenues, was approximately $89,389,000 and $80,723,000 for the years ended September 30, 2013 and 2012, respectively. Fees and tax assessments relative to such programs were approximately $55,974,000 and $50,549,000 for the years ended September 30, 2013 and 2012, respectively, and is recorded as operating expenses in the accompanying combined statements of operations. As these programs are legislatively approved for a defined period of time (one or multiple years), future receipts of reimbursement under such supplemental reimbursement programs are not guaranteed.

5. BUSINESS AND CREDIT CONCENTRATIONS

BMHCC provides health care services through both inpatient and outpatient care facilities in Tennessee, Mississippi, and Arkansas. The hospitals grant credit to patients, substantially all of whom are local area residents. The hospitals generally do not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits from Medicare, Medicaid, Blue Cross, health maintenance organizations, and commercial insurance policies or similar insurance programs or policies.

The mix of accounts receivable, net of contractual allowances from patients and third-party payors, as of September 30, 2013 and 2012, is as follows:

	2013	2012
Medicare	35 %	36 %
Commercial and Blue Cross	20	25
Managed care	10	8
Medicaid	9	9
Patients (self-pay)	23	19
Other third-party payors	3	3
Total	100 %	100 %

6. INVESTMENTS

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value on the combined balance sheets.

The composition of investments as of September 30, 2013 and 2012, is as follows (in thousands):

	2013	2012
Investments with readily determinable market values:		
Cash and short-term investments	$ 22,816	$ 3,487
U.S. government debt obligations	53,145	108,581
Corporate obligations	194,293	199,429
Municipal obligations	38,085	65,576
Common stocks	530,469	519,011
Mutual funds	31,203	13,166
	870,011	909,250
Less cash	(22,816)	(3,487)
Less short-term investments	-	(275)
Total	$ 847,195	$ 905,488

The composition of net investment income for the marketable investment portfolio for the years ended September 30, 2013 and 2012, is as follows (in thousands):

	2013	2012
Interest and dividend income	$ 28,459	$ 30,379
Net realized gains on investments	69,491	60,324
Total	$ 97,950	$ 90,703

The gross unrealized losses and fair value of BMHCC's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2013, are shown as follows (in millions):

	As of September 30, 2013					
	Less than 12 Months		12 Months or Greater		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government debt obligations	$ -	$ -	$ 2.0	$ -	$ 2.0	$ -
Corporate obligations	32.0	(0.7)	34.3	(1.8)	66.3	(2.5)
Municipal obligations	4.9	(0.2)	1.5	-	6.4	(0.2)
Common stocks	62.6	(6.3)	-	-	62.6	(6.3)
Mutual funds	-	-	-	-	-	-
Total	$ 99.5	$ (7.2)	$ 37.8	$ (1.8)	$ 137.3	$ (9.0)

Marketable Equity Securities — For the year ended September 30, 2013, BMHCC recorded declines in the market value of the common stock portion of the portfolio (marketable equity securities) below its cost as other-than-temporary impairment. These amounts are included in unrealized gains and losses in the combined statements of operations and changes in net assets. BMHCC believes the stocks owned represent financially sound companies and over time will experience growth in earnings and dividends resulting in long-term price appreciation. BMHCC intends to hold the remaining common stocks for a period of time sufficient to experience the recovery of fair value.

For the year ended September 30, 2012, BMHCC recorded declines in the market value of the common stock portion of the portfolio below its costs as an other-than-temporary impairment, and such declines were recorded in realized gains and losses in the combined statements of operations and changes in net assets. BMHCC did not have the intent to hold these common stocks for a period of time sufficient to experience the recovery of fair value.

Investment and Equity Securities Carried at Cost — BMHCC's investment portfolio does not include any private securities that would be carried at cost. All investments have public market values and are actively traded.

