Winter Haven Hospital, Inc.

Financial and Compliance Report

September 30, 2011

Contents

McGladrey

Independent Auditor's Report

To the Board of Trustees
Winter Haven Hospital, Inc.

We have audited the accompanying consolidated balance sheets of Winter Haven Hospital, Inc. (the Hospital) as of September 30, 2011 and 2010, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Winter Haven Hospital, Inc. as of September 30, 2011 and 2010, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated January 11, 2012, and January 3, 2011, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards and schedule of expenditures of state financial assistance are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.650, *Rules of the Auditor General of the State of Florida,* and are not a required part of the basic consolidated financial statements. The consolidating information is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position, results of operations and changes in net assets of the individual companies. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole. The accompanying Behavioral Health Department supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we express no opinion on it.

McGladrey & Pullen, LLP

Orlando, Florida
January 11, 2012

Winter Haven Hospital, Inc.

Consolidated Balance Sheets
September 30, 2011 and 2010

Assets	**2011**	2010
Current Assets		
Cash and cash equivalents	**$ 18,464,566**	$ 24,925,332
Investments (Note 6)	**9,257,355**	9,213,668
Assets limited as to use that are available for current liabilities (Note 6)	**2,114,933**	1,962,065
Patient accounts receivable, less allowances for doubtful accounts of $17,272,058 in 2011 and $23,619,711 in 2010	**42,081,796**	38,414,258
Other receivables	**983,907**	1,519,112
Pledges receivable, net (Note 8)	**194,500**	257,735
Estimated third-party settlements, net	**143,114**	-
Due from affiliate, net	**2,624,468**	1,261,452
Inventories	**5,930,240**	5,090,948
Prepaid expenses and other assets	**4,921,596**	5,061,039
Total current assets	**86,716,475**	87,705,609
Assets Limited as to Use, net of current portion (Note 6)		
By Board:		
For self-insured liability	**3,777,356**	4,519,466
For funded depreciation	**32,545,515**	32,743,351
For nursing research	**61,666**	75,959
For capital improvements	**4,584,704**	3,826,571
Under bond indenture agreement:		
Project funds	**3,435,931**	3,422,402
Swap collateral (Note 14)	**7,057,374**	5,028,056
By donors for specific purposes	**1,541,652**	1,388,727
Total assets limited as to use	**53,004,198**	51,004,532
Pledges Receivable, net (Note 8)	**122,401**	285,450
Property and Equipment, net (Note 9)	**115,355,918**	114,963,310
Deferred Loan Origination Costs, net (Note 13)	**732,748**	764,418
Other Long-Term Assets, net (Note 10)	**3,751,566**	3,669,933
	119,962,633	119,683,111
Total assets	**$ 259,683,306**	$ 258,393,252

See Notes to Consolidated Financial Statements.

Liabilities and Net Assets	**2011**	2010
Current Liabilities		
Current portion of long-term debt (Note 13)	**$ 6,159,978**	$ 5,784,691
Accounts payable and accrued expenses	**13,586,671**	11,084,949
Accrued employee compensation and benefits	**15,379,012**	15,410,774
Current portion of self-insured liability	**2,335,040**	2,197,670
Estimated third-party settlements, net	**-**	389,200
Total current liabilities	**37,460,701**	34,867,284
Long-Term Debt, less current portion (Note 13)	**81,012,665**	86,105,442
Self-Insured Liability, less current portion	**7,610,301**	7,447,528
Deferred Revenue	**78,550**	76,651
Other Long-Term Liabilities (Note 11)	**16,814,872**	13,103,673
Total liabilities	**142,977,089**	141,600,578

Commitments and Contingencies (Notes 9 and 12)

Net Assets		
Unrestricted	**114,873,852**	115,088,256
Temporarily restricted (Note 17)	**865,966**	738,019
Permanently restricted (Note 17)	**966,399**	966,399
Total net assets	**116,706,217**	116,792,674
Total liabilities and net assets	**$ 259,683,306**	$ 258,393,252

Winter Haven Hospital, Inc.

Consolidated Statements of Operations
Years Ended September 30, 2011 and 2010

	2011	2010
Revenues:		
Net patient service revenue	**$ 251,558,685**	$ 265,943,459
Other revenue	**10,549,990**	9,760,085
Contributions	**711,812**	702,297
Satisfaction of donor restrictions	**100,063**	2,573,422
Total revenues	**262,920,550**	278,979,263
Expenses:		
Salaries, benefits and contract labor	**126,327,159**	123,856,336
Supplies	**45,222,717**	45,071,831
Professional services	**3,659,347**	2,863,005
Other direct expenses	**25,149,659**	26,101,146
Utilities	**5,019,702**	5,463,203
Insurance	**7,878,948**	9,676,309
Interest	**4,239,798**	4,160,038
Depreciation and amortization	**17,033,800**	13,825,127
Provision for bad debts	**26,771,802**	43,944,881
Contribution expense	**-**	75,535
Total expenses	**261,302,932**	275,037,411
Income from operations	**1,617,618**	3,941,852
Other income:		
Investment income	**3,639,416**	2,463,439
Change in swap liability	**(2,213,896)**	(4,783,337)
Change in net unrealized gains (loss) on trading securities	**(3,192,364)**	2,887,287
Loss on bond refunding	**-**	(3,246,507)
Gain (loss) on disposal of assets	**(65,178)**	46,068
Excess (deficit) of revenues over expenses prior to reclassification of change in swap value liability effective hedge	**(214,404)**	1,308,802
Reclassification of change in swap value liability effective hedge	**-**	(6,692,200)
Deficit of revenues over expenses	**$ (214,404)**	$ (5,383,398)

See Notes to Consolidated Financial Statements.

Winter Haven Hospital, Inc.

Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2011 and 2010

	2011	2010
Unrestricted net assets:		
Deficit of revenues over expenses	**$ (214,404)**	$ (5,383,398)
Change in swap value liability effective hedge	**-**	1,245,218
Reclassification of change in swap value liability effective hedge	**-**	6,692,200
Increase (decrease) in unrestricted net assets	**(214,404)**	2,554,020
Temporarily restricted net assets:		
Proceeds from fundraising events	**20,845**	61,160
All other contributions	**213,556**	23,468
Investment income	**6,350**	11,184
Change in net unrealized gains (loss) on trading securities	**(12,741)**	25,977
Net assets released from restrictions	**(100,063)**	(2,573,422)
Increase (decrease) in temporarily restricted net assets	**127,947**	(2,451,633)
Increase (decrease) in net assets	**(86,457)**	102,387
Net assets:		
Beginning of year	**116,792,674**	116,690,287
End of year	**$ 116,706,217**	$ 116,792,674

See Notes to Consolidated Financial Statements.

Winter Haven Hospital, Inc.

Consolidated Statements of Cash Flows
Years Ended September 30, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities		
Change in net assets	**$ (86,457)**	$ 102,387
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**17,033,800**	13,825,127
Loss (gain) on disposal of property and equipment	**65,178**	(46,068)
Loss on bond refunding	**-**	3,246,507
Change in fair value of interest rate swap	**2,213,896**	3,538,119
Contributions restricted for capital	**(125,256)**	-
Provision for bad debts	**26,771,802**	43,944,881
(Increase) decrease in assets:		
Patient accounts receivable	**(30,354,340)**	(43,760,264)
Trading securities	**(41,647)**	(4,153,359)
Other receivables	**535,205**	(592,158)
Estimated third-party settlements, Medicare (net)	**(693,885)**	(904,303)
Inventories	**(839,292)**	(38,439)
Prepaid expenses and other assets	**139,443**	689,008
Other long-term assets	**(81,633)**	998,186
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	**946,432**	885,304
Accrued employee compensation and benefits	**(31,762)**	388,874
Professional liability and workers' compensation	**300,143**	435,134
Estimated third-party settlements, Medicaid (net)	**161,571**	971,043
Deferred revenue	**1,899**	6,151
Other current and long-term liabilities	**64,601**	(979,459)
Net cash provided by operating activities	**15,979,698**	18,556,671
Cash Flows From Investing Activities		
Increase in assets limited as to use under bond indenture	**(2,029,318)**	(85,011)
Acquisitions of property and equipment	**(14,480,950)**	(16,493,081)
Proceeds from the sale of property and equipment	**9,026**	-
Net cash used in investing activities	**(16,501,242)**	(16,578,092)
Cash Flows From Financing Activities		
Increase in advances to affiliated entities	**(1,363,016)**	(1,165,117)
Payments on debt	**(5,700,133)**	(71,931,372)
Proceeds from issuance of debt	**982,643**	71,368,433
Contributions restricted for capital	**141,284**	53,498
Addition of new loan costs	**-**	(580,556)
Net cash used in financing activities	**(5,939,222)**	(2,255,114)
Net decrease in cash and cash equivalents	**(6,460,766)**	(276,535)
Cash and Cash Equivalents		
Beginning of year	**24,925,332**	25,201,867
End of year	**$ 18,464,566**	$ 24,925,332

(Continued)

Winter Haven Hospital, Inc.

Consolidated Statements of Cash Flows (Continued)
Years Ended September 30, 2011 and 2010

		2011		2010
Supplemental Disclosures of Cash Flow Information				
Cash paid during the year for interest	**$**	**3,707,507**	$	3,604,541
Supplemental Disclosures of Noncash Investing and Financing Activities				
Decrease in pledge receivables restricted for capital	**$**	**(141,284)**	$	(53,498)
Acquisition of property and equipment through accounts payable		**845,082**		826,903
Increase of property and equipment through asset retirement obligation		**2,142,910**		-
Equipment acquired under capital lease		**-**		4,568,433

See Notes to Consolidated Financial Statements.

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: Winter Haven Hospital, Inc. (the Hospital) is an organization for which the sole membership is held by Mid-Florida Medical Services, Inc. (Mid-Florida). Mid-Florida is the parent holding company for and sole member of the Hospital.

The operations of the Hospital are carried out through the divisions as follows:

Winter Haven Hospital: The Hospital provides comprehensive inpatient and outpatient ambulatory care services and operates at the current licensed level of 527 medical and surgical beds. The Hospital is a regional facility located in Winter Haven, Florida, with the eastern portions of Polk County as its primary service area and Hardee and Highlands counties as its secondary service area.

Regency Center for Women and Infants: The Regency Center for Women and Infants operates a separate women's hospital facility located in Winter Haven, Florida. This separate campus accounts for 61 of the licensed beds included within the Winter Haven Hospital licensure.

The financial statements of the following organization, over which the Hospital has control, are included in the accompanying consolidated financial statements:

Mid-Florida Medical Services Foundation, Inc.: On May 31, 2002, Mid-Florida formed Mid-Florida Medical Services Foundation, Inc. (the Foundation) as a separate fundraising organization to raise and distribute funds for the benefit of the Hospital to further the purpose of improving health services in the community. Effective October 1, 2003, the Foundation amended its bylaws and named the Hospital as the supported entity.

The following organization is a related party that is controlled by Mid-Florida:

Mid-Florida Physician Services, LLC: During the year ended September 30, 2008, Mid-Florida created the following entities: Mid-Florida Oncology Physician Services, LLC; Mid-Florida Urology Physician Services, LLC; Mid-Florida Intensivist Physician Services, LLC; and Mid-Florida OB/GYN Physician Services, LLC. During the year ended September 30, 2009, Mid-Florida created Mid-Florida Orthopedic Physician Services, LLC. During the year ended September 30, 2010, Mid-Florida created Mid-Florida Interventional Cardiology Physician Services, LLC. The purpose of these entities relates to physician-related activities established by Mid-Florida to meet care delivery needs of the community. These entities are controlled by Mid-Florida and, as a result, they are not included in the Hospital's financial statements. In July 2011, Mid-Florida transferred the operations that were previously in Mid-Florida Intensivist Physician Services, LLC and Mid-Florida OB/GYN Physician Services, LLC to the Hospital's financial statements.

Significant accounting policies:

Principles of consolidation: The consolidated financial statements of the Hospital include the financial statements of the affiliated organizations that the Hospital wholly owns or over which the Hospital has control. All significant intercompany transactions and balances have been eliminated in consolidation.

Basis of financial reporting: The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues, gains and other support are generally recognized when services are provided. Expenses are recognized when purchases of materials are made or services are rendered.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

The Hospital's resources are reported for accounting purposes into separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying consolidated financial statements, net assets that have similar characteristics have been combined into similar categories, as follows:

Permanently restricted: Permanently restricted net assets are subject to donor-imposed stipulations that require that these funds be maintained permanently by the Hospital. Generally, the donors of these assets permit the Hospital to use all or part of the investment return on these assets. Such assets include the Hospital's permanent endowment funds.

Temporarily restricted: Temporarily restricted net assets are net assets whose use by the Hospital is subject to donor-imposed stipulations that can be fulfilled by actions of the Hospital pursuant to those stipulations or that expire by the passage of time.

Unrestricted: Net assets that are not subject to donor-imposed stipulations are unrestricted net assets. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or otherwise limited by contractual agreements with outside parties.

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

Concentrations of credit risk: The Hospital maintains its cash and cash equivalents with several large financial institutions. All accounts at these financial institutions are guaranteed to the limits established by the Federal Deposit Insurance Corporation per bank. The Hospital has cash deposits that exceed the federally insured deposited amount. Management does not anticipate nonperformance by the financial institutions.

Cash and cash equivalents: For purposes of reporting cash flows, cash and cash equivalents are defined as highly liquid investments with maturities of three months or less when purchased and consist of amounts held as bank deposits, bank certificates of deposit, repurchase agreements, money market funds and government-backed short-term funds. Assets limited as to use include certain short-term investments that could be considered cash equivalents. However, management excludes these amounts from its definition of cash and cash equivalents for cash flow reporting.

Investments: Investments are reported at fair value as discussed in Note 7. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) for trading securities is included in the excess (deficit) of revenues over expenses, unless the income is restricted by donor or law. Unrealized gains and losses on investments classified as other than trading are excluded from excess (deficit) of revenues over expenses. Amounts are invested in money market funds, mutual funds, exchange-traded funds, government and agency securities, corporate and other debt securities, equity securities, and alternative investments and other. The Hospital evaluates the nature and classification of securities on a periodic basis. Management determined that securities are more reflective of a trading portfolio, and accordingly, has designated all securities, except those held by trustees under bond indenture agreements, as trading securities.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, and these changes could materially affect the balance of investments in the consolidated financial statements.

Accounts receivable: Accounts receivable for medical services are stated at net realizable value. The Hospital estimates the allowances for uncollectible accounts based on historic write-offs and the aging of the accounts. Accounts are written off when collection efforts have been exhausted.

Assets limited as to use: The Hospital's Board of Trustees has designated certain assets for purposes of funding capital improvements, education and research, funded depreciation, the self-insured portion of the professional liability program, and workers' compensation. Other assets are limited as to use by debt service agreements and by donors. Assets limited as to use consist of cash and investments. Amounts available to fund current liabilities are reported as current assets.

Inventories: Inventories, consisting principally of medical and pharmaceutical supplies, are stated at the lower of cost (first-in, first-out method) or market.

Assets limited as to use under bond indenture agreement: In accordance with the provisions of the Series 2005 and 2006 Industrial Development Revenue Bonds, certain assets were held by U.S. Bank (the Trustee) until May 2010 in a debt service reserve in an amount equal to the maximum annual debt service on the bonds. In May 2010, the Series 2005 and 2006 Bonds were refinanced with the Series 2010 Bonds, as more fully described in Note 13. The amounts previously held in the debt service reserve funds were released upon the refinancing to a Project Fund for use in qualifying capital projects as defined under the Series 2005 and 2006 Bond Documents.

Assets limited as to use under the bond indenture agreement also include amounts posted as collateral in accordance with the Hospital's interest rate swap agreements (see Note 14).

Pledges receivable: Pledges receivable represent unconditional promises to give. The Foundation provides an allowance based on management's estimate of pledges deemed uncollectible and discounts pledges to be received after one year to reflect the present value of estimated future cash flows.

Property and equipment: Property and equipment, including betterments of existing facilities, are recorded at cost. Donated property and equipment are recorded at fair market value at the time of the donation. Routine maintenance, repairs, renewals and replacement costs are charged against operations. Expenditures that materially increase the value, increase the capacity or extend the useful life of the related property and equipment are capitalized, as is the portion of the interest incurred during the period prior to the related property and equipment being placed in service. Upon sale or retirement of property and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss is recorded as nonoperating gain or loss.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Depreciation is provided using the straight-line method over the following estimated useful lives, which are in agreement with American Hospital Association guidelines:

	Years
Land improvements	10–20
Buildings	10–40
Fixed equipment	5–25
Movable equipment	3–20
Capital lease	Term of lease

The Hospital follows Financial Accounting Standards Board (FASB) issued guidance regarding accounting for the impairment or disposal of long-lived assets. This guidance addresses financial accounting and reporting for the impairment of long-lived assets, excluding goodwill and intangible assets, to be held and used or disposed of. Based on the Hospital's analysis, there were no impairments at September 30, 2011 or 2010.

Loan origination costs: Loan origination costs are capitalized and amortized utilizing the straight-line method over the term of the related borrowings, which the Hospital believes is approximately equal to the effective-interest method.

Fair value of financial instruments: Cash equivalents, assets limited as to use, investments and swaps are recorded at fair value.

The fair value of the Hospital's variable-rate bond obligations payable approximates carrying value, as the interest rates reset weekly, and incorporates a credit valuation to approximately reflect the Hospital's own nonperformance risks.

The carrying value of net accounts receivable, pledges receivable, accrued liabilities, and accounts payable approximates fair value due to the short-term nature of these accounts. Professional liability and workers' compensation liabilities are discounted to present value.

Net patient service revenue: The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. 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. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

In accordance with the requirements of the Patient Protection and Affordable Care Act of 2010, effective October 1, 2010, the Hospital implemented a procedure to contractualize uninsured self-pay in line with average managed care contracting rates. This procedure had the effect of reducing net patient service revenue by amounts that in prior years had been written off as bad-debt expense.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Other revenue: Other revenue consists of various other operating income, including interest income on certain limited-use assets, Florida grant revenues, cafeteria sales and revenue under capitated contracts. Revenue from state grants is recognized as expenses are incurred or as units of service are provided.

Contributions: Conditional promises to give cash to the Hospital are reported at fair value at the date the donor-imposed condition is met. Unconditional promises to give cash and other assets are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the 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 contributions in the accompanying consolidated financial statements. The long-term portion of pledges receivable has been discounted to reflect the estimated future cash flows, and the Hospital provides an allowance based on management's estimate of pledges deemed uncollectible.

Deficit of revenues over expenses: The consolidated statements of operations include deficit of revenues over expenses. Changes in unrestricted net assets that are excluded from deficit of revenues over expenses, consistent with industry practice, include change in effective swap liability, unrealized gains or losses of investments classified as other than trading, and contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purposes of acquiring such assets).

Income taxes: The Hospital is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and from state income taxes under the provisions of Chapter 220.13 of the Florida Income Tax Code. Accordingly, no provision for income taxes is made in the accompanying consolidated financial statements. The IRC provides for taxation of unrelated business income under certain circumstances.

During the years ended September 30, 2011 and 2010, the Hospital performed lab and laundry services for other hospitals, clinics and other health care providers in the community, which generated unrelated business income and resulted in no unrelated business income taxes. There are no significant gross deferred tax assets or liabilities at September 30, 2011 or 2010.

The Hospital files a Form 990 (Return of Organization Exempt from Income Tax) annually. When the return is filed, it is certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to health systems include such matters as the tax-exempt status of each entity, the continued tax-exempt status of bonds, and various positions relative to potential sources of unrelated business taxable income.

Tax positions are not offset or aggregated with other positions. Tax positions that meet the "more likely than not" recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely to be realized on settlement with the applicable taxing authority. There were no unrecognized tax benefits identified and recorded as a liability as of September 30, 2011 and 2010.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Derivative financial instruments: In March 2008, the FASB issued guidance on disclosures about derivative instruments and hedging activities (Accounting Standards Codification (ASC) 815). This guidance is intended to improve reporting standards for derivative instruments and hedging activities by requiring enhanced disclosures to provide a better understanding of their effects on an entity's financial position, financial performance and cash flows. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under ASC 815 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The Hospital maintains an interest rate risk management strategy that uses interest rate swap derivative instruments to minimize significant unanticipated earnings fluctuations caused by interest rate volatility. The Hospital records derivative instruments on the consolidated balance sheet as either an asset or liability measured at its fair value. The Hospital has determined its interest rate swap agreements to be ineffective hedging instruments, and thus, changes in the fair value of these derivatives are recognized as a component of the excess of revenue over expenses (see Note 14).

Functional expenses: The Hospital provides inpatient, outpatient, ambulatory, and community-based services to individuals within the various geographic areas supported by its facilities. Support services include administration, finance and accounting, information technology, public relations, human resources, legal, mission services and other functions that are supported centrally. The Hospital's costs by function (see Note 18) are determined based on a consideration of direct cost allocations and indirect cost allocation to functions based on the benefit received.

New and pending accounting guidance: The Hospital adopted certain provisions of FASB Accounting Standards Update (ASU) 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements,* effective for the Hospital for the year ended September 30, 2011. The remaining provisions are effective for the year ending September 30, 2012. The adoption improves the disclosures and increases the transparency in financial reporting of fair values in the footnotes of the Hospital's consolidated financial statements.

In August 2010, the FASB issued ASU 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries.* ASU 2010-24 clarifies that a health care entity should not net insurance recoveries against a related claim liability. Additionally, ASU 2010-24 provides that the amount of the claims liability should be determined without consideration of insurance recoveries. The provisions of ASU 2010-24 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Entities must apply the provisions of ASU 2010-24 by recording a cumulative-effect adjustment to opening unrestricted net assets as of the beginning of the period of adoption. Retrospective application of the provisions ASU 2010-24 is permitted. The Hospital is assessing the impact of the implementation of ASU 2010-24 on its consolidated financial statements.

In July 2011, the FASB issued ASU 2011-07, *Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad-debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities.* ASU 2011-07 requires health care entities that recognize significant amounts of patient service revenue at the time the services are rendered even though they do not assess the patient's ability to pay, to change the presentation of their statement of activities by reclassifying the provision for bad-debts associated with patient service revenue from an operating expense to a deduction from net patient service revenue. Additionally, ASU 2011-07 requires those health care entities to provide enhanced disclosure about their policies for recognizing revenue and assessing bad-debts, disclosures of net patient service revenue and qualitative and quantitative information about changes in the allowance for doubtful accounts.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

The provisions are effective for the first annual period ending after December 15, 2012, and interim and annual periods thereafter, with early adoption permitted. The changes to the presentation of the provision for bad-debt related to patient service revenue in the statement of operations should be applied retrospectively to all prior periods presented. The disclosures required by ASU 2011-07 should be provided for the period of adoption and subsequent reporting periods. Management is assessing the impact of the implementation of this ASU on the Hospital's consolidated financial statements.

In September 2011, the FASB issued ASU 2011-09, *Compensation—Retirement Benefits—Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer's Participation in a Multiemployer Plan.* This ASU requires employers to provide additional separate disclosures about their participation in multiemployer pension plans and multiemployer other postretirement benefit plans. For nonpublic entities, the enhanced disclosures are required in fiscal years ending after December 15, 2012. The Hospital is assessing the impact of the implementation of ASU 2011-09 on the disclosures in its consolidated financial statements.

Reclassification of certain balances: Certain items on the consolidated balance sheet as of September 30, 2010, have been reclassified to be consistent with the classification adopted in the current year. The reclassification had no effect on ending net assets.

Subsequent events: The Hospital has evaluated subsequent events occurring between the end of the most recent fiscal year and January 11, 2012, the date the consolidated financial statements were issued.

Note 2. Net Patient Service Revenue and Bad-Debt Expense

The components of net patient service revenue for the years ended September 30, 2011 and 2010, are summarized as follows:

	2011	2010
Patient service revenue	$ 1,044,646,425	$ 987,643,761
Contractual adjustments	(777,052,408)	(707,283,327)
Domestic employee claims reclassification	(16,035,332)	(14,416,975)
Net patient service revenue	251,558,685	265,943,459
Bad-debt expense	(26,686,802)	(43,944,881)
Net	$ 224,871,883	$ 221,998,578

The Hospital has agreements with third-party payors that provide for payment to the Hospital at amounts different from its established rates. A summary of the basis of payment with major third-party payors follows. Changes to recognition of net patient service revenue and bad-debt expense are described in Note 1.

Medicare: Inpatient acute care services, inpatient rehabilitative care services, inpatient psychiatric services, and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Hospital is reimbursed for certain services at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital and audits by the Medicare fiscal intermediary.

Note 2. Net Patient Service Revenue and Bad-Debt Expense (Continued)

The Hospital's Medicare cost reports have been audited and final settlements determined by the fiscal intermediary for all years through September 30, 2006. Retroactive adjustments for cost report settlements are accrued on an estimated basis in the period when the related services are rendered and adjusted in future periods when final settlements are determined. It is management's opinion that settlements, when reached, will not vary significantly from the estimated amounts that are recorded in the accompanying consolidated financial statements.

Medicaid: Inpatient and outpatient services (except for laboratory and pathology services) rendered to Medicaid program beneficiaries are reimbursed under a cost-reimbursement methodology. Reimbursable cost is determined in accordance with the principles of reimbursement established by the Florida Title XIX Hospital Reimbursement Plan, supplemented by the Medicare Principles of Reimbursement. The interim rates are tentatively established on an individual per-diem basis for each hospital, subject to cost ceilings with exceptions. The Hospital is reimbursed at a tentative interim rate, with final settlement determined when the prospectively determined rate is adjusted after the intermediary audit of the combined Medicare and Medicaid cost report that was used to determine the prospective rate. Retroactive adjustments for interim rate changes anticipated after the intermediary audit of the cost report are accrued on an estimated basis in the period when final settlements are determined. The Hospital's Medicaid interim rates are based on the most recent as filed Medicare/Medicaid cost report. The Hospital's Medicaid cost report has been audited by the fiscal intermediary through September 30, 2007. It is management's opinion that settlements, when reached, will not vary significantly from the estimated amounts that are recorded in the accompanying consolidated financial statements.

The Hospital's classification of patients and the appropriateness of their admission are subject to review by the fiscal intermediaries administering the Medicare and Medicaid programs.

The Hospital has also entered into payment arrangements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these arrangements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined rates. Some of these arrangements provide for review of paid claims for compliance with the terms of the contract and result in retroactive settlement with third parties. Retroactive adjustments for other third-party claims are recorded in the period when final settlement is determined.

The net patient revenues from patients and third-party payors for the years ended September 30, 2011 and 2010, are in the following percentages:

	2011	2010
Medicare (including Medicare HMO and Medicare PPO)	32%	33%
Medicaid (including Medicaid HMO)	10%	9%
Other third-party payors	41%	34%
Patients without third-party coverage	17%	24%
	100%	100%

Note 3. Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. Included in the charges and cost of charity care disclosed below is the participation of the Hospital in the Polk Healthcare Plan established by Polk County. The Hospital received compensation of $970,886 and $539,168, respectively, for care rendered to participants in the Polk Healthcare Plan. The cost of charity care is determined by using the cost to charge ratio provided to the fiscal intermediary (First Coast Service Options). This number was derived from the cost report filed for fiscal year 2010, updated by the tentative settlement. A summary of charity care provided is as follows:

	Years Ended September 30	
	2011	2010
Charges foregone	$ 53,037,000	$ 47,652,000
Cost of charity care provided	$ 11,986,362	$ 11,150,568
Receipts from Polk Healthcare Plan	(970,886)	(539,168)
Cost in excess of receipts	$ 11,015,476	$ 10,611,400

Note 4. Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and certain patients who are insured under third-party payor agreements. Net patient account receivables from patients and third-party payors at September 30, 2011 and 2010, are in the following percentages:

	2011	2010
Medicare (including Medicare HMO and Medicare PPO)	30%	31%
Medicaid (including Medicaid HMO)	9%	9%
Other third-party payors	42%	38%
Patients without third-party coverage	19%	22%
	100%	100%

Note 5. Other Direct Expenses

The components of other direct expenses for the years ended September 30, 2011 and 2010, are summarized as follows:

	2011	2010
Maintenance and repair	$ 8,152,051	$ 7,562,539
Outside services	4,726,444	4,964,598
Indigent care fund	2,677,299	2,682,910
Legal, audit and consulting	3,619,792	5,223,080
Advertising	1,085,576	991,393
All other	4,888,497	4,676,626
	$ 25,149,659	$ 26,101,146

Note 5. Other Direct Expenses (Continued)

The Florida Legislature levies an assessment on all Florida hospitals, which approximates 1.0 percent of net outpatient revenue plus 1.5 percent of net inpatient revenue (with certain adjustments), to be used for public medical assistance (indigent care). The Hospital's assessments approximated $2,677,000 and $2,683,000 for the years ended September 30, 2011 and 2010, respectively.

Note 6. Investments and Assets Limited as to Use

Investments: Investments at September 30, 2011 and 2010, are summarized as follows:

	2011	2010
Mutual funds	$ 8,366,969	$ 7,789,970
Exchange-traded funds	253,826	298,392
Corporate and other debt securities	-	500,845
Equity securities	636,560	624,461
	$ 9,257,355	$ 9,213,668

Assets limited as to use by Board:

For self-insured liability: Board-designated funds at September 30, 2011 and 2010, are summarized as follows:

	2011	2010
Cash equivalents	$ 534,956	$ 477,894
Mutual funds	2,961,543	3,091,622
Equity securities	1,826,337	2,362,015
Alternative investments and other	569,453	550,000
	5,892,289	6,481,531
Less amounts available for current liabilities	(2,114,933)	(1,962,065)
	$ 3,777,356	$ 4,519,466

The Board designated workers' compensation assets to serve as collateral for a letter of credit in the amount of $100,000 at September 30, 2011 and 2010. The letter of credit serves as a qualifying deposit as required by the Florida Self Insured Guaranty Association and Florida Statutes.

Note 6. Investments and Assets Limited as to Use (Continued)

For funded depreciation: Board-designated funds at September 30, 2011 and 2010, are summarized as follows:

	2011	2010
Cash equivalents	$ 1,282,166	$ 1,211,117
Mutual funds	12,126,032	9,596,011
Exchange-traded funds	1,395,125	1,301,071
Government and agency securities	1,071,793	1,289,502
Corporate and other debt securities	603,519	1,285,010
Equity securities	11,609,576	15,400,192
Alternative investments and other	4,457,304	2,660,448
	$ 32,545,515	$ 32,743,351

For nursing research and capital improvements: Board-designated funds at September 30, 2011 and 2010, are summarized as follows:

	2011	2010
Cash equivalents	$ 1,338,043	$ 820,077
Mutual funds	1,537,222	1,197,704
Exchange-traded funds	705,108	554,345
Equity securities	1,065,997	1,330,404
	$ 4,646,370	$ 3,902,530

For Trustee-held fund: Bond project funds at September 30, 2011 and 2010, are summarized as follows:

	2011	2010
Cash	$ 3,435,931	$ 2,660,920
Government securities	-	761,482
	$ 3,435,931	$ 3,422,402

Swap collateral funds are held in cash and money market funds at September 30, 2011 and 2010.

Note 6. Investments and Assets Limited as to Use (Continued)

Assets limited as to use by donor for specific purposes: Assets limited as to use by donor for specific purposes at September 30, 2011 and 2010, are summarized as follows:

	2011	2010
Cash equivalents	$ 201,303	$ 56,049
Mutual funds	514,590	404,269
Exchange-traded funds	143,297	150,010
Government and agency securities	82,309	80,588
Corporate and other debt securities	45,685	57,338
Equity securities	554,468	640,473
	$ 1,541,652	$ 1,388,727

Investment income, including net realized gains of $2,114,000 and $965,000, respectively, for the years ended September 30, 2011 and 2010, are as follows:

	2011	2010
Income (loss):		
Investment income:		
Unrestricted	$ 3,639,416	$ 2,463,439
Temporarily restricted	6,350	11,184
Net unrealized gains (losses) on trading securities:		
Unrestricted	(3,192,364)	2,887,287
Temporarily restricted	(12,741)	25,977
Total investment gain	$ 440,661	$ 5,387,887

Note 7. Fair Value Measurements

All financial assets and liabilities are recognized or disclosed at fair value in the financial statements. ASC 820 defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity.

In addition to defining fair value, ASC 820 expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest-level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. Financial assets and liabilities in Level 1 include U.S. Treasury securities and listed equities.

Note 7. Fair Value Measurements (Continued)

Level 2: Pricing inputs are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets and liabilities. Financial assets and liabilities in this category generally include asset-backed securities, corporate bonds and loans, municipal bonds, and interest rate swap instruments.

Level 3: Pricing inputs are generally unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretations, including but not limited to private and public comparables, third-party appraisals, discounted cash flow models, and fund manager estimates. Financial assets and liabilities in this category include the Hospital's alternative investments.

For the years ended September 30, 2011 and 2010, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Alternative investments: The fair value of alternative investments (hedge funds) is $5,026,757 and $3,210,448 at September 30, 2011 and 2010, respectively, which have limitations on liquidity withdrawals. Alternative investments with no market activity are valued using the estimated fair values of the underlying investments held by the investment fund. Management's estimate of the fair value of hedge funds and equities held in commingled funds is based on the applicable ownership percentage of the underlying funds' net assets as of the measurement date, as determined by the Hospital based on information provided by the fund managers or general partners, which in turn is based on the most recent information available to the fund manager for the underlying investments.

In determining the appropriate levels, the Hospital performs an analysis of the assets and liabilities that are subject to the FASB-issued guidance. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

Interest rate swaps: Currently, the Hospital uses interest rate swaps to manage interest rate risks. The valuation of these instruments is determined by utilizing widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each interest rate swap. This analysis reflects the contractual terms of the interest rate swap, including the period to maturity, and uses observable market-based inputs, including LIBOR rate curves.

Note 7. Fair Value Measurements (Continued)

The following represents financial instruments measured at fair value on a recurring basis as of September 30, 2011 and 2010:

	Fair Value Measurements at September 30, 2011, Using			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance at September 30, 2011
Assets:				
Common stocks	$ 15,670,320	$ -	$ -	$ 15,670,320
Fixed-income corporate securities	-	654,437	-	654,437
Fixed-income government securities and agencies	1,163,529	-	-	1,163,529
Equity mutual funds	7,060,936	1,247,080	-	8,308,016
Fixed-income mutual fund	14,039,182	5,766,906	-	19,806,088
Alternative investments	-	-	5,026,757	5,026,757
Cash and cash equivalents	13,747,339	-	-	13,747,339
Total assets	$ 51,681,306	$ 7,668,423	$ 5,026,757	$ 64,376,486
Liabilities:				
Interest rate swap instruments	$ -	$ 14,192,133	$ -	$ 14,192,133

At September 30, 2011, alternative investments recorded at net asset value consisted of the following:

Major Category	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Multistrategy hedge funds	$ 5,026,757	$ -	Quarterly	60–95 days
Total	$ 5,026,757	$ -		

Note 7. Fair Value Measurements (Continued)

	Fair Value Measurements at September 30, 2010, Using			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance at September 30, 2010
Assets:				
Common stocks	$ 19,697,681	$ -	$ -	$ 19,697,681
Fixed-income corporate securities	-	1,350,266	-	1,350,266
Fixed-income government securities and agencies	2,142,702	-	-	2,142,702
Equity mutual funds	7,225,010	875,345	-	8,100,355
Fixed-income mutual fund	13,147,772	4,346,381	-	17,494,153
Alternative investments	-	-	3,210,448	3,210,448
Cash and cash equivalents	10,184,660	-	-	10,184,660
Total assets	$ 52,397,825	$ 6,571,992	$ 3,210,448	$ 62,180,265
Liabilities:				
Interest rate swap instruments	$ -	$ 11,978,237	$ -	$ 11,978,237

The following table presents the change in the balance of financial assets and liabilities using significant unobservable inputs (Level 3) measured on a recurring basis:

Balance at September 30, 2009	$ 1,721,737
Total gains or losses (realized or unrealized) included in excess (deficit) of revenues over expenses	(219,687)
Purchases, issuances and settlements, net	1,708,398
Balance at September 30, 2010	3,210,448
Total gains or losses (realized or unrealized) included in excess (deficit) of revenues over expenses	60,574
Purchases, issuances and settlements, net	1,755,735
Balance at September 30, 2011	$ 5,026,757

Note 8. Pledges Receivable

Pledges receivable at September 30, 2011 and 2010, are expected to be realized in future years and are classified as follows:

	2011	2010
One year or less	$ 194,500	$ 257,735
One to five years	157,401	235,450
More than five years	50,000	50,000
	401,901	543,185
Less allowance for doubtful pledges	(85,000)	-
	$ 316,901	$ 543,185

The long-term portion of pledges receivable has been discounted to reflect the estimated future cash flows. At September 30, 2011 and 2010, the discount rate utilized ranged between 3 percent and 5 percent. The discount will be recognized as contribution income in future fiscal years as the discount amounts are amortized using the effective yield over the collection period of the receivables. The unamortized discount was approximately $3,400 and $7,500 at September 30, 2011 and 2010, respectively.

Certain members of the Board of Trustees and management have pledged amounts to the Foundation, and those pledges have outstanding balances of $7,000 and $57,016 at September 30, 2011 and 2010, respectively, and are included in the pledges receivable balance on the consolidated balance sheets.

Note 9. Property and Equipment

Property and equipment at September 30, 2011 and 2010, is summarized as follows:

	2011	2010
Land and land improvements	$ 8,310,810	$ 8,153,125
Buildings	93,058,725	88,761,534
Fixed equipment	53,131,615	51,699,660
Movable equipment	103,323,923	98,209,430
Capital leases, principally equipment	17,673,194	17,672,706
	275,498,267	264,496,455
Less accumulated depreciation	(166,425,672)	(154,256,529)
	109,072,595	110,239,926
Construction in progress	6,283,323	4,723,384
	$ 115,355,918	$ 114,963,310

Depreciation expense approximated $17,002,000 and $13,681,000 at September 30, 2011 and 2010, respectively. Approximately $2,143,000 of the depreciation expense in 2011 related to the conditional asset retirement obligation recorded in 2011 (see Note 11) as the applicable building is fully depreciated.

Note 9. Property and Equipment (Continued)

Construction in progress at September 30, 2011, consists primarily of the McKesson I.T. Project, Swann Building (mainly Lab), Street Tower and various other projects. Estimated costs to complete these projects amount to approximately $15,465,000 at September 30, 2011.

Rent expense approximated $1,544,000 and $1,875,000 for the years ended September 30, 2011 and 2010, respectively, which includes contingent rent expense based on usage of medical equipment of approximately $420,000 and $510,000 for the years ended September 30, 2011 and 2010, respectively. Capital leases consist mainly of equipment leases.

Note 10. Other Long-Term Assets

Other long-term assets at September 30, 2011 and 2010, are as follows:

	2011	2010
Funds held in trust by others	$ 229,491	$ 245,799
Physician income guarantee	391,999	294,058
Land held for resale	3,000,019	3,000,019
Other	130,057	130,057
	$ 3,751,566	$ 3,669,933

Note 11. Other Long-Term Liabilities

The Hospital's other long-term liabilities at September 30, 2011 and 2010, are as follows:

	2011	2010
Physician income guarantee liability	$ 391,998	$ 294,058
Interest rate swaps (Note 14)	14,192,133	11,978,237
Conditional asset retirement obligation	2,230,741	831,378
	$ 16,814,872	$ 13,103,673

In fiscal year 2009, the Hospital entered into a minimum income guarantee with a group of physicians for three years related to the open heart program. The Hospital estimated the potential maximum exposure of the guarantee to be approximately $2,940,000. At September 30, 2011 and 2010, approximately $456,000 and $1,342,000, respectively, remained outstanding. The related asset is being amortized on a straight-line basis over three years, and amortization expense amounted to approximately $965,000 and $765,000 for the years ended September 30, 2011 and 2010, respectively. On October 1, 2011, the agreement with Winter Haven Cardiovascular Associates automatically renewed for an additional two years per the terms of the agreement. The related asset for this additional term is being amortized on a straight-line basis over two years and with a maximum exposure of approximately $784,000. Total maximum exposure under guarantee at September 30, 2011, was approximately $1,240,000, of which approximately $392,000 is recorded as long-term. Additionally, because the physician's group income increased, the Hospital was not required to pay approximately $49,000 and $169,000 of the guarantee for the fiscal years 2011 and 2010, respectively.

Note 11. Other Long-Term Liabilities (Continued)

The Hospital recognized conditional asset retirement obligations related to asbestos contamination in buildings. The discount rate used in valuing the estimated liability was 3.54 percent for each of the years ended September 30, 2011 and 2010. In 2011, there was an additional asset retirement obligation established in the amount of approximately $2,143,000 for the removal of asbestos in the Street building.

Note 12. Commitments and Contingencies

Professional liability insurance: The Hospital is self-insured for professional liability insurance. The Hospital maintains excess coverage that provides claims-made coverage for occurrences after April 1, 1985, to June 14, 2002, in excess of $250,000 and for the period June 15, 2002, to the present in excess of $3,000,000 individually, with a $30 million aggregate cap. For the period from June 14, 2003, to June 14, 2006, the coverage was modified to include a $2,000,000 inner aggregate, and for the period from June 15, 2006, to June 14, 2009, the inner aggregate was set at $1,000,000. Coverage after June 14, 2009, has no required inner aggregate. The estimated amounts for professional liability claims included in the consolidated financial statements at September 30, 2011 and 2010, were discounted at a rate of 2.5 percent and 3.0 percent, respectively. The undiscounted reserve for professional liability claims, including incurred but not reported claims, was approximately $9,441,000 and $9,126,000 at September 30, 2011 and 2010, respectively. The discount on the reserve for professional liability claims was approximately $708,000 and $822,000 at September 30, 2011 and 2010, respectively. Total expenses under this program, including premiums for excess coverage, amounted to approximately $2,844,000 and $2,326,000 for the years ended September 30, 2011 and 2010, respectively. Based on historical experience and current actuarial analyses, management believes that the established reserves are sufficient to cover reported claims and incurred but not reported claims.

Health insurance: The Hospital is self-insured for employee group health insurance. The Hospital maintains excess coverage through a commercial excess coverage policy, which covered annual individual employee claims paid in excess of $300,000 with a $75,000 corridor during fiscal year 2011 and in excess of $275,000 with a $75,000 corridor during fiscal year 2010. Total gross expenses under this program amounted to approximately $18,375,000 and $18,799,000 for the years ended September 30, 2011 and 2010, respectively. Group health insurance claims payable, including an estimate for incurred but not reported claims, were approximately $3,166,000 and $3,429,000 at September 30, 2011 and 2010, respectively. Based on historical experience, management believes that the established reserves are sufficient to cover reported claims and incurred but not reported claims. Health insurance claims expense related to services rendered by the Hospital for its employees is recorded as a deduction of net patient service revenue of approximately $16,035,000 and $14,417,000 for the years ended September 30, 2011 and 2010, respectively.

Workers' compensation insurance: The Hospital is self-insured for workers' compensation insurance. The Hospital maintains excess coverage through a commercial excess coverage policy, which covers annual individual employee claims and individual accident claims paid in excess of $500,000. Total expense under this program amounted to approximately $765,000 and $987,000 for the years ended September 30, 2011 and 2010, respectively. The actuarially determined liability for workers' compensation claims included in the consolidated financial statements at September 30, 2011 and 2010, was discounted at a rate of 2.5 percent and 3.0 percent, respectively. The undiscounted reserve for workers' compensation claims was approximately $1,404,000 and $1,593,000 at September 30, 2011 and 2010, respectively. The discount on the reserve for workers' compensation claims was approximately $191,000 and $252,000 at September 30, 2011 and 2010, respectively. Based on historical experience and actuarial analyses, management believes that the established reserves are sufficient to cover reported claims and incurred but not reported claims. The Hospital maintains a standby letter of credit in the amount of $100,000, which expires April 13, 2012.

Note 12. Commitments and Contingencies (Continued)

General insurance: The Hospital maintains premium-based insurance policies for director and officer liability, property and casualty, cybernet, crime, automobile, environmental, fiduciary and executive risk.

Litigation: The Hospital is involved in litigation, other than that related to professional liability and workers' compensation, arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without a material adverse effect on the future consolidated financial position, results of operations, or cash flows of the Hospital.

Regulatory and compliance matters—general regulatory compