

# **Cape Cod Healthcare, Inc. and Affiliates**

**Consolidated Financial Statements with Consolidating  
Financial Information  
September 30, 2013 and 2012**

**Cape Cod Healthcare, Inc. and Affiliates**  
**Index**  
**September 30, 2013 and 2012**

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## **Independent Auditor's Report**

To the Board of Trustees of  
Cape Cod Healthcare, Inc. and Affiliates

We have audited the accompanying consolidated financial statements of Cape Cod Healthcare, Inc. and its Affiliates ("Healthcare"), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of operations, changes in net assets and of cash flows for the years then ended.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Healthcare at September 30, 2013 and 2012, and the results of their operations, their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position and results of operations of the individual companies.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

January 15, 2014

**Cape Cod Healthcare, Inc. and Affiliates**  
**Consolidated Balance Sheets**  
**September 30, 2013 and 2012**

	2013	2012
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 44,960,636	\$ 44,379,167
Short-term investments	22,589,911	20,240,710
Patient accounts receivable, less allowance for doubtful accounts of \$24,789,366 and \$20,225,361 in 2013 and 2012, respectively	73,140,356	71,640,492
Current portion of pledges receivable, net	4,042,879	4,271,854
Other receivables, net	9,664,661	8,877,583
Estimated settlements with third-party payors	-	2,860,584
Current portion of funds whose use is limited or restricted	16,935,201	3,177,636
Supplies	9,497,008	8,512,006
Prepaid expenses and other current assets	8,221,360	5,826,985
Total current assets	189,052,012	169,787,017
Long-term investments	235,220,631	213,528,876
Funds whose use is limited or restricted	47,215,926	48,018,175
Property and equipment, net	294,672,218	282,170,301
Deferred financing costs, net	3,484,797	4,203,775
Pledges receivable, net of current portion	10,343,401	4,616,746
Goodwill	7,978,952	7,978,952
Other assets	19,097,083	17,642,119
Total assets	<u>\$ 807,065,020</u>	<u>\$ 747,945,961</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Current portion of long-term debt and capital lease obligations	\$ 9,016,117	\$ 8,860,131
Accounts payable and accrued expenses	91,643,492	97,964,958
Estimated settlements with third-party payors	17,121,517	21,508,322
Other current liabilities	558,254	487,399
Total current liabilities	118,339,380	128,820,810
Interest rate swap liabilities	2,971,303	4,266,127
Other liabilities	25,349,918	23,695,843
Long-term debt and capital lease obligations, net of current portion	170,947,364	152,572,602
Total liabilities	317,607,965	309,355,382
Net assets		
Unrestricted	424,844,954	382,000,166
Temporarily restricted	35,937,257	28,607,129
Permanently restricted	28,674,844	27,983,284
Total net assets	489,457,055	438,590,579
Total liabilities and net assets	<u>\$ 807,065,020</u>	<u>\$ 747,945,961</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Cape Cod Healthcare, Inc. and Affiliates**  
**Consolidated Statements of Operations**  
**Years Ended September 30, 2013 and 2012**

	2013	2012
<b>Operating Revenue</b>		
Net patient service revenue	\$ 678,986,251	\$ 683,410,672
Less: provision for bad debts	18,754,848	20,390,401
Net patient service revenue after provision for bad debts	660,231,403	663,020,271
Other revenue	11,477,268	15,639,116
Net assets released from restrictions used for operations	2,028,166	1,581,375
Total operating revenue	673,736,837	680,240,762
<b>Operating Expenses</b>		
Salaries and wages	267,157,113	259,184,646
Physicians' salaries and fees	69,823,245	53,200,585
Employee benefits	87,724,003	98,134,490
Supplies and other	189,413,292	191,012,896
Depreciation and amortization	26,718,466	25,753,632
Interest	7,203,912	8,044,539
Total operating expenses	648,040,031	635,330,788
Income from operations	25,696,806	44,909,974
<b>Nonoperating gains (losses)</b>		
Investment income	1,951,417	1,494,952
Realized gains on investments, net	5,791,482	4,085,689
Gifts and bequests	4,800,374	4,085,041
Fundraising expense	(861,278)	(1,407,846)
Change in fair value of interest rate swaps	1,294,824	(224,899)
Other nonoperating losses	(1,240,983)	(2,313)
Total nonoperating gains, net	11,735,836	8,030,624
Excess of revenue and gains over expenses and losses	37,432,642	52,940,598
Change in net unrealized gains on investments	2,054,930	13,040,760
Net assets released from restrictions used for purchase of property and equipment	3,357,216	14,522,987
Other	-	467,101
Increase in unrestricted net assets	\$ 42,844,788	\$ 80,971,446

The accompanying notes are an integral part of these consolidated financial statements.

**Cape Cod Healthcare, Inc. and Affiliates**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended September 30, 2013 and 2012**

	2013	2012
<b>Unrestricted net assets</b>		
Excess of revenue and gains over expenses and losses	\$ 37,432,642	\$ 52,940,598
Change in net unrealized gains on investments	2,054,930	13,040,760
Net assets released from restrictions used for purchase of property and equipment	3,357,216	14,522,987
Other	-	467,101
Increase in unrestricted net assets	<u>42,844,788</u>	<u>80,971,446</u>
<b>Temporarily restricted net assets</b>		
Contributions	11,063,705	2,701,465
Investment income	184,691	108,141
Net realized and change in net unrealized gains on investments	658,714	1,616,438
Net assets released from restrictions	(5,385,382)	(16,104,362)
Change in value of split interest agreements	808,400	660,366
Increase (decrease) in temporarily restricted net assets	<u>7,330,128</u>	<u>(11,017,952)</u>
<b>Permanently restricted net assets</b>		
Contributions	60,508	435,091
Change in value of beneficial interest in perpetual trusts	640,364	1,587,607
Change in value of split interest agreements	(9,312)	37,256
Increase in permanently restricted net assets	<u>691,560</u>	<u>2,059,954</u>
Increase in net assets	50,866,476	72,013,448
<b>Net assets</b>		
Beginning of year	<u>438,590,579</u>	<u>366,577,131</u>
End of year	<u>\$ 489,457,055</u>	<u>\$ 438,590,579</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Cape Cod Healthcare, Inc. and Affiliates**  
**Consolidated Statements of Cash Flows**  
**Years Ended September 30, 2013 and 2012**

	2013	2012
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 50,866,476	\$ 72,013,448
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in fair value of interest rate swaps	(1,294,824)	224,899
Loss (gain) on disposal of property and equipment	109,725	(327,478)
Receipt of noncash contributions	(1,409,817)	-
Loss on extinguishment of debt	1,122,667	1,599,033
Premium received upon issuance of debt	831,729	-
Depreciation and amortization	26,718,466	25,753,632
Restricted contributions received and investment income	(7,531,449)	(8,713,483)
Net realized and change in net unrealized gains on investments	(9,484,869)	(21,028,116)
Provision for bad debts	18,959,022	20,565,743
Increase (decrease) in cash resulting from a change in		
Patient accounts receivable	(20,254,712)	(28,891,518)
Pledges and other receivables	(6,488,932)	1,910,401
Supplies	(985,002)	384,664
Prepaid expenses and other current assets	(2,394,375)	534,455
Other assets	(655,876)	(530,078)
Accounts payable and accrued expenses	(6,545,801)	9,921,720
Estimated settlements with third-party payors	(1,526,221)	1,109,772
Other liabilities	1,724,930	(1,540,328)
Net cash provided by operating activities	<u>41,761,137</u>	<u>72,986,766</u>
<b>Cash flows from investing activities</b>		
Additions to property and equipment	(37,757,672)	(42,119,491)
Disposals of property and equipment	326,491	769,845
Purchase of investments	(166,425,803)	(193,588,860)
Proceeds from sale of investments	138,115,312	171,129,993
Net cash used in investing activities	<u>(65,741,672)</u>	<u>(63,808,513)</u>
<b>Cash flows from financing activities</b>		
Use of proceeds to refinance debt	(23,175,300)	(59,965,000)
Proceeds from issuance of debt	50,000,000	63,463,726
Repayment of long-term debt and capital leases	(9,297,830)	(14,253,313)
Repayment of line of credit	-	(3,450,000)
Restricted contributions received and investment income	7,531,449	8,713,483
Payments of debt issuance costs	(496,315)	(595,554)
Net cash provided by (used in) financing activities	<u>24,562,004</u>	<u>(6,086,658)</u>
Net increase in cash and cash equivalents	581,469	3,091,595
<b>Cash and cash equivalents</b>		
Beginning of year	44,379,167	41,287,572
End of year	<u>\$ 44,960,636</u>	<u>\$ 44,379,167</u>
<b>Supplemental disclosure of noncash activities</b>		
Assets acquired through capital leases	\$ -	\$ 296,113
Purchases of property and equipment included in accounts payable	701,920	926,256
Cash paid for interest	7,191,909	8,717,521

The accompanying notes are an integral part of these consolidated financial statements.

# Cape Cod Healthcare, Inc. and Affiliates

## Notes to Consolidated Financial Statements

### September 30, 2013 and 2012

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#### 1. Organization

The consolidated financial statements include the accounts of Cape Cod Healthcare, Inc. ("CCHC") and its controlled affiliates (collectively, "Healthcare"). Transactions and balances between entities have been eliminated in consolidation. The following is a summary of affiliated organizations which are controlled by Healthcare and included in the consolidated financial statements:

Cape Cod Healthcare, Inc.	A not-for-profit corporation that serves as the parent company of various entities providing health care services to the population of Cape Cod, Massachusetts.
Cape Cod Hospital ("CCH")	A not-for-profit acute care hospital located in Hyannis, Massachusetts.
Cape Cod Healthcare Foundation, Inc. ("CCHC Foundation")	A not-for-profit corporation organized to provide development and fundraising support to Healthcare.
Cape and Islands Health Services II, Inc. ("Cape & Islands")	A not-for-profit corporation organized to provide various nonhospital health care services.
Medical Affiliates of Cape Cod, Inc. ("MACC")	A not-for-profit medical group practice.
Visiting Nurse Association of Cape Cod, ("VNA of Cape Cod")	A not-for-profit provider of home health services.
Cape Cod Human Services, Inc. ("Human Services")	A not-for-profit provider of outpatient mental health services.
Falmouth Hospital Association, Inc. ("Falmouth Hospital")	A not-for-profit acute care hospital located in Falmouth, Massachusetts.
Falmouth Assisted Living, Inc., d/b/a Heritage at Falmouth ("Assisted Living")	A not-for-profit corporation that owns an assisted living facility.
JML Care Center, Inc. ("JML Center")	A not-for-profit skilled nursing and rehabilitation facility.
Cape Health Insurance Company ("CHICO")	A captive insurance company that provides medical professional and general liability insurance to Healthcare.
Cape Cod Hospital Medical Office Building ("MOB")	A for-profit provider of leased and subleased space to Cape Cod Hospital and related affiliations.

Assets of individual organizations within the consolidated group may not be available to satisfy the obligations of other members of the consolidated group.

#### 2. Summary of Significant Accounting Policies

##### Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

# **Cape Cod Healthcare, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements**

### **September 30, 2013 and 2012**

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#### **Revenue Recognition**

Healthcare has entered into payment agreements with Medicare, Medicaid, and various commercial insurance carriers, health maintenance organizations ("HMOs"), and preferred provider organizations. The basis for payment to Healthcare under these agreements includes prospectively determined rates per discharge, per day, and per visit, discounts from established charges, cost (subject to limits), and fee screens. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

Under the terms of various agreements, regulations and statutes, certain elements of third-party reimbursement are subject to negotiation, audit and/or final determination by the third-party payors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Variances between preliminary estimates of net patient service revenue and final third-party settlements are included in net patient service revenue in the year in which the settlement or change in estimate occurs. During 2013 and 2012, changes in prior year estimates increased net patient service revenue by approximately \$4,298,000 and \$4,144,000, respectively.

Free care services are partially reimbursed to acute care hospitals through the statewide Health Safety Net (HSN, formerly known as the Uncompensated Care Pool) established by the Massachusetts Health Care Reform Law (Chapter 58 of the Acts of 2006). A portion of the funding for the HSN is paid by hospitals through a statewide hospital assessment levied each year by the Massachusetts Legislature. All acute care hospitals in the state are assessed their share of this total statewide hospital assessment amount based on each hospital's charges for private sector payors. Hospitals are reimbursed for free care based on claims for eligible patients that are submitted to, and adjudicated, by the HSN. Rates of payment are based on Medicare rates and payment policies.

Healthcare has recorded its assessment to the HSN as a deduction from net patient service revenue of \$3,125,000 and \$2,890,000 for the years ended September 30, 2013 and 2012, respectively, in the consolidated statements of operations. Reimbursement for uncompensated care has been allocated to bad debts and free care based on hospital-specific experience. The reimbursement allocated for bad debts is recorded as a reduction of the uncompensated care pool assessment, while the reimbursement allocated for charity care is recorded as net patient service revenue.

#### **Other Revenue**

Other revenue consists principally of investment income, grant revenue, rental income and revenue from nonpatient-related services.

#### **Use of Estimates**

The preparation of the accompanying consolidated financial statements in accordance 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 financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are made in the areas of patient accounts receivable, pledges receivable, investments, goodwill, interest rate swap liabilities, accrued expenses and estimated settlements with third-party payors.

# **Cape Cod Healthcare, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements**

### **September 30, 2013 and 2012**

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#### **Excess of Revenue and Gains Over Expenses and Losses**

The consolidated statements of operations include excess of revenue and gains over expenses and losses. Changes in unrestricted net assets which are excluded from excess of revenue and gains over expenses and losses, consistent with industry practice, include the changes in unrealized gains and losses on investments, contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purposes of acquiring such assets) and net assets released from restriction used for purchase of property and equipment.

#### **Consolidated Statements of Operations**

In the accompanying consolidated statements of operations, transactions deemed by management to be ongoing to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

#### **Endowment**

Healthcare has an endowment spending policy, as approved by the Board of Trustees, which aims to preserve the purchasing power of the endowment. Under this policy, 4% of a three-year moving average of market values can be expended for operations. The long-term performance objective of the endowment portfolio is to attain an average annual total return that exceeds Healthcare's spending rate plus inflation within acceptable levels of risk over a full market cycle. To achieve its long-term rate of return objectives, Healthcare relies on a total return strategy in which investment returns are achieved through both capital appreciation and current yield.

#### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by Healthcare has been limited by donors to a specific time period or purpose. Such funds are generally restricted for health care services and the purchase of property and equipment. In accordance with Healthcare policies and the Uniform Prudent Management of Institutional Funds Act (UPMIFA) enacted by the Commonwealth of Massachusetts, Healthcare includes accumulated realized and unrealized net gains on investments of permanently restricted net assets, which are available for Board appropriation, within temporarily restricted net assets. Temporarily restricted net assets also include approximately \$14,386,000 and \$8,889,000 at September 30, 2013 and 2012, respectively, related to unconditional promises to give with payments due in future periods, and other funds whose use has been limited by donors. Permanently restricted net assets at September 30, 2013 and 2012, include only the historical dollar amount of gifts which are required by donors to be held in perpetuity, the income from which is expendable to support indigent care, health care services, purchases of property and equipment, and Healthcare's beneficial interest in a perpetual trust. The earnings from the perpetual trust are available for health care services and are recorded when earned.

Healthcare has interpreted state law as requiring realized and unrealized gains of permanently restricted net assets to be retained in a temporarily restricted net asset classification until appropriated by the Board and expended. State law allows the Board to appropriate so much of the net appreciation of permanently restricted net assets as is prudent considering Healthcare's long- and short-term needs, present and anticipated financial requirements, expected total return on investments, price-level trends, and general economic conditions. Amounts appropriated during the years ended September 30, 2013 and 2012, amounted to approximately \$713,000 and \$691,000, respectively. These amounts are included in net assets released from restrictions in the accompanying consolidated financial statements.

# **Cape Cod Healthcare, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements**

### **September 30, 2013 and 2012**

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#### **Gifts**

Unconditional promises to give cash and other assets to Healthcare are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the conditions are met. Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted gifts in the accompanying financial statements.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less at the date of purchase, excluding funds whose use is limited or restricted.

#### **Funds Whose Use is Limited or Restricted**

Funds whose use is limited or restricted include funds held by trustees under bond indenture agreements and funds contributed by donors for specific purposes and permanent endowment funds.

#### **Derivative Instruments**

All derivatives are recognized on the balance sheet at fair value. Healthcare designates at inception whether the derivative contract is considered hedging or nonhedging in accordance with existing accounting guidance for derivative instruments and hedging activities. For those instruments designated as hedges, Healthcare formally documents at inception all relationships between the hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various accounting hedges. Healthcare's derivatives are used to minimize the variability in cash flows of interest-bearing liabilities caused by changes in interest rates. Changes in the fair value of derivatives designated for hedging activities that are highly effective are recorded as a component of other changes in net assets. Hedge ineffectiveness, if any, is recorded in excess of revenue and gains over expenses and losses. For those instruments not designated as hedges, changes in the fair value of derivatives are recorded in nonoperating gains (losses).

#### **Patient Accounts Receivable**

Healthcare receives payments for services rendered from federal and state agencies (under the Medicare and Medicaid programs), managed care payors, commercial insurance companies, and patients. Patient accounts receivable are reported net of contractual allowances and reserves for denials, uncompensated care, and doubtful accounts. The level of reserves is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in federal and state governmental and private employer health care coverage and other collection indicators.

#### **Investments and Investment Income**

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value in the accompanying consolidated balance sheets. Investments for which a market value is not readily determinable, including investments in collective trusts, limited liability companies, limited partnerships and private equity partnerships, are either recorded at cost or at their reported fair value based on information provided by the trust manager, and are reviewed by management for reasonableness and approved by the Investment Committee. Investments held to satisfy current liabilities, generally understood to be those liabilities to be paid within one year, are classified as current and investments intended to be held greater than one year are classified as long term. Investment income or loss (including realized gains and losses on investments, interest and

# **Cape Cod Healthcare, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements**

### **September 30, 2013 and 2012**

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dividends) is included in the excess of revenue and gains over expenses and losses, unless the income is restricted by donor or law. The change in unrealized gains and losses on investments is excluded from the excess of revenue and gains over expenses and losses. Investment income on proceeds of borrowings that are held by a trustee, to the extent not capitalized, and investment income on funds whose use is limited for capital purchases are generally reported as other revenue or as a change in temporarily restricted net assets. All other unrestricted investment income and unrestricted realized gains and losses on investments are reported as nonoperating gains (losses).

A write-down in the cost basis of investments is recorded when the decline in fair value of investments below cost has been judged to be other-than-temporary. Depending on any donor-imposed restrictions on the investments, the amount of the write-down is reported as a realized loss in either temporarily restricted net assets or in excess of revenue and gains over expenses and losses as a component of income from investments, with no adjustment to the cost basis for subsequent recoveries of fair value.

Investments, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. As such, it is reasonably possible that changes in the values of investments will 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 and changes in net assets. When applicable, fair value is based on quoted market prices.

#### **Supplies**

Supplies are stated at the lower of cost (first-in, first-out method) or market.

#### **Property and Equipment**

Property and equipment are recorded at cost, less accumulated depreciation. Gifts of long-lived assets such as land, buildings, or equipment are reported at fair value at the date of the contribution as unrestricted support and are excluded from the excess of revenue and gains over expenses and losses, unless explicit donor stipulations specify how the assets are to be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Depreciation of property and equipment is computed using the straight-line method based on the estimated useful lives of the related assets ranging from three to forty years. Equipment leased under capital leases and leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included within depreciation expense.

#### **Goodwill**

Healthcare's goodwill primarily relates to the acquisitions of Cape Cod Cardiology, LLC and Bayside Surgical Center. Goodwill is recorded when the fair value of the assets acquired is less than the fair value of the liabilities assumed plus consideration transferred, if any, as detailed under ASC 958, *Not-for-Profit Entities: Mergers and Acquisitions*, effective in 2011. Healthcare assesses goodwill at least annually for impairment or more frequently if certain events or circumstances warrant and recognizes an impairment charge for the amount by which the carrying amount of goodwill exceeds its fair value. There was no impairment charge recorded for the years ended September 30, 2013 and 2012.

# **Cape Cod Healthcare, Inc. and Affiliates**

## **Notes to Consolidated Financial Statements**

### **September 30, 2013 and 2012**

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#### **Asset Retirement Obligations**

Asset retirement obligations reported in accounts payable and accrued expenses are legal obligations associated with the retirement of long-lived assets. The liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, Healthcare records changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Healthcare reduces the liabilities when the related obligations are settled.

#### **Costs of Borrowing**

Interest cost incurred on borrowed funds, net of interest income earned on such funds, during the period of construction of capital assets is capitalized as a component of the costs of acquiring those assets. Capitalized interest costs of \$348,000 and \$0 were recorded for the years ended September 30, 2013 and 2012, respectively.

#### **Deferred Financing Costs**

Deferred financing costs consist of legal, financing, and other related costs incurred in connection with the issuance of outstanding bonds. Deferred financing costs are being amortized using the straight-line method, which approximates the effective-interest method, over the term of the bonds. Original issue discount, which is recorded as a reduction of the long-term debt, is being amortized using the straight-line method, which approximates the effective-interest method, over the term of the related bonds.

#### **Professional Liability Costs**

Healthcare is self-insured for certain professional liability claims. Estimated losses and claims are accrued as incurred. Healthcare has provided for the cost of claims paid during the current period, as well as estimates of the liability for claims incurred but not yet paid, in the accompanying consolidated financial statements. The liability for professional liability losses and loss-adjustment expenses includes an amount, based on an independent actuarial study discounted at a rate of 3%, for losses determined from loss reports, individual cases, and based on past experience, adjusted for the risk of adverse deviation. Such liabilities are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

#### **Income Taxes**

CCHC and its affiliates, other than MOB and CHICO, have been recognized by the Internal Revenue Service as tax-exempt nonprofit organizations under Section 501(c)(3) of the Internal Revenue Code (the "Code"), and accordingly, are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. An income tax provision has not been provided on the operating results of the MOB due to current-period operating losses.

CHICO has received an undertaking from the Cayman Islands Government exempting it from taxes on income until June 8, 2024.

#### **Fair Value Measurements**

Healthcare follows accounting guidance which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

# Cape Cod Healthcare, Inc. and Affiliates

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The estimated fair value amounts reported in the accompanying consolidated financial statements and related notes have been determined by Healthcare using available market information and valuation methodologies described below. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein may not be indicative of the amounts that Healthcare could realize in a current market exchange. The use of different market assumptions or valuation methodologies may have a material effect on the estimated fair value amounts.

#### Recently Issued Accounting Pronouncements

In May 2011, the FASB issued new guidance enhancing the *Fair Value Measurement* standard (ASU 2011-04) to ensure that the valuation techniques for investments that are categorized within Level 3 of the fair value hierarchy are fair, consistent, and verifiable. Healthcare adopted this guidance on October 1, 2012. The adoption of this guidance did not have a material impact to the consolidated financial statements.

#### Reclassifications

Certain amounts in the accompanying 2012 financial statements have been reclassified in order to be consistent with the 2013 presentation.

### 3. Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, Healthcare analyzes its past history and identifies trends for each of its major categories of revenue (inpatient, outpatient, and professional) to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major categories of revenue in evaluating the sufficiency of the allowance for doubtful accounts. Throughout the year, Healthcare, after all reasonable collection efforts have been exhausted, will write off the difference between the standard rates (or discounted rates if negotiated) and the amounts actually collected against the allowance for doubtful accounts. In addition to the review of the categories of revenue, management monitors the write offs against established allowances as of a point in time to determine the appropriateness of the underlying assumptions used in estimating the allowance for doubtful accounts.

Accounts receivable, prior to adjustment for doubtful accounts, is summarized as follows at September 30, 2013 and 2012:

	2013	2012
<b>Receivables</b>		
Patients	\$ 8,263,758	\$ 8,777,143
Third-party payors	89,665,964	83,088,710
	<u>97,929,722</u>	<u>91,865,853</u>
Allowance for doubtful accounts	(24,789,366)	(20,225,361)
	<u>\$ 73,140,356</u>	<u>\$ 71,640,492</u>

**Cape Cod Healthcare, Inc. and Affiliates**  
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Net patient service revenue before the provision for bad debts for the years ended September 30, 2013 and 2012 is summarized as follows:

	<b>2013</b>	<b>2012</b>
<b>Net patient service revenue</b>		
Patients	\$ 30,257,046	\$ 28,535,155
Third-party payors	648,729,205	654,875,517
	<u>\$ 678,986,251</u>	<u>\$ 683,410,672</u>

**4. Charity Care**

Healthcare provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because Healthcare does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as net revenue. The charity care policy is based on the poverty income guidelines established by the Massachusetts Division of Healthcare Finance and Policy. If a patient is ineligible because his or her income exceeds the eligibility guidelines, any uncollectible accounts receivable balance is written off to bad debt. During 2013 and 2012, Healthcare provided approximately \$7,418,000 and \$6,174,000 in charity care, respectively. The estimated costs of providing charity care services are based on data derived from Healthcare's ratio of cost to charges. During 2013 and 2012, Healthcare received approximately \$2,741,000 and \$5,096,000, respectively, from the HSN for reimbursement of charity care.

**5. Property and Equipment**

Property and equipment at September 30, 2013 and 2012 consisted of the following:

	<b>2013</b>	<b>2012</b>
Land	\$ 22,080,743	\$ 20,354,732
Land improvements	12,117,909	11,681,570
Buildings and improvements	317,342,394	297,718,606
Fixed equipment	51,480,583	45,609,058
Major movable equipment	212,252,356	185,910,845
Assets under capital leases	11,581,599	11,714,849
	<u>626,855,584</u>	<u>572,989,660</u>
Accumulated depreciation and amortization	<u>(341,031,922)</u>	<u>(315,443,278)</u>
Property and equipment, net	285,823,662	257,546,382
Construction in progress	8,848,556	24,623,919
	<u>\$ 294,672,218</u>	<u>\$ 282,170,301</u>

At September 30, 2013 and 2012, Healthcare had commitments totaling approximately \$21,781,000 and \$7,011,000, respectively, related to construction projects. Depreciation expense for the years ended September 30, 2013 and 2012 was \$26,454,000 and \$25,099,000, respectively.

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**6. Investments**

Investments and investments limited as to use are reported at either fair value or at cost in accordance with the appropriate guidance for healthcare organizations. At September 30, 2013 and 2012, the composition of these investments is as follows:

	<b>September 30, 2013</b>			
	<b>Cost</b>	<b>At Fair Value</b>	<b>At Cost</b>	<b>Total</b>
Cash and temporary investments	\$ 26,255,077	\$ 26,255,077	\$ -	\$ 26,255,077
Mutual funds	154,228,081	166,181,081	-	166,181,081
U.S. government securities	10,560,801	10,637,880	-	10,637,880
Common and preferred stock	18,000	29,112	-	29,112
Private equity partnerships	1,046,400	-	1,046,400	1,046,400
Pooled income fund	490,883	484,831	-	484,831
Collective trusts	42,810,181	47,318,495	-	47,318,495
Limited liability companies and limited partnerships	53,130,293	-	53,130,293	53,130,293
	<u>288,539,716</u>	<u>250,906,476</u>	<u>54,176,693</u>	<u>305,083,169</u>
Perpetual trust held by third party	-	7,301,339	-	7,301,339
Beneficial interests held by third party	-	9,577,161	-	9,577,161
	<u>\$ 288,539,716</u>	<u>\$ 267,784,976</u>	<u>\$ 54,176,693</u>	<u>\$ 321,961,669</u>

	<b>September 30, 2012</b>			
	<b>Cost</b>	<b>At Fair Value</b>	<b>At Cost</b>	<b>Total</b>
Cash and temporary investments	\$ 13,380,396	\$ 13,380,396	\$ -	\$ 13,380,396
Mutual funds	143,740,092	152,896,389	-	152,896,389
U.S. government securities	13,056,101	13,370,065	-	13,370,065
Common and preferred stock	13,003	22,335	-	22,335
Private equity partnerships	911,400	-	911,400	911,400
Pooled income fund	496,287	496,666	-	496,666
Collective trusts	30,668,494	34,455,255	-	34,455,255
Limited liability companies and limited partnerships	53,194,755	-	53,194,755	53,194,755
	<u>255,460,528</u>	<u>214,621,106</u>	<u>54,106,155</u>	<u>268,727,261</u>
Perpetual trust held by third party	-	7,051,247	-	7,051,247
Beneficial interests held by third party	-	9,186,889	-	9,186,889
	<u>\$ 255,460,528</u>	<u>\$ 230,859,242</u>	<u>\$ 54,106,155</u>	<u>\$ 284,965,397</u>

For the limited liability companies and the limited partnerships reflected in the balance sheet at cost, the difference between the value reported by the investment managers and the cost for these investments was \$12,045,000 and \$4,777,000 as of September 30, 2013 and 2012, respectively.

The fair value and unrealized depreciation of investments with a fair value less than cost for greater than twelve months, that are not deemed to be other-than-temporarily impaired was \$0 and \$146,000 at September 30, 2013 and 2012, respectively.

At September 30, 2013 and 2012, investments are reported in the accompanying consolidated balance sheets as follows:

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	<b>2013</b>	<b>2012</b>
Short-term investments	\$ 22,589,911	\$ 20,240,710
Funds whose use is limited or restricted		
Current portion	16,935,201	3,177,636
Noncurrent portion	47,215,926	48,018,175
Long-term investments	<u>235,220,631</u>	<u>213,528,876</u>
	<u>\$ 321,961,669</u>	<u>\$ 284,965,397</u>

For the years ended September 30, 2013 and 2012, investment income, gains, and losses consisted of the following:

	<b>2013</b>	<b>2012</b>
Investment return recorded in unrestricted net assets		
Nonoperating gains and losses		
Investment income	\$ 1,951,417	\$ 1,494,952
Net realized gains on investments, net	<u>5,791,482</u>	<u>4,085,689</u>
	<u>7,742,899</u>	<u>5,580,641</u>
Other changes in net unrealized gains on investments	<u>2,054,930</u>	<u>13,040,760</u>
Total investment return recorded within unrestricted net assets	<u>9,797,829</u>	<u>18,621,401</u>
Investment return recorded in temporarily restricted net assets		
Investment income	184,691	108,141
Net realized and change in net unrealized gains on investments	648,560	1,553,210
Change in value of split interest agreements	<u>10,154</u>	<u>63,228</u>
Total investment return recorded within temporarily restricted net assets	<u>843,405</u>	<u>1,724,579</u>
Investment return recorded in permanently restricted net assets		
Change in value of beneficial interest in perpetual trusts	<u>640,364</u>	<u>1,587,607</u>
Total investment return recorded within permanently restricted net assets	<u>640,364</u>	<u>1,587,607</u>
Total investment return	<u>\$ 11,281,598</u>	<u>\$ 21,933,587</u>

Securities with unrealized depreciation are reviewed each quarter to determine whether these investments are other-than-temporarily impaired. Marketable investments with fair value below cost are considered to be other-than-temporarily-impaired and a realized loss is recorded if management has outsourced the ability to purchase and sell investments to Healthcare's fund managers. All other investments are subject to further review, which considers factors including the anticipated holding period for the investment, extent and duration of below cost valuation, and the nature of the underlying holdings as applicable. A similar writedown is recorded when the impairment on these investments has been judged to be other-than-temporary.

There were no recorded realized losses associated with marketable investments for which the fair value was below cost as of September 30, 2013. Healthcare recorded realized losses of approximately

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\$725,000 associated with certain marketable investments for which the fair value was below cost as of September 30, 2012. No other unrealized losses were considered to be other-than-temporary.

Funds whose use is limited consist of the following:

	<b>September 30, 2013</b>		<b>September 30, 2012</b>	
	<b>Current Portion</b>	<b>Long-Term Portion</b>	<b>Current Portion</b>	<b>Long-Term Portion</b>
Externally designated funds				
Funds whose use is limited	\$ 16,935,201	\$ 7,187,472	\$ 3,177,636	\$ 10,495,015
Temporarily restricted investments	-	11,706,628	-	9,892,400
Permanently restricted investments	-	21,020,487	-	20,579,513
Perpetual trust held by third party	-	7,301,339	-	7,051,247
	<u>\$ 16,935,201</u>	<u>\$ 47,215,926</u>	<u>\$ 3,177,636</u>	<u>\$ 48,018,175</u>

As of September 30, 2013 and 2012, Healthcare has outstanding commitments of approximately \$338,000 and \$458,000, respectively, to fund certain private equity and real asset funds.

## **7. Fair Value Measurements**

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date (also referred to as "exit price"). Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. In determining fair value, the use of various valuation approaches, including market, income and cost approaches, is permitted.

### **Fair Value Hierarchy**

A fair value hierarchy has been established based on whether the inputs to valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. The fair value hierarchy requires the reporting entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. In addition, for hierarchy classification purposes, the reporting entity should not look through the form of an investment to the nature of the underlying securities held by an investee.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by Healthcare for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- Level 1      Valuations using quoted prices in active markets for identical assets or liabilities. Valuations of these products do not require a significant degree of judgment.
  
- Level 2      Valuations using observable inputs other than Level 1 prices such as quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; broker or dealer quotations; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

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## Notes to Consolidated Financial Statements

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Level 3      Valuations using unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value:

#### ***Cash and Temporary Investments***

Cash and temporary investments include short-term, highly liquid investments and the fair values are based on quoted market prices.

#### ***Mutual Funds, U.S. Government Securities, Common and Preferred Stock, and Pooled Income Fund***

The fair values of mutual funds, estimated fair values of U.S. government securities, the fair values of common and preferred stock, and the fair value of the pooled income fund are based on quoted market prices for identical or similar assets in active markets.

#### ***Collective Trusts***

The estimated fair values of collective trusts are determined based upon the net asset value provided by the fund managers and assessed for reasonableness by management. Such information is generally based on Healthcare's pro-rata interest in the net assets of the underlying investments.

#### ***Beneficial Interest Lead Trusts Held by Third Party***

Charitable lead trust assets are valued using Healthcare's pro-rata interest in the current fair value of the underlying assets, less estimated future payments discounted to a single present value using market rates at the date of the contribution adjusted for a market risk premium, based on the expected date of the transfer of the remaining assets to Healthcare.

#### ***Beneficial Interest in Trusts Held by Third Party***

The estimated fair values of Healthcare's charitable remainder trust assets, where Healthcare does not serve as trustee, are determined based upon information provided by the trustees and assessed for reasonableness by management. Such information is generally based on Healthcare's pro-rata interest in the net assets of the underlying investments, which will revert to Healthcare at the termination of the trust.

#### ***Perpetual Trusts Held by Third Party***

The estimated fair values of Healthcare's perpetual lead trust, where Healthcare does not serve as trustee, is determined based upon information provided by the trustee and assessed for reasonableness by management. Such information is generally based on Healthcare's pro-rata interest in the net assets of the underlying investments to be received in perpetuity as distributions from the trust.

#### ***Interest Rate Swaps***

The valuation of interest rate swaps is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market based inputs, including interest rate curves and implied volatilities.

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The following tables summarize fair value measurements at September 30, 2013 and 2012 for financial assets and liabilities measured at fair value on a recurring basis:

<b>2013</b>				
	<b>Quoted Prices in Active Markets for Identical Items (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total Fair Value at September 30, 2013</b>
<b>Assets</b>				
Investments				
Cash and temporary investments	\$ 26,255,077	\$ -	\$ -	\$ 26,255,077
Mutual funds	144,411,090	21,769,991	-	166,181,081
U.S. government securities	10,637,880	-	-	10,637,880
Common and preferred stock	29,112	-	-	29,112
Pooled income fund	484,831	-	-	484,831
Collective trusts	-	47,318,495	-	47,318,495
Total investments, fair value	181,817,990	69,088,486	-	250,906,476
Perpetual trust held by third party	-	-	7,301,339	7,301,339
Beneficial interests held by third party	-	-	9,577,161	9,577,161
Beneficial interest lead trusts held by third party	-	-	10,457,978	10,457,978
Total assets, fair value	\$ 181,817,990	\$ 69,088,486	\$ 27,336,478	\$ 278,242,954
<b>Liabilities</b>				
Interest rate swaps	\$ -	\$ 2,971,303	\$ -	\$ 2,971,303
Total liabilities, fair value	\$ -	\$ 2,971,303	\$ -	\$ 2,971,303

<b>2012</b>				
	<b>Quoted Prices in Active Markets for Identical Items (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total Fair Value at September 30, 2012</b>
<b>Assets</b>				
Investments				
Cash and temporary investments	\$ 13,380,396	\$ -	\$ -	\$ 13,380,396
Mutual funds	133,607,865	19,288,524	-	152,896,389
U.S. government securities	13,370,065	-	-	13,370,065
Common and preferred stock	22,335	-	-	22,335
Pooled income fund	496,666	-	-	496,666
Collective trusts	-	34,455,255	-	34,455,255
Total investments, fair value	160,877,327	53,743,779	-	214,621,106
Perpetual trust held by third party	-	-	7,051,247	7,051,247
Beneficial interests held by third party	-	-	9,186,889	9,186,889
Beneficial interest lead trusts held by third party	-	-	9,972,523	9,972,523
Total assets, fair value	\$ 160,877,327	\$ 53,743,779	\$ 26,210,659	\$ 240,831,765
<b>Liabilities</b>				
Interest rate swaps	\$ -	\$ 4,266,127	\$ -	\$ 4,266,127
Total liabilities, fair value	\$ -	\$ 4,266,127	\$ -	\$ 4,266,127

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The following table is a rollforward of investments classified by Healthcare within Level 3 as defined previously for the year ended September 30, 2013 and 2012.

<b>Balances at September 30, 2011</b>	\$ 25,020,856
Change in value of beneficial interest in trusts held by third party	585,873
Change in value of beneficial interest in perpetual trusts	1,587,607
Distribution received from severance of lead trust	(500,000)
Reclassification to pledges receivable from severance of lead trust	<u>(483,677)</u>
<b>Balances at September 30, 2012</b>	26,210,659
Change in value of beneficial interest in trusts held by third party	485,455
Change in value of beneficial interest in perpetual trusts	<u>640,364</u>
<b>Balances at September 30, 2013</b>	<u>\$ 27,336,478</u>

Split-interest agreements held by third parties are valued based on the group annuity mortality table and the risk-free rate of return. As of September 30, 2013 and 2012, the discount rate used in performing the present value calculations at each measurement date ranged from 1% to 4%.

There were no significant transfers into or out of Levels 1 and 2 for the years ended September 30, 2013 or 2012.

The following table summarizes all investments recorded at net asset value ("NAV") at September 30, 2013, categorized based on the risk and return characteristics of the investments, and excluding Level 1 investments based on their daily redemption feature.

	Fair Value	Redemption Frequency	Redemption Notice Period
Collective trusts	\$ 47,318,495	Daily - Monthly	5-10 days
Equity mutual funds	8,898,493	Weekly	None
Bond mutual funds	<u>12,871,498</u>	Weekly	5 days
	<u>\$ 69,088,486</u>		

**8. Employee Retirement Plans**

Healthcare sponsors several defined contribution plans which generally cover employees who have completed the minimum service requirements defined by the plans. The contributions vary by plan but generally approximate 2% of eligible wages. Certain of the plans allow for employee contributions which are matched by Healthcare up to certain limits. Pension expense under the defined contribution plans totaled approximately \$9,027,000 and \$8,880,000 in 2013 and 2012, respectively, and was recorded within employee benefits expense on the consolidated statements of operations.

**9. Lines of Credit**

Healthcare has a line of credit available that provides for advances of up to \$15,000,000 for working capital needs. Amounts borrowed are due on demand and bear interest at the applicable LIBOR interest rate in effect at the time of the borrowing. Borrowings under the line of credit are guaranteed by the following affiliated entities: CCHC Foundation, CCH, Falmouth Hospital, JML Center, Human Services, and VNA of Cape Cod. There were no amounts outstanding under this line-of-credit agreement at September 30, 2013 and 2012, respectively.

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**10. Long-term Debt, Capital Leases and Interest Rate Swaps**

Long-term debt at September 30, 2013 and 2012 consisted of the following:

Issue	2013 Rate	2012 Rate	Final Maturity	2013	2012
Massachusetts Development Finance Agency ("MDFA") Hospital Revenue Bonds					
Fixed Rate					
Cape Cod Healthcare Obligated Group—Series C	n/a	3.0-5.25%	n/a	-	23,060,000
Cape Cod Healthcare Obligated Group—Series D	2.5-6%	2.6-6.00%	2036	58,090,000	59,585,000
Cape Cod Healthcare Obligated Group—Series 2012A	2.66%	2.66%	2022	23,220,000	25,800,000
Cape Cod Healthcare Obligated Group—Series 2013	4-5.25%	n/a	2042	50,000,000	-
Variable Rate direct placement with commercial lender					
Cape Cod Healthcare Obligated Group —Series E	1.04%	1.16%	2022	24,533,333	27,477,333
Notes payable					
Cape Cod Hospital	3.65%	3.65%	2022	1,851,104	2,047,183
Cape Cod Healthcare Obligated Group	3.15-3.56%	3.15-3.56%	2018	10,204,475	10,625,361
Falmouth Hospital	5.96%	5.96%	2029	4,615,460	4,779,998
Cape Cod Healthcare (variable rate)	2.26%	2.73%	2020	2,526,157	2,900,403
Capital Lease obligations	n/a	n/a	n/a	3,778,464	4,527,962
				<u>178,818,993</u>	<u>160,803,240</u>
Unamortized premium (original issue discount), net				1,144,488	629,493
Current portion				<u>(9,016,117)</u>	<u>(8,860,131)</u>
Total long-term debt				<u>\$ 170,947,364</u>	<u>\$ 152,572,602</u>

On December 23, 2004, the Cape Cod Healthcare Obligated Group issued \$65,000,000 of MDFA Series D Variable Rate Demand Revenue Bonds (the "Series D Bonds"). The Series D Bonds were collateralized by a bond insurance policy issued by Assured Guaranty. Proceeds from the Series D Bonds were used to satisfy a number of capital improvements at CCH, including an inpatient bed tower and cardiac catheterization facilities.

On February 16, 2010, Healthcare converted the Series D Bonds from variable rate demand bonds to fixed rate bonds in the amount of \$62,400,000. The fixed rate Series D Bonds continue to be collateralized by a bond insurance policy issued by Assured Guaranty.

On June 18, 2008, the Cape Cod Healthcare Obligated Group issued \$36,710,000 of MDFA Series E Variable Rate Bonds (the "Series E Bonds"). The bond proceeds, net of issuance costs of \$262,000, were used to refund the majority of a bridge loan Healthcare issued in March 2008 totaling \$38,925,000. On February 12, 2009, the Series E Bonds were increased by \$2,215,000 in order to repay the bridge loan that was outstanding as of September 30, 2008. The Series E Bonds are collateralized by a pledge of gross receipts and mortgages on the property and equipment of the core hospital campuses.

On January 12, 2012, Healthcare fully converted its Series E Variable Rate Bonds in the amount of \$29,440,000 via a direct placement with a commercial lender. The direct placement is a LIBOR-based loan with a ten year term. The loan amount is fully amortized upon final maturity in 2022. Healthcare recorded a nonoperating loss on the extinguishment of debt of \$574,000 related to this transaction, as of September 30, 2012.

On August 29, 2011, Healthcare entered into a \$11,000,000 term loan agreement, the proceeds from which were drawn in two tranches of \$5,800,000 and \$5,200,000 on September 2, 2011 and October 31, 2011, respectively. The first draw was used to refinance a privately-held loan on land and the second was used to refinance the Falmouth Assisted Living Series A variable rate debt. The first tranche is financed for seven years at a fixed rate of 3.56%. The second tranche is financed at a fixed rate of 3.15% for seven years.

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On February 24, 2012, Healthcare issued ten year direct placement Series 2012A bonds with a commercial bank at a fixed rate of 2.66%. The bonds are fully amortized upon final maturity in 2022. The proceeds were used to retire Series B Bonds of \$11,435,000 and to partially retire \$13,890,000 of Series C Bonds. Healthcare recorded a nonoperating loss on the extinguishment of debt of \$1,025,000 related to this transaction, as of September 30, 2012.

On July 11, 2013, the Cape Cod Healthcare Obligated Group issued \$50,000,000 of Series 2013 MDFA Hospital Revenue Bonds with a final maturity date of November 2041. Bond issuance costs of \$496,000 are recorded in prepaid expenses and other current assets and will be amortized over the life of the bonds. The Series 2013 bonds were issued with an original issue premium totaling \$832,000 which is recorded in long-term debt. The premium will be amortized using the effective interest method over the life of the bonds. A loss on extinguishment of \$1,123,000 was recorded as a result of this extinguishment. The bonds are collateralized by an interest in the Obligated Group's gross receipts and the mortgages on core hospital campuses.

Proceeds from the Series 2013 bonds were used in part to refund the outstanding 2001 Series C bonds of \$23,060,000, which were retired with an additional premium of \$115,000. The remaining proceeds were used to satisfy a number of capital improvements at CCH and FH including emergency room expansions.

The fair value of interest rate swap agreements at September 30, 2013 and 2012 are as follows:

	<b>2013</b>	<b>2012</b>
Series A Swap	\$ (2,971,303)	\$ (4,246,387)
Series C Swap	-	(19,740)
	<u>\$ (2,971,303)</u>	<u>\$ (4,266,127)</u>

The effects of interest rate swap arrangements on the consolidated statements of operations and changes in net assets for 2013 and 2012 are as follows:

<b>Location of Gain (Loss) in Statements of Operations</b>		<b>Amount of Gain (Loss) Recognized in Excess of Revenues and Gains Over Expenses and Losses for Years Ended September 30,</b>	
		<b>2013</b>	<b>2012</b>
Series A Swap	Change in fair value of interest rate swaps	\$ 1,275,084	\$ (272,277)
Series C Swap	Change in fair value of interest rate swaps	19,740	47,378
		<u>\$ 1,294,824</u>	<u>\$ (224,899)</u>

Healthcare and its swap counterparties are exposed to credit risk in the event of nonperformance or early termination of the agreements. In accordance with the guidance on fair value measurements, Healthcare recorded a nonperformance risk adjustment which reduced the interest rate liability by approximately \$51,000 and \$265,000 in 2013 and 2012, respectively.

**Cape Cod Healthcare, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
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**Loan Covenants**

Several of the loan agreements contain covenants and financial ratios which require compliance by the various organizations. Certain of the agreements also provide for restrictions on, among other things, transfers, additional indebtedness, and dispositions of property, the most restrictive of which is the ratio of income available for debt service.

**The Obligated Group**

The Series D, E, 2012A and 2013 Bonds are equally and ratably collateralized under the loan and trust agreements. At September 30, 2013, the Cape Cod Healthcare Obligated Group consisted of CCHC, CCHC Foundation, CCH and Falmouth Hospital.

All obligations issued under the Cape Cod Healthcare Obligated Group debt agreements or the Falmouth Hospital debt agreements will be joint and several obligations of the Cape Cod Healthcare Obligated Group, and equally and ratably collateralized by interests in the gross receipts of the Cape Cod Healthcare Obligated Group and the property subject to the mortgages.

**Future Maturities**

Aggregate future maturities of long-term obligations, including capital lease obligations:

2014	\$ 9,016,117
2015	9,107,913
2016	9,077,674
2017	8,746,835
2018	8,755,979
Thereafter	134,114,475
	<u>\$ 178,818,993</u>

**Fair Value of Long-Term Debt**

The fair value of Healthcare's long-term debt is estimated based on quoted market prices for the same or similar issues. The estimated fair value of Healthcare's long-term debt was approximately \$181,078,000 and \$166,056,000 at September 30, 2013 and 2012, respectively. The long-term debt is considered a Level 2 instrument.

**11. Funds Held by Trustee Under Bond Indenture Agreements**

At September 30, 2013 and 2012, under the terms of the agreements with MDFA, investments are being held in escrow for debt service and to fund future property and equipment additions.

These funds are invested primarily in certificates of deposit and U.S. government securities and are held in the following funds:

	<b>2013</b>	<b>2012</b>
Debt service fund	\$ 16,935,201	\$ 3,177,636
Debt service reserve fund	7,187,472	10,222,446
Project and construction funds	-	272,569
	<u>\$ 24,122,673</u>	<u>\$ 13,672,651</u>

**Cape Cod Healthcare, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
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**12. Split Interest Agreements and Outside Trusts**

Healthcare is obligated to make quarterly distributions to the beneficiaries of certain gift annuities (split-interest arrangements). The estimated net present value of these obligations totaled \$1,935,000 and \$1,883,000 at September 30, 2013 and 2012, respectively, and are included in other liabilities in the accompanying consolidated balance sheets. Upon the death of each of the beneficiaries, the related obligations of Healthcare terminate.

Healthcare is the trustee of a pooled income fund. This fund is divided into units, and contributions of donors' life income gifts are pooled and invested as a group. Donors are assigned a specific number of units based on the proportion of the fair value of their contributions to the total fair value of the pooled income fund on the date of the donors' entry into the pool. Each donor receives the actual income earned on those units until his/her death. Upon the death of the donor, the donor's interest in the trust will revert to Healthcare and will be unrestricted. The estimated net present value of these obligations totaled \$303,000 and \$292,000 at September 30, 2013 and 2012, respectively, and are included in other liabilities in the accompanying consolidated balance sheets.

Healthcare holds beneficial interests in certain irrevocable charitable remainder trusts for which Healthcare does not serve as trustee. Healthcare records its beneficial interest in those trusts as contribution revenue and other assets at the present value of the expected future cash inflows. Such trusts are recorded at the date Healthcare has been notified of the trust's existence and sufficient information regarding the trust has been accumulated to form the basis for an asset. Changes in the value of these assets related to the amortization of the discount or revisions in the income beneficiary's life expectancy are recorded as a change in value of split interest agreements within temporarily or permanently restricted net assets.

Healthcare is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts from the trusts are recognized as beneficial interests in those assets as investments and contribution revenues at the date Healthcare is notified of the establishment of the trust and sufficient information regarding the trust has been obtained by Healthcare. Distributions from the trusts are recorded as investment income in the period they are received. Changes in fair value of the trusts are recorded as a change in beneficial interest in perpetual trusts within permanently restricted net assets.

**Cape Cod Healthcare, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**September 30, 2013 and 2012**

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**13. Pledges Receivable**

Pledges receivable represent unconditional promises to give. These amounts are reported at their present value, discounted at rates ranging from 1.25% to 4.88% at both September 30, 2013 and 2012, and are recorded net of an allowance for uncollectible amounts. Pledges receivable at September 30, 2013 and 2012 are expected to be collected as follows:

	<b>2013</b>	<b>2012</b>
Amounts due		
Within one year	\$ 4,517,318	\$ 4,574,264
In one to five years	10,195,310	4,846,243
In more than five years	800,000	6,250
	<u>15,512,628</u>	<u>9,426,757</u>
Present value discount	(651,909)	(235,747)
Allowance for uncollectible amounts	(474,439)	(302,410)
	<u>\$ 14,386,280</u>	<u>\$ 8,888,600</u>

**14. Restricted Net Assets**

Restricted net assets are available for the following purposes:

	<b>2013</b>	<b>2012</b>
<b>Temporarily restricted</b>		
Healthcare services	\$ 19,217,803	\$ 24,671,347
Buildings	16,513,838	3,742,999
Purchase of equipment	205,616	192,783
	<u>\$ 35,937,257</u>	<u>\$ 28,607,129</u>
<b>Permanently restricted</b>		
Healthcare services	<u>\$ 28,674,844</u>	<u>\$ 27,983,284</u>

**Endowment**

Healthcare's endowment consists of approximately 55 individual donor restricted endowment funds for a variety of purposes plus split interest agreements, and other net assets. The endowments are classified and reported based on the existence of donor imposed restrictions.

Healthcare has interpreted UPMIFA as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Healthcare classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Healthcare in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Healthcare considers the following factors in making a determination to appropriate or accumulate endowment funds: the duration and preservation of the fund; the purposes of the

**Cape Cod Healthcare, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
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organization and the donor-restricted endowment fund; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources of the organization; and the investment policies of the organization.

The following presents the endowment net asset composition by type of fund as of September 30, 2013 and 2012 and the changes in endowment assets for the years ended September 30, 2013 and 2012:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets at September 30, 2011</b>	<b>\$ 6,716,759</b>	<b>\$ 25,923,330</b>	<b>\$ 32,640,089</b>
Investment return			
Investment income	70,520	-	70,520
Net realized and unrealized depreciation	1,395,924	1,624,863	3,020,787
Total investment return	1,466,444	1,624,863	3,091,307
Gifts	-	435,091	435,091
Appropriation of endowment assets for expenditure	(691,014)	-	(691,014)
<b>Endowment net assets at September 30, 2012</b>	<b>7,492,189</b>	<b>27,983,284</b>	<b>35,475,473</b>
Investment return			
Investment income	116,169	-	116,169
Net realized and unrealized depreciation	490,873	631,052	1,121,925
Total investment return	607,042	631,052	1,238,094
Gifts	-	60,508	60,508
Appropriation of endowment assets for expenditure	(713,089)	-	(713,089)
<b>Endowment net assets at September 30, 2013</b>	<b>\$ 7,386,142</b>	<b>\$ 28,674,844</b>	<b>\$ 36,060,986</b>

**Endowment Funds With Deficits**

From time to time, the fair value of net assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction to unrestricted net assets. This deficit was immaterial to the financial statements as of September 30, 2013 and 2012.

**15. Functional Expenses**

Total operating expenses by function are as follows:

	<b>2013</b>	<b>2012</b>
Healthcare services	\$ 596,132,024	\$ 585,330,255
General and administrative	51,908,007	50,000,533
	<b>\$ 648,040,031</b>	<b>\$ 635,330,788</b>

**Cape Cod Healthcare, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**September 30, 2013 and 2012**

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**16. Commitments and Contingencies**

**Leases**

Healthcare has entered into operating leases for certain office equipment and office space. Certain leases provide for renewal options and some contain provisions requiring the affiliates to pay their proportionate share of operating costs in addition to base rent. Rent expense under the operating leases amounted to approximately \$5,345,000 and \$6,288,000 in 2013 and 2012, respectively.

At September 30, 2013, the aggregate future rental commitments under noncancelable leases were:

	<b>Capital Leases</b>	<b>Operating Leases</b>
2014	\$ 1,140,804	\$ 3,156,927
2015	1,070,402	2,085,735
2016	825,990	1,113,698
2017	322,795	847,898
2018	246,948	403,182
Thereafter	<u>1,308,304</u>	<u>1,481,688</u>
Total lease payments	<u>4,915,243</u>	<u>\$ 9,089,128</u>
Less: Amount representing interest	<u>(1,136,779)</u>	
Capital lease obligations at September 30, 2013	<u>\$ 3,778,464</u>	

**Malpractice Insurance**

Healthcare is self-insured for professional and general liability insurance coverage as funded through CHICO, a wholly-owned CCHC affiliate domiciled in the Cayman Islands. CHICO provides the professional liability insurance coverage on a modified claims-made basis, and the general liability claims on an occurrence basis. Liability limits are set annually at \$2,000,000 per medical incident and \$6,000,000 in the aggregate. Effective for the policy year starting June 1, 2008, CHICO's maximum retention in any one policy year is \$8,000,000; for all prior policy years maximum retention is \$10,000,000. Since June 1, 2008, CHICO has maintained reinsurance for 100% of the losses above the underlying policy limits/retention, up to a maximum limitation of \$25,000,000 per policy year. For all policy years prior to June 1, 2008, CCHC maintained excess insurance coverage with a maximum limitation up to \$25,000,000 per policy year. Under the claims-made policies, coverage is provided by CHICO when a claim is first reported during a policy term and its incident date is on or after the retroactive date. The reserves for outstanding losses at Healthcare have been discounted at a rate of 3% at both September 30, 2013 and 2012, resulting in a recorded professional liability reserve of \$21,749,000 and \$19,786,000 at September 30, 2013 and 2012, respectively.

**Workers' Compensation**

Healthcare provides certain workers' compensation coverage on a self-insured basis. The liability, including an estimate for claims incurred but not reported, at September 30, 2013 and 2012, of approximately \$7,518,000 and \$7,055,000, respectively, is included in accounts payable and accrued expenses.

**Health Insurance Plan**

Healthcare is self-insured for its employee health insurance plan. As such, Healthcare recorded a liability of \$7,924,000 and \$6,629,000 for claims incurred but not reported at September 30, 2013 and 2012, respectively, which is included in accounts payable and accrued expenses.

**Cape Cod Healthcare, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements**  
**September 30, 2013 and 2012**

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**Other Contingencies**

CCHC and its affiliates are parties in various legal proceedings and potential claims arising in the ordinary course of its business. In addition, the health care industry as a whole is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to government review and interpretation as well as regulatory actions, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services. Management believes that CCHC and its affiliates are in compliance with current laws and regulations and does not believe that these matters will have a material adverse effect on CCHC and its affiliates' consolidated financial statements.

**17. Concentration of Credit Risk**

Financial instruments that potentially subject Healthcare to concentrations of credit risk are patient and other accounts receivable, cash and cash equivalents, derivatives, and investments. CCHC and its affiliates are located in the Cape Cod area of Massachusetts. The entities grant credit without collateral to their patients, many of whom are local residents and are insured under third-party payor agreements.

Accounts receivable from patients and third-party payors at September 30, 2013 and 2012, were as follows:

	2013	2012
BlueCross and BlueShield	11 %	11 %
Medicare	34	42
Medicaid	10	10
Other third-party payors	37	27
Patients	8	10
	<u>100 %</u>	<u>100 %</u>

A significant portion of the accounts receivable from other third-party payors (commercial insurance companies and HMOs) is derived from two Massachusetts managed care companies. Although management expects amounts recorded as net accounts receivable at September 30, 2013, to be collectible, this concentration of credit risk is expected to continue in the near term.

**18. Subsequent Events**

Healthcare has assessed the impact of subsequent events through January 15, 2014, the date that the financial statements were issued, and has concluded that there were no events that require adjustment to the audited financial statements or disclosure in the footnotes to the audited financial statements, other than the items as described above.

## **Other Consolidating Financial Information**

Cape Cod Healthcare, Inc. and Affiliates  
Consolidating Balance Sheet  
September 30, 2013

	Total	Eliminations and Reclassifications	CCHC	Healthcare Foundation	Cape Cod Hospital and Subsidiary	Falmouth Hospital Association	Cape and Islands	VNA of Cape Cod	Human Services	Falmouth Assisted Living	JML Care Center	Cape Cod Medical Office Building	Captive Insurance	Medical Affiliates
<b>Assets</b>														
Current assets														
Cash and cash equivalents	\$ 44,960,636	\$ -	\$ 4,016,330	\$ 1,495,903	\$ 24,441,500	\$ 6,186,521	\$ 344,730	\$ 2,413,150	\$ 192,243	\$ 2,366,665	\$ 1,477,006	\$ -	\$ 611,803	\$ 1,414,785
Short-term investments	22,589,911	-	-	4,997	-	-	-	-	-	-	-	-	22,584,914	-
Patient accounts receivable, net	73,140,356	-	-	-	44,571,610	16,550,319	-	5,784,873	150,751	67,122	2,021,090	-	-	3,994,591
Current portion of pledges receivable, net	4,042,879	-	-	4,042,879	-	-	-	-	-	-	-	-	-	-
Other receivables, net	9,664,661	(3,666,626)	5,168,670	50,000	4,718,547	706,866	15,137	-	98	-	409	(1,250)	2,591,688	81,122
Insurance recovery receivable	-	(18,886,874)	18,886,874	-	-	-	-	-	-	-	-	-	-	-
Current portion of investments whose use is limited or restricted														
Funds held by trustee under bond indenture agreements	16,935,201	-	-	-	15,947,507	888,107	-	-	99,587	-	-	-	-	-
Supplies	9,497,008	-	115,345	-	6,873,596	2,446,663	13,637	-	-	-	47,767	-	-	-
Prepaid expenses and other current assets	8,221,360	-	1,693,034	4,891	3,378,851	1,106,565	15,877	274,877	3,427	14,430	53,323	-	131,224	1,544,861
Due from affiliates	-	(18,140,252)	1,871,317	3,393,288	8,737,026	1,207,811	1,172,139	3,130	26,322	-	-	13,985	-	1,715,234
Total current assets	<u>189,052,012</u>	<u>(40,693,752)</u>	<u>31,751,570</u>	<u>8,991,958</u>	<u>108,668,637</u>	<u>29,092,852</u>	<u>1,561,520</u>	<u>8,476,030</u>	<u>472,428</u>	<u>2,448,217</u>	<u>3,599,595</u>	<u>12,735</u>	<u>25,919,629</u>	<u>8,750,593</u>
Long-term investments	<u>235,220,631</u>	<u>(96,954,630)</u>	<u>93,421,174</u>	<u>-</u>	<u>111,210,656</u>	<u>105,995,754</u>	<u>-</u>	<u>13,352,612</u>	<u>-</u>	<u>3,677,415</u>	<u>4,517,650</u>	<u>-</u>	<u>-</u>	<u>-</u>
Investments whose use is limited or restricted														
Funds held by trustee under bond indenture agreements, net of current portion	7,187,472	-	-	-	6,963,197	224,275	-	-	-	-	-	-	-	-
Temporarily restricted investments	11,706,628	(34,325,271)	8,050,081	3,656,547	15,258,578	18,085,427	-	800,609	-	-	180,657	-	-	-
Permanently restricted investments	11,443,326	(28,674,845)	11,443,327	-	18,705,703	4,535,586	-	2,676,354	-	-	2,757,201	-	-	-
Permanently restricted beneficial interest in perpetual trusts	<u>16,878,500</u>	<u>-</u>	<u>16,878,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets whose use is limited or restricted	<u>47,215,926</u>	<u>(63,000,116)</u>	<u>36,371,908</u>	<u>3,656,547</u>	<u>40,927,478</u>	<u>22,845,288</u>	<u>-</u>	<u>3,476,963</u>	<u>-</u>	<u>-</u>	<u>2,937,858</u>	<u>-</u>	<u>-</u>	<u>-</u>
Property and equipment, net	<u>294,672,218</u>	<u>-</u>	<u>24,728,425</u>	<u>178,574</u>	<u>191,452,631</u>	<u>66,213,003</u>	<u>364,815</u>	<u>2,033,619</u>	<u>197,777</u>	<u>3,944,276</u>	<u>4,648,143</u>	<u>15,000</u>	<u>-</u>	<u>895,955</u>
Other assets														
Deferred financing costs, net	3,484,797	-	-	-	3,306,317	178,480	-	-	-	-	-	-	-	-
Pledges receivable, net of current portion	10,343,401	-	-	10,343,401	-	-	-	-	-	-	-	-	-	-
Goodwill	7,978,952	-	-	-	5,843,363	2,085,484	-	-	-	-	-	-	-	50,105
Other assets	<u>19,097,083</u>	<u>-</u>	<u>17,946,923</u>	<u>-</u>	<u>612,660</u>	<u>16,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>521,500</u>
Total other assets	<u>40,904,233</u>	<u>-</u>	<u>17,946,923</u>	<u>10,343,401</u>	<u>9,762,340</u>	<u>2,279,964</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>571,605</u>
Total assets	<u>\$ 807,065,020</u>	<u>\$ (200,648,498)</u>	<u>\$ 204,220,000</u>	<u>\$ 23,170,480</u>	<u>\$ 462,021,742</u>	<u>\$ 226,426,861</u>	<u>\$ 1,926,335</u>	<u>\$ 27,339,224</u>	<u>\$ 670,205</u>	<u>\$ 10,069,908</u>	<u>\$ 15,703,246</u>	<u>\$ 27,735</u>	<u>\$ 25,919,629</u>	<u>\$ 10,218,153</u>

Cape Cod Healthcare, Inc. and Affiliates  
Consolidating Balance Sheet  
September 30, 2013

	Total	Eliminations and Reclassifications	CCHC	Healthcare Foundation	Cape Cod Hospital and Subsidiary	Falmouth Hospital Association	Cape and Islands	VNA of Cape Cod	Human Services	Falmouth Assisted Living	JML Care Center	Cape Cod Medical Office Building	Captive Insurance	Medical Affiliates
<b>Liabilities and Net Assets</b>														
Current liabilities														
Current portion of long-term debt and capital lease obligations	\$ 9,016,117	\$ -	\$ 374,245	\$ -	\$ 7,239,839	\$ 1,402,033	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable and accrued expenses	91,643,492	-	28,730,085	228,710	36,864,906	12,956,577	1,356,662	4,678,925	188,702	255,132	1,675,442	1,532	44,400	4,662,419
Professional Liability Claims	-	(18,886,874)	18,886,874	-	-	-	-	-	-	-	-	-	-	-
Estimated settlements with third-party payors	17,121,517	-	-	-	8,991,694	7,296,518	-	833,305	-	-	-	-	-	-
Due to affiliates	-	(18,140,252)	5,302,906	32,074	1,398,096	7,727,006	570,167	47,322	478,288	242,125	1,021,991	2,739	-	1,317,538
Other current liabilities	558,254	-	392,997	-	35,261	30,085	86	-	3,215	-	93,586	-	-	3,024
Total current liabilities	118,339,380	(37,027,126)	53,687,107	260,784	54,529,796	29,412,219	1,926,915	5,559,552	670,205	497,257	2,791,019	4,271	44,400	5,982,981
Other liabilities														
Interest rate swaps	2,971,303	-	-	-	2,971,303	-	-	-	-	-	-	-	-	-
Other liabilities	25,349,918	(3,666,626)	2,937,702	-	-	-	-	-	-	323,613	-	-	25,755,229	-
Total other liabilities	28,321,221	(3,666,626)	2,937,702	-	2,971,303	-	-	-	-	323,613	-	-	25,755,229	-
Long-term debt and capital lease obligations, net of current portion														
	170,947,364	-	2,151,913	-	141,713,303	27,082,148	-	-	-	-	-	-	-	-
Total liabilities	317,607,965	(40,693,752)	58,776,722	260,784	199,214,402	56,494,367	1,926,915	5,559,552	670,205	820,870	2,791,019	4,271	25,799,629	5,982,981
Net assets														
Unrestricted	424,844,954	(96,954,630)	98,339,148	5,401,725	228,843,059	147,311,480	(580)	18,302,709	-	9,249,038	9,974,369	23,464	120,000	4,235,172
Temporarily restricted	35,937,257	(34,325,271)	18,479,286	17,457,971	15,258,578	18,085,427	-	800,609	-	-	180,657	-	-	-
Permanently restricted	28,674,844	(28,674,845)	28,624,844	50,000	18,705,703	4,535,587	-	2,676,354	-	-	2,757,201	-	-	-
Total net assets	489,457,055	(159,954,746)	145,443,278	22,909,696	262,807,340	169,932,494	(580)	21,779,672	-	9,249,038	12,912,227	23,464	120,000	4,235,172
Total liabilities and net assets	\$ 807,065,020	\$ (200,648,498)	\$ 204,220,000	\$ 23,170,480	\$ 462,021,742	\$ 226,426,861	\$ 1,926,335	\$ 27,339,224	\$ 670,205	\$ 10,069,908	\$ 15,703,246	\$ 27,735	\$ 25,919,629	\$ 10,218,153

Cape Cod Healthcare, Inc. and Affiliates  
Consolidating Statement of Operations  
For the year ended September 30, 2013

	Total	Eliminations and Reclassifications	CCHC	Healthcare Foundation	Cape Cod Hospital and Subsidiary	Falmouth Hospital Association	Cape and Islands	VNA of Cape Cod	Human Services	Falmouth Assisted Living	JML Care Center	Cape Cod Medical Office Building	Captive Insurance	Medical Affiliates
<b>Revenue</b>														
Net patient service revenue	\$ 678,986,251	\$ -	\$ -	\$ -	\$ 421,420,952	\$ 148,863,733	\$ -	\$ 46,838,815	\$ 1,951,066	\$ 3,938,365	\$ 15,187,365	\$ -	\$ -	\$ 40,785,955
Less: provision for bad debts	18,754,848	-	-	-	13,754,987	4,105,596	-	143,898	31,236	-	117,000	-	-	602,131
Net patient service revenue after provision for bad debts	660,231,403	-	-	-	407,665,965	144,758,137	-	46,694,917	1,919,830	3,938,365	15,070,365	-	-	40,183,824
Other revenue	11,477,268	(42,177,040)	30,775,590	-	5,922,933	4,321,139	9,646,432	1,443,334	453,558	555,248	359,678	15,000	-	161,396
Net assets released from restrictions used for operations	2,028,166	-	16,767	-	654,466	453,499	-	767,783	-	-	135,651	-	-	-
Total revenue	673,736,837	(42,177,040)	30,792,357	-	414,243,364	149,532,775	9,646,432	48,906,034	2,373,388	4,493,613	15,565,694	15,000	-	40,345,220
<b>Expenses</b>														
Salaries and wages	267,157,113	-	18,444,475	-	139,084,692	55,041,678	4,899,839	29,680,200	1,450,265	1,415,525	9,407,059	-	-	7,733,380
Physicians' salaries and fees	69,823,245	-	485,771	-	38,468,255	10,605,812	51,996	26,680	252,675	-	102,250	-	-	19,829,806
Employee benefits	87,724,003	-	(3,456,462)	-	50,431,985	17,899,701	3,004,322	10,131,272	279,151	463,966	2,874,025	-	-	6,096,043
Supplies and other	189,413,292	(42,177,040)	13,215,502	-	142,700,449	45,595,195	1,595,803	8,220,042	911,619	962,372	3,447,935	18,848	360,196	14,562,371
Depreciation and amortization	26,718,466	-	2,113,452	-	17,658,786	5,108,125	95,054	676,938	19,883	442,319	434,874	-	-	169,035
Interest	7,203,912	-	-	-	6,186,896	1,017,016	-	-	-	-	-	-	-	-
Total expenses	648,040,031	(42,177,040)	30,802,738	-	394,531,063	135,267,527	9,647,014	48,735,132	2,913,593	3,284,182	16,266,143	18,848	360,196	48,390,635
Income (loss) from operations	25,696,806	-	(10,381)	-	19,712,301	14,265,248	(582)	170,902	(540,205)	1,209,431	(700,449)	(3,848)	(360,196)	(8,045,415)
<b>Nonoperating gains (losses)</b>														
Investment income	1,951,417	(629,291)	679,445	54	749,727	656,162	-	77,917	-	23,793	33,414	-	360,196	-
Realized gains (losses) on investments, net	5,791,482	(2,379,709)	2,379,709	(5,653)	2,764,800	2,522,503	-	296,783	-	94,276	118,773	-	-	-
Gifts and bequests	4,800,374	(3,654,002)	-	4,800,051	2,585,233	564,993	-	500,160	323	-	3,616	-	-	-
Fundraising expense	(861,278)	656,105	-	(861,279)	(464,199)	(102,097)	-	(89,808)	-	-	-	-	-	-
Change in fair value of interest rate swaps	1,294,824	-	-	-	1,275,084	19,740	-	-	-	-	-	-	-	-
Other nonoperating gains (losses)	(1,240,983)	-	-	-	(915,763)	(325,220)	-	-	-	-	-	-	-	-
Total nonoperating gains (losses), net	11,735,836	(6,006,897)	3,059,154	3,933,173	5,994,882	3,336,081	-	785,052	323	118,069	155,803	-	360,196	-
Excess (deficit) of revenue and gains over expenses and losses	37,432,642	(6,006,897)	3,048,773	3,933,173	25,707,183	17,601,329	(582)	955,954	(539,882)	1,327,500	(544,646)	(3,848)	-	(8,045,415)
Change in net unrealized gains and losses on investments	2,054,930	(778,206)	787,094	-	835,892	961,975	-	141,758	-	64,289	42,128	-	-	-
Net assets released from restrictions used for purchase of property and equipment	3,357,216	-	-	-	1,976,974	1,380,242	-	-	-	-	-	-	-	-
Transfer to (from) affiliates	-	4,493,010	2,541,739	135,768	(15,542,623)	(4,452,311)	-	-	539,482	30	-	27,312	-	12,257,593
Increase (decrease) in unrestricted net assets	\$ 42,844,788	\$ (2,292,093)	\$ 6,377,606	\$ 4,068,941	\$ 12,977,426	\$ 15,491,235	\$ (582)	\$ 1,097,712	\$ (400)	\$ 1,391,819	\$ (502,518)	\$ 23,464	\$ -	\$ 4,212,178

**Cape Cod Healthcare, Inc. and Affiliates**  
**Consolidating Balance Sheet - Cape Cod Healthcare Obligated Group**  
**September 30, 2013**

	Total	Other Entities and Eliminations	Total Obligated Group	Eliminations and Reclassifications	CCHC	Healthcare Foundation	Cape Cod Hospital and Subsidiary	Falmouth Hospital Association
<b>Assets</b>								
Current assets								
Cash and cash equivalents	\$ 44,960,636	\$ 8,820,382	\$ 36,140,254	\$ -	\$ 4,016,330	\$ 1,495,903	\$ 24,441,500	\$ 6,186,521
Short-term investments	22,589,911	22,584,914	4,997	-	-	4,997	-	-
Patient accounts receivable	73,140,356	12,018,427	61,121,929	-	-	-	44,571,610	16,550,319
Current portion of pledges receivable, net	4,042,879	-	4,042,879	-	-	4,042,879	-	-
Other receivables, net	9,664,661	(979,422)	10,644,083	-	5,168,670	50,000	4,718,547	706,866
Insurance recovery receivable	-	-	-	(18,886,874)	18,886,874	-	-	-
Current portion of investments whose use is limited or restricted								
Funds held by trustee under bond indenture agreements	16,935,201	99,587	16,835,614	-	-	-	15,947,507	888,107
Supplies	9,497,008	61,404	9,435,604	-	115,345	-	6,873,596	2,446,663
Prepaid expenses and other current assets	8,221,360	2,038,019	6,183,341	-	1,693,034	4,891	3,378,851	1,106,565
Due from affiliates	-	(3,646,639)	3,646,639	(11,562,803)	1,871,317	3,393,288	8,737,026	1,207,811
Total current assets	<u>189,052,012</u>	<u>40,996,672</u>	<u>148,055,340</u>	<u>(30,449,677)</u>	<u>31,751,570</u>	<u>8,991,958</u>	<u>108,668,637</u>	<u>29,092,852</u>
Long-term investments	<u>235,220,631</u>	<u>-</u>	<u>235,220,631</u>	<u>(75,406,953)</u>	<u>93,421,174</u>	<u>-</u>	<u>111,210,656</u>	<u>105,995,754</u>
Investments whose use is limited or restricted								
Funds held by trustee under bond indenture agreements, net of current portion	7,187,472	-	7,187,472	-	-	-	6,963,197	224,275
Temporarily restricted investments	11,706,628	-	11,706,628	(33,344,005)	8,050,081	3,656,547	15,258,578	18,085,427
Permanently restricted investments	11,443,326	-	11,443,326	(23,241,290)	11,443,327	-	18,705,703	4,535,586
Permanently restricted beneficial interest in perpetual trusts	16,878,500	-	16,878,500	-	16,878,500	-	-	-
Total assets whose use is limited or restricted	<u>47,215,926</u>	<u>-</u>	<u>47,215,926</u>	<u>(56,585,295)</u>	<u>36,371,908</u>	<u>3,656,547</u>	<u>40,927,478</u>	<u>22,845,288</u>
Property and equipment, net	<u>294,672,218</u>	<u>12,099,585</u>	<u>282,572,633</u>		<u>24,728,425</u>	<u>178,574</u>	<u>191,452,631</u>	<u>66,213,003</u>
Other assets								
Deferred financing costs, net	3,484,797	-	3,484,797	-	-	-	3,306,317	178,480
Pledges receivable, net of current portion	10,343,401	-	10,343,401	-	-	10,343,401	-	-
Goodwill	7,978,952	50,105	7,928,847	-	-	-	5,843,363	2,085,484
Other assets	19,097,083	521,500	18,575,583	-	17,946,923	-	612,660	16,000
Total other assets	<u>40,904,233</u>	<u>571,605</u>	<u>40,332,628</u>	<u>-</u>	<u>17,946,923</u>	<u>10,343,401</u>	<u>9,762,340</u>	<u>2,279,964</u>
Total assets	<u>\$ 807,065,020</u>	<u>\$ 53,667,862</u>	<u>\$ 753,397,158</u>	<u>\$ (162,441,925)</u>	<u>\$ 204,220,000</u>	<u>\$ 23,170,480</u>	<u>\$ 462,021,742</u>	<u>\$ 226,426,861</u>

**Cape Cod Healthcare, Inc. and Affiliates**  
**Consolidating Balance Sheet - Cape Cod Healthcare Obligated Group**  
**September 30, 2013**

	Total	Other Entities and Eliminations	Total Obligated Group	Eliminations and Reclassifications	CCHC	Healthcare Foundation	Cape Cod Hospital and Subsidiary	Falmouth Hospital Association
<b>Liabilities and Net Assets</b>								
Current liabilities								
Current portion of long-term debt and capital lease obligations	\$ 9,016,117	\$ -	\$ 9,016,117	\$ -	\$ 374,245	\$ -	\$ 7,239,839	\$ 1,402,033
Accounts payable and accrued expenses	91,643,492	12,863,214	78,780,278	-	28,730,085	228,710	36,864,906	12,956,577
Professional Liability Claims	-	-	-	(18,886,874)	18,886,874	-	-	-
Estimated settlements with third-party payors	17,121,517	833,305	16,288,212	-	-	-	8,991,694	7,296,518
Due to affiliates	-	(2,897,279)	2,897,279	(11,562,803)	5,302,906	32,074	1,398,096	7,727,006
Other current liabilities	558,254	99,911	458,343	-	392,997	-	35,261	30,085
Total current liabilities	<u>118,339,380</u>	<u>10,899,151</u>	<u>107,440,229</u>	<u>(30,449,677)</u>	<u>53,687,107</u>	<u>260,784</u>	<u>54,529,796</u>	<u>29,412,219</u>
Other liabilities								
Interest rate swaps	2,971,303	-	2,971,303	-	-	-	2,971,303	-
Other liabilities	<u>25,349,918</u>	<u>22,412,216</u>	<u>2,937,702</u>	<u>-</u>	<u>2,937,702</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other liabilities	28,321,221	22,412,216	5,909,005	-	2,937,702	-	2,971,303	-
Long-term debt and capital lease obligations, net of current portion	<u>170,947,364</u>	<u>-</u>	<u>170,947,364</u>	<u>-</u>	<u>2,151,913</u>	<u>-</u>	<u>141,713,303</u>	<u>27,082,148</u>
Total liabilities	<u>317,607,965</u>	<u>33,311,367</u>	<u>284,296,598</u>	<u>(30,449,677)</u>	<u>58,776,722</u>	<u>260,784</u>	<u>199,214,402</u>	<u>56,494,367</u>
Net assets								
Unrestricted	424,844,954	20,356,495	404,488,459	(75,406,953)	98,339,148	5,401,725	228,843,059	147,311,480
Temporarily restricted	35,937,257	-	35,937,257	(33,344,005)	18,479,286	17,457,971	15,258,578	18,085,427
Permanently restricted	<u>28,674,844</u>	<u>-</u>	<u>28,674,844</u>	<u>(23,241,290)</u>	<u>28,624,844</u>	<u>50,000</u>	<u>18,705,703</u>	<u>4,535,587</u>
Total net assets	<u>489,457,055</u>	<u>20,356,495</u>	<u>469,100,560</u>	<u>(131,992,248)</u>	<u>145,443,278</u>	<u>22,909,696</u>	<u>262,807,340</u>	<u>169,932,494</u>
Total liabilities and net assets	<u>\$ 807,065,020</u>	<u>\$ 53,667,862</u>	<u>\$ 753,397,158</u>	<u>\$ (162,441,925)</u>	<u>\$ 204,220,000</u>	<u>\$ 23,170,480</u>	<u>\$ 462,021,742</u>	<u>\$ 226,426,861</u>

**Cape Cod Healthcare, Inc. and Affiliates**  
**Consolidating Statement of Operations - Cape Cod Healthcare Obligated Group**  
**For the year ended September 30, 2013**

	Total	Other Entities and Eliminations	Total Obligated Group	Eliminations and Reclassifications	CCHC	Healthcare Foundation	Cape Cod Hospital and Subsidiary	Falmouth Hospital Association
<b>Revenue</b>								
Net patient service revenue	\$ 678,986,251	\$ 108,701,566	\$ 570,284,685	\$ -	\$ -	\$ -	\$ 421,420,952	\$ 148,863,733
Less: provision for bad debts	18,754,848	894,265	17,860,583	-	-	-	13,754,987	4,105,596
Net patient service revenue after provision for bad debts	660,231,403	107,807,301	552,424,102	-	-	-	407,665,965	144,758,137
Other revenue	11,477,268	(1,125,796)	12,603,064	(28,416,598)	30,775,590	-	5,922,933	4,321,139
Net assets released from restrictions used for operations	2,028,166	903,434	1,124,732	-	16,767	-	654,466	453,499
Total revenue	673,736,837	107,584,939	566,151,898	(28,416,598)	30,792,357	-	414,243,364	149,532,775
<b>Expenses</b>								
Salaries and wages	267,157,113	54,586,268	212,570,845	-	18,444,475	-	139,084,692	55,041,678
Physicians' salaries and fees	69,823,245	20,263,407	49,559,838	-	485,771	-	38,468,255	10,605,812
Employee benefits	87,724,003	22,848,779	64,875,224	-	(3,456,462)	-	50,431,985	17,899,701
Supplies and other	189,413,292	16,318,744	173,094,548	(28,416,598)	13,215,502	-	142,700,449	45,595,195
Depreciation and amortization	26,718,466	1,838,103	24,880,363	-	2,113,452	-	17,658,786	5,108,125
Interest	7,203,912	-	7,203,912	-	-	-	6,186,896	1,017,016
Total expenses	648,040,031	115,855,301	532,184,730	(28,416,598)	30,802,738	-	394,531,063	135,267,527
Income (loss) from operations	25,696,806	(8,270,362)	33,967,168	-	(10,381)	-	19,712,301	14,265,248
<b>Nonoperating gains (losses)</b>								
Investment income	1,951,417	358,499	1,592,918	(492,470)	679,445	54	749,727	656,162
Realized gains (losses) on investments, net	5,791,482	-	5,791,482	(1,869,877)	2,379,709	(5,653)	2,764,800	2,522,503
Gifts and bequests	4,800,374	324	4,800,050	(3,150,227)	-	4,800,051	2,585,233	564,993
Fundraising expense	(861,278)	-	(861,278)	566,297	-	(861,279)	(464,199)	(102,097)
Change in fair value of interest rate swaps	1,294,824	-	1,294,824	-	-	-	1,275,084	19,740
Other nonoperating gains (losses)	(1,240,983)	-	(1,240,983)	-	-	-	(915,763)	(325,220)
Total nonoperating gains (losses), net	11,735,836	358,823	11,377,013	(4,946,277)	3,059,154	3,933,173	5,994,882	3,336,081
Excess (deficit) of revenue and gains over expenses and losses	37,432,642	(7,911,539)	45,344,181	(4,946,277)	3,048,773	3,933,173	25,707,183	17,601,329
Change in net unrealized gains and losses on investments	2,054,930	-	2,054,930	(530,031)	787,094	-	835,892	961,975
Net assets released from restrictions used for purchase of property and equipment	3,357,216	-	3,357,216	-	-	-	1,976,974	1,380,242
Transfer to (from) affiliates	-	14,985,231	(14,985,231)	2,332,196	2,541,739	135,768	(15,542,623)	(4,452,311)
Increase (decrease) in unrestricted net assets	\$ 42,844,788	\$ 7,073,692	\$ 35,771,096	\$ (3,144,112)	\$ 6,377,606	\$ 4,068,941	\$ 12,977,426	\$ 15,491,235