7. FAIR VALUE MEASUREMENTS

BMHCC's assets and liabilities by asset class and fair value hierarchy level as of September 30, 2013, are presented in the following table (in thousands):

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Assets — investments:				
Cash	$ 22,816	$ -	$ -	$ 22,816
U.S. government obligations	-	53,145	-	53,145
Corporate obligations	-	194,293	-	194,293
Municipal obligations	-	38,085	-	38,085
Common stocks	530,469	-	-	530,469
Mutual funds	31,203	-	-	31,203
Total assets — investments	$ 584,488	$ 285,523	$ -	$ 870,011
Liabilities — interest rate swap	$ -	$ (2,624)	$ -	$ (2,624)

BMHCC's assets and liabilities by asset class and fair value hierarchy level as of September 30, 2012, are presented in the following table (in thousands):

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Assets — investments:				
Cash	$ 3,487	$ -	$ -	$ 3,487
U.S. government obligations	-	108,581	-	108,581
Corporate obligations	-	199,429	-	199,429
Municipal obligations	-	65,576	-	65,576
Common stocks	519,011	-	-	519,011
Mutual funds	13,166	-	-	13,166
Total assets — investments	$ 535,664	$ 373,586	$ -	$ 909,250
Liabilities — interest rate swap	$ -	$ (3,695)	$ -	$ (3,695)

There were no significant transfers between Level 1, Level 2, or Level 3 assets during the years ended September 30, 2013 and 2012.

Common and preferred stock and common stock mutual funds are valued using quoted prices in principal active markets for identical assets as if the valuation date were used (Level 1).

Certain government and corporate debt securities are valued using either the yields currently available on comparable securities of issuers with similar credit ratings or using a discounted cash flows approach that utilizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks (Level 2). The impact of such unobservable inputs is not significant to the overall fair value measurement.

The fair value of the interest rate swap agreement is primarily determined using valuation techniques consistent with the market approach. Significant observable inputs to the valuation model include interest rates, U.S. Treasury yields, and credit spreads (Level 2).

The fair values of the debt instruments have been estimated using interest rates currently available to BMHCC for borrowings having similar characteristics, collateral, and duration. The aggregate fair value approximated $443,278,000 and $413,940,000 as of September 30, 2013 and 2012, respectively. The carrying amounts of cash and cash equivalents, accounts receivable, inventory, prepaids, other assets, accounts payable, and accrued expenses approximate fair value based on their short-term nature.

8. ASSETS WHOSE USE IS LIMITED

The composition of long-term assets whose use is limited as of September 30, 2013 and 2012, is as follows (in thousands):

	2013	2012
Baptist Memorial Health Care Foundation Scholarships	$ 21,545	$ 18,954

Assets whose use is limited are invested as of September 30, 2013 and 2012, in the following (in thousands):

	2013	2012
U.S. government obligations	$ 955	$ 1,210
Corporate obligations	3,606	3,139
Municipal obligations	739	806
Common stocks	15,805	13,799
Mutual funds	440	-
Total	$ 21,545	$ 18,954

Corporate stocks and mutual funds are valued using quoted prices in principal active markets for identical assets as if the valuation date were used (Level 1).

Certain government and corporate debt securities are valued using either the yields currently available on comparable securities of issuers with similar credit ratings or using a discounted cash flows approach that utilizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks (Level 2).

9. PROPERTY AND EQUIPMENT

The composition of property and equipment as of September 30, 2013 and 2012, is as follows (in thousands):

	Useful Lives in Years	2013	2012
Owned:			
Land and land improvements	3–25	$ 146,503	$ 142,251
Buildings and improvements	5–47	1,067,678	1,052,261
Equipment	2–25	877,310	845,554
Construction in progress		307,226	148,338
Total owned		2,398,717	2,188,404
Held under capital leases	5–35	6,396	6,350
Total property and equipment		2,405,113	2,194,754
Less accumulated depreciation and amortization		(1,215,726)	(1,127,414)
Property and equipment — net		$ 1,189,387	$ 1,067,340

10. GOODWILL

Information on changes in the carrying value of goodwill, which is included in the accompanying combined balance sheets as of September 30, 2013 and 2012, is as follows (in thousands):

Balance — September 30, 2011	$ 52,483
Goodwill acquired during the year	5,629
Other	(823)
Balance — September 30, 2012	57,289
Goodwill acquired during the year	17,386
Balance — September 30, 2013	$ 74,675

11. OTHER LONG-TERM ASSETS

The composition of other assets as of September 30, 2013 and 2012, is as follows (in thousands):

	2013	2012
Cash surrender value of life insurance	$ 5,105	$ 4,973
Notes receivable	132	230
Deferred charges and other assets	6,668	5,267
Land held for investment	10,396	10,355
Investments in affiliates	5,450	5,405
Total	$ 27,751	$ 26,230

12. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

A summary of long-term debt and capital lease obligations as of September 30, 2013 and 2012, is as follows (in thousands):

	2013	2012
Series 2012A Note payable, variable interest, LIBOR, plus 0.5%	$ 96,642	$ 100,000
Series 2009 Taxable Commercial Paper, variable interest from 0.12% to 0.40%	100,000	50,000
Series 2004A Revenue bonds — due in installments through 2020, fixed interest rate from 2% to 5%	114,626	131,299
Series 2004B1 and 2004B2 Revenue bonds — due in installments through 2024, fixed interest from 4.5% to 5% (B1) and variable less than 1% (B2)	114,245	115,981
Notes payable to banks — due in installments through 2017, variable interest from less than 0.5% to 5%	10,191	10,142
Capital lease obligations	4,103	4,042
Total long-term debt and capital obligations	439,807	411,464
Less current portion	(125,818)	(80,707)
Long-term debt and capital lease obligations	$ 313,989	$ 330,757

On July 20, 2012, BMHCC entered into a loan agreement with Bank of America (Series 2012A Note) in the amount of $100,000,000. The funds are to be used for financing the costs of capital projects for BMHCC and certain hospitals and affiliated corporations (the "Obligated Group"). The interest rate is equal to the London InterBank Offered Rate (LIBOR) daily floating rate, plus 0.5% (0.68% at September 30, 2013). In December 2013, BMHCC signed an agreement to extend the terms of the Series 2012A Note. The agreement allows BMHCC to extend the due date of the Series 2012A Note two years from the issuance dates of the Note, which is expected to be February 2014. The interest rate will be equal to LIBOR daily floating rate, plus 0.6%.

On October 27, 2009, BMHCC adopted a resolution to issue commercial paper notes ("Commercial Paper") in the amount of $150,000,000 through a taxable commercial paper program. The Commercial Paper is available to be drawn for any corporate purpose. Each note issued from the Commercial Paper will mature on a business day not later than 270 days after the date of issuance of such note. Interest on a note is payable at maturity and the notes are not subject to redemption prior to their maturity date. The notes are general obligations of BMHCC and treated as short-term debt for accounting purposes. There is approximately $50,000,000 of available borrowing capacity under the Commercial Paper program as of September 30, 2013.

The Obligated Group entered into a system trust indenture in September 2004, which replaced and superseded the previous existing master loan agreement dated May 1, 2000 (the "System Trust Indenture"). All members of the Obligated Group are jointly and severally liable for obligations due under the System Trust Indenture. Obligations under the System Trust Indenture are secured by pledge of the gross revenue of each member of the Obligated Group. The System Trust Indenture includes certain covenants and restrictions with which the Obligated Group must comply.

The Health, Education, and Housing Facility Board of the County of Shelby, Tennessee Revenue Bonds Series 2004A ("Series 2004A Bonds") were issued during September 2004, in the principal amount of $229,360,000 to refund the Tennessee Variable Rate Revenue Bonds Series 2000, issued on May 11, 2000 ("Series 2000 Bonds"). At the time of refunding, the outstanding principal of the Series 2000 Bonds was $245,600,000. On October 21, 2009, BMHCC entered into a bond purchase agreement with Merrill Lynch. This bond purchase agreement relates to the remarketing in the fixed-rate mode of $186,355,000 aggregate principal amounts, including $167,970,000, which represented the remaining outstanding balance of the Series 2004A Revenue bonds. The bonds were originally issued as multimodal variable rate bonds and on November 5, 2009, the bonds were remarketed in the fixed-rate mode. Interest on the bonds is payable on March 1 and September 1 of each year, commencing March 1, 2010, and range in rates from 2.5% to 5%, with maturities from 2010 to 2024.

The Mississippi Hospital Equipment and Facilities Authority Revenue Bonds Series 2004B1 ("Series 2004B1 Bonds") and Revenue Bond Series 2004B2 ("Series 2004B2 Bonds") were issued during September 2004, in the principal amounts of $86,000,000 and $73,385,000, respectively, to refund the Mississippi Variable Rate Revenue Bonds Series 2001, issued on May 24, 2001 ("Series 2001 Bonds"), and to provide a significant portion of the funding of a construction, renovation, and improvement project at Baptist Memorial Hospital-DeSoto. At the time of refunding, the outstanding principal of the Series 2001 Bonds was $34,320,000. The Series 2004B1 Bonds were issued as fixed-rate bonds and interest will be payable on March 1 and September 1 of each year. The Series 2004B2 Bonds were originally issued as all multimodal variable rate bonds and interest will be payable on March 1 and September 1 of each year. The bond purchase agreement with Merrill Lynch that was entered into on October 21, 2009, also included remarketing $18,385,000 of the Series 2004B1 Bonds. The bonds were originally issued as multimodal variable rate bonds and on November 5, 2009, the bonds were remarketed in the fixed-rate mode. Interest on this portion of the bonds is payable on March 1 and September 1 of each year, commencing March 1, 2010, and range in rates from 0.61% to 5%, with maturities from 2010 to 2024.

A rate maintenance agreement (RMA) was entered into during September 2004 between BMHCC, Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), and Merrill Lynch Capital Services, Inc. (MLCS). The Series 2004A Bonds and Series 2004B2 Bonds are subject to the RMA. Under this agreement, MLCS guarantees BMHCC an effective variable-rate debt service yield based upon the Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA), plus 55 basis points. During 2006 and 2005, certain bonds reset their respective interest rates. Based on the current conditions at the time of reset, the RMA guarantees BMHCC an effective variable-rate debt service yield based upon the SIFMA, plus 45 basis points. The initial term of the RMA was five years, but upon the reset of the bonds the RMA term was extended through 2016. The RMA is accounted for as a derivative; however, the fair value has been determined to be $0 as of September 30, 2013 and 2012.

During 2001, BMHCC entered into an interest rate swap agreement relating to $38,000,000 of the bonds (due in installments through 2021) described above. The interest rate swap agreement was intended to convert the bonds from a variable interest rate based on 70% of one-month LIBOR to a fixed rate of 4.12%. The market deficit of the swap agreement was approximately $2,624,000 and $3,695,000 as of September 30, 2013 and 2012, respectively, and was included in other long-term liabilities in the accompanying combined balance sheets. Upon redemption of the bonds in 2004, the swap no longer qualified for hedge accounting; therefore, the change in market value has been included in earnings.

Certain affiliate hospitals are obligated to their respective counties under capital leases. The initial lease terms range from 30 to 35 years.

The scheduled maturities of long-term debt and capital lease obligations (including interest) subsequent to September 30, 2013, are as follows (in thousands):

Years Ending September 30	Long-Term Debt	Capital Lease Obligations
2014	$ 125,501	$ 317
2015	25,905	436
2016	111,108	172
2017	14,429	113
2018	21,115	-
Thereafter	137,646	6,869
	$ 435,704	7,907
Less amounts representing interest on capital lease obligations		(3,804)
Total		$ 4,103

13. ACCRUED EXPENSES

The composition of accrued expenses and other as of September 30, 2013 and 2012, is as follows (in thousands):

	2013	2012
Accrued compensation and benefits	$ 76,273	$ 70,099
Accrued health claims incurred but not reported	14,831	14,831
Accrued other	35,989	37,037
Other current liabilities	27,474	18,134
Current portion of postretirement health care benefits	2,844	2,414
Total	$ 157,411	$ 142,515

14. OTHER LONG-TERM LIABILITIES

The composition of other long-term liabilities as of September 30, 2013 and 2012, is as follows (in thousands):

	2013	2012
Reserve for self-insurance	$ 79,887	$ 92,190
Postretirement benefit obligations	38,696	46,445
Noncontrolling interests	9,019	9,402
Other	27,687	30,762
Total	$ 155,289	$ 178,799

Included in other for 2013 and 2012 is approximately $11,093,000 and $16,300,000, respectively, representing the long-term, unpaid portion of a software licensing agreement entered into during 2012. The current portion of the agreement is approximately $4,160,000 and $4,400,000 for the years ended 2013 and 2012, respectively, and is included in Accrued expenses and other on the combined balance sheet.

15. EMPLOYEE RETIREMENT PLANS

Defined Contribution Plan — Certain BMHCC entities sponsor a Section 403(b) defined contribution employee benefit plan administered through Guidestone Financial Resources of the Southern Baptist Convention. For those entities, employees who are at least 21 years of age and have completed 1,000 hours of service during a 12-month period are eligible to participate. Participants may make matched tax-deferred contributions of 2% to 5% of eligible earnings, as defined. These contributions are then matched on a graduated scale based on years of service from 50% of eligible contributions up to 200% of eligible contributions by BMHCC, up to 5% of the participants' annual base salaries. Participants may also make unmatched tax-deferred contributions up to applicable Internal Revenue Service limitations. Participants vest in BMHCC's matching contributions 20% after two years of service, with subsequent annual increases of 20% up to 100% after six years of service. During 2013 and 2012, BMHCC's matching contribution approximated $31,847,000 and $29,860,000, respectively.

Postretirement Health Care Benefits — BMHCC provides medical and dental benefits to certain retirees of BMHCC. Employees are generally eligible for postretirement benefits upon retirement and completion of a specified number of years of credited service. Participation in this plan is currently frozen to those employees having met these requirements in prior years. The plan is contributory, with retiree payments based on the year of retirement, age at retirement, and years of employment. BMHCC does not prefund these benefits and has the right to modify or terminate the plan in the future.

Net periodic postretirement benefit cost for the years ended September 30, 2013 and 2012, includes the following components (in thousands):

	2013	2012
Service cost	$ 716	$ 695
Interest cost on accumulated postretirement benefit obligation	1,111	1,247
Net amortizations	167	52
Total	$ 1,994	$ 1,994

The change in benefit obligation and reconciliation of funded status as of September 30, 2013 and 2012, is as follows (in thousands):

	2013	2012
Benefit obligation — beginning of year	$ 33,399	$ 32,821
Service cost	716	695
Interest cost	1,111	1,247
Plan participants' contributions	1,422	1,301
Amendments	(71)	-
Actuarial (gain) loss	(2,512)	653
Benefits paid	(3,449)	(3,318)
Benefit obligation — end of year	$ 30,616	$ 33,399
Funded status	$ 30,616	$ 33,399

Amounts recognized in the combined balance sheets as of September 30, 2013 and 2012, consist of the following (in thousands):

	Other Benefits	
	2013	2012
Current liabilities	$ 2,844	$ 2,414
Noncurrent liabilities	27,772	30,985

Amounts recognized as changes in unrestricted net assets arising from a postretirement benefit plan, but not yet included in net periodic benefit cost as of September 30, 2013 and 2012, consist of the following (in thousands):

	Other Benefits	
	2013	2012
Net gain	$ (8,374)	$ (6,178)
Prior service cost	1,508	2,062
Total	$ (6,866)	$ (4,116)

Other Changes in Plan Assets and Benefits — Obligations recognized in unrestricted net assets as of September 30, 2013 and 2012, are as follows (in thousands):

	2013	2012
Net (gain) loss	$ (2,512)	$ 653
Amortization of net loss	316	431
Prior service credit	(71)	-
Amortization of prior service cost	(483)	(483)
Total recognized in unrestricted net assets	$ (2,750)	$ 601
Total recognized in net periodic benefit cost and unrestricted net assets	$ (756)	$ 2,595

The estimated net gain and prior service cost for the postretirement benefit plan that will be amortized from accumulated unrestricted net assets into net periodic benefit cost over the next fiscal year are approximately $601,000 and $483,000, respectively.

Benefit payments, net of plan participants' contributions, are expected to be paid as of September 30, 2013, are as follows (in thousands):

Years Ending September 30	Amount
2014	$ 2,844
2015	2,825
2016	2,751
2017	2,605
2018	2,440
2019–2023	9,939

Weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30, 2013 and 2012, consist of the following:

	Other Benefits	
	2013	2012
Discount rate	3.45 %	3.95 %

Weighted-average assumptions used to determine benefit obligations as of September 30, 2013 and 2012, consist of the following:

	Other Benefits	
	2013	2012
Discount rate	4.35 %	3.45 %

Assumed health care cost trend rates as of September 30, 2013 and 2012, consist of the following:

	2013	2012
Post-65 health care cost trend rate assumed for next year	8.00 %	8.00 %
Rate to which the cost trend rate is assumed to (the ultimate trend rate)	5.00 %	5.00 %
Year that the rate reaches the ultimate trend rate	2019	2019

BMHCC expects to contribute approximately $2,844,000 to its postretirement benefit plan in 2014.

In 2006, eligible retirees of BMHCC had available to them the Medicare Part D prescription drug plan. BMHCC has chosen to continue to offer comparable prescription drug coverage, which the organization believes to be actuarially equivalent to the Medicare Part D coverage, and as a result, receives a direct subsidy of 28% of eligible plan expenses from the federal government.

Supplemental Retirement Benefits — BMHCC has an unfunded, noncontributory supplemental retirement benefit plan that covers certain employees.

Net periodic benefit cost for the years ended September 30, 2013 and 2012, includes the following components (in thousands):

	2013	2012
Service cost	$ 676	$ 599
Interest cost on accumulated benefit obligation	464	541
Amortization of unrecognized gain	174	174
Recognized loss	340	295
Net periodic benefit cost	$ 1,654	$ 1,609

The change in benefit obligation and reconciliation of funded status as of September 30, 2013 and 2012, is as follows (in thousands):

	2013	2012
Benefit obligation — beginning of year	$ 7,199	$ 6,307
Net periodic benefit cost	1,654	1,609
Benefits paid	(2,904)	(717)
Benefit obligation — end of year	5,949	7,199
Change in unrestricted reserves	4,975	5,847
Net amount recognized	$ 10,924	$ 13,046

As of September 30, 2013, projected future benefit payments are as follows (in thousands):

Years Ending September 30	Amount
2014	$ 620
2015	1,016
2016	1,115
2017	1,112
2018	1,482
2019–2023	8,597

Future benefit costs were estimated assuming a 6% earnings rate, a 4.5% discount rate for liabilities, and a salary increase assumption of 4%.

16. RESTRICTED NET ASSETS

Temporarily Restricted Net Assets — The composition of temporarily restricted net assets as of September 30, 2013 and 2012, is as follows (in thousands):

	2013	2012
Specific purpose:		
Educational activities	$ 12,630	$ 8,916
Charitable and religious activities	8,024	6,525
Capital additions	6,638	7,123
Science and research	793	808
Charitable remainder trusts	1,320	1,361
Total	$ 29,405	$ 24,733

Permanently Restricted Net Assets — The composition of permanently restricted net assets as of September 30, 2013 and 2012, is as follows (in thousands):

	2013	2012
Permanent endowment funds — the income from which is expendable to support:		
Educational activities	$ 18,222	$ 16,337
Charitable and religious activities	5,299	4,602
Capital additions	1,521	1,392
Science and research	2,371	1,742
Charitable remainder trusts	363	358
Total	$ 27,776	$ 24,431

17. ENDOWMENT FUNDS

BMHCC's endowment consists of approximately 115 individual funds established for a variety of purposes. Its endowment includes only donor-restricted endowment funds. There are no board-designated endowment funds.

Net assets associated with endowment funds, including funds designated by BMHCC's board of directors to function as endowments are classified and reported based on the existence or absence of donor-imposed restrictions. All permanently restricted net assets as of September 30, 2013 and 2012, are donor-restricted endowments.

Changes in endowment net assets all of which are permanently restricted for the years ended September 30, 2013 and 2012, are as follows (in thousands):

	Permanently Restricted	
	2013	**2012**
Endowment net assets — beginning of year	$ 24,379	$ 20,115
Contributions and bequests	926	227
Interest and dividends	28	17
Net realized and unrealized gain	2,392	4,020
Endowment net assets — end of year	$ 27,725	$ 24,379

18. COMMITMENTS AND CONTINGENCIES

Operating Leases — Leases that do not meet the criteria for capitalization are classified as operating leases, with related rentals charged to operations as incurred.

The schedule, by year, of minimum lease payments for the next five years under operating leases as of September 30, 2013, that have initial or remaining lease terms in excess of one year consists of the following (in thousands):

Years Ending September 30	Minimum Lease Payments
2014	$ 16,174
2015	12,487
2016	9,311
2017	5,544
2018	4,328
Thereafter	10,058
Total	$ 57,902

Total rental expense in 2013 and 2012 for all operating leases was approximately $26,853,000 and $21,910,000, respectively.

Liabilities for Self-Insurance — The entities comprising BMHCC participate in a pooled risk program managed by the Corporation. Premiums are assessed by the Corporation to BMHCC entities based on their claims history and other factors. Except as provided below, BMHCC is self-insured for general and professional liability, employee health and workers' compensation risks, and employment practices.

Professional and General Liability — BMHCC accrues an estimated liability for its uninsured exposure and self-insured retention based on historical loss patterns and actuarial projections. BMHCC's estimated liability for the self-insured portion of professional and general liability claims was approximately $69,225,000 and $78,286,000 as of September 30, 2013 and 2012, respectively. These estimated liabilities represent the present value of estimated future professional liability claims payments based on expected loss patterns using a weighted-average discount rate of 3.5% in both 2013 and 2012.

As of September 30, 2013 and 2012, BMHCC has claims against Reciprocal of America that are due to the Company under previous insurance contracts, but considers these amounts to be gain contingencies, which are accounted for in accordance with ASC Topic 450, *Contingencies*. BMHCC will recognize amounts due from Reciprocal of America when substantially all uncertainties about the timing and amount of realization are resolved. These amounts, if realized by BMHCC, are not expected to be material to the combined financial statements.

BMHCC has procured excess hospital and general liability insurance through Ironshore Inc. on a claims-made basis. As of September 30, 2013, BMHCC's deductible is the first $5,000,000 per claim, including defense costs for the Tennessee and Mississippi facilities. In Arkansas, the deductible is the first $1,000,000 per claim. The policy has liability limits of $25,000,000 per occurrence for the Tennessee, Mississippi, and Arkansas facilities.

On September 1, 2013, BMHCC obtained a fronted professional and general liability policy covering claims in the state of Arkansas. BMHCC is responsible for managing and paying all claims under the policy. BMHCC carries a letter of credit of $3,000,000 on the policy.

In addition, BMHCC and its other affiliates are defendants in various actions arising from their health care service activities. It is the opinion of management that the foregoing actions will not have a material adverse effect on BMHCC's combined financial position.

Employee Health — BMHCC offers subsidized health insurance to its employees through a self-insured plan. Self-insurance reserves for the employee health program were approximately $14,831,000 and $14,831,000 as of September 30, 2013 and 2012, respectively. The estimated reserve for employee health claims is based on actual claims history.

Workers' Compensation — BMHCC is self-insured for workers' compensation liability for the first $1,000,000 per accident in the states of Arkansas, Mississippi, and Tennessee, and has excess coverage up to applicable statutory limits for each state on a claims-made basis. The workers' compensation self-insurance reserves are approximately $8,022,000 and $11,607,000 as of September 30, 2013 and 2012, respectively.

Employment Practices Liability — BMHCC is self-insured for employment practices liability (EPL) for the first $200,000 per claim. The reserves are approximately $2,640,000 and $2,296,000 as of September 30, 2013 and 2012, respectively. BMHCC has EPL coverage as part of the directors and officers liability policy, which has a $10,000,000 limit.

Physician Commitments — BMHCC has committed to provide certain financial assistance pursuant to recruiting agreements with various physicians practicing in the communities it serves. In consideration for a physician relocating to one of its communities and agreeing to engage in private practice for the benefit of the respective community, BMHCC may provide loans to those physicians, normally over a period of one year, to assist in the establishment of the physician's practice. The actual amount of such commitments to be advanced to physicians often depends upon the financial results of a physician's private practice during the term of the agreement. As of September 30, 2013, the maximum potential amount of future payments under these commitments is approximately $14,045,000. A portion of such payments is recoverable by BMHCC from physicians who do not fulfill their commitment period, which varies by contract, to the respective community.

Property Operating Agreements — During the period from 1999 to 2002, BMHCC entered into five individual property operating agreements with a third party. The third party agreed to lease land from BMHCC, develop medical office buildings, and manage the medical office buildings pursuant to the property operating agreements. In turn, BMHCC agreed to guarantee the third-party's net cash flows from the medical office buildings.

The original term for each agreement is 180 months with 14 successive options to renew (each for a five-year period), which begin to expire in 2015. In addition, there is an option for BMHCC to purchase a facility from the third party. As of September 30, 2013, the estimated remaining maximum potential future payments related to these guarantees are approximately $29,887,000, which assumes no future tenants, therefore, zero rental income. Amounts actually funded under these guarantees were approximately $5,175,000 and $4,706,000 for the years ended September 30, 2013 and 2012, respectively. As these guarantees incepted before the initial recognition requirements of ASC Topic 460, *Guarantees*, there is no liability recorded related to these instruments.

Commitments to Build Hospital Facilities — As of September 30, 2013, BMHCC had commitments to build replacement facilities for its Northeast Arkansas and North Mississippi hospitals. The Northeast Arkansas commitment is for an approximate $300,000,000 facility to be completed in early 2014 and the North Mississippi commitment is for an approximate $250,000,000 facility to be completed no later than 2017. Approximately $254,604,000 relative to the Northeast Arkansas facility is included in property and equipment (construction in progress) as of September 30, 2013.

Other Industry Risks — The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for amounts previously received for patient services. BMHCC believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material impact on its financial position or results of operations. Compliance with these and other laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

In March 2010, the Patient Protection and Affordability Care Act, a comprehensive health care reform bill, was signed into law. The legislation is complex and will be phased in over several years, with the most significant parts not taking effect until 2014. BMHCC is in the process of assessing the potential impact of this reform on its consolidated financial position, results of operations, and cash flows.

19. FUNCTIONAL EXPENSES

BMHCC provides general health care and other services to residents within its geographic location. Expenses related to providing these services for the years ended September 30, 2013 and 2012, are as follows (in thousands):

	2013	2012
Health care services	$ 1,496,571	$ 1,434,103
Managed care	2,613	3,219
Student instruction	12,188	11,705
General and administrative	443,939	420,445
Total	$ 1,955,311	$ 1,869,472

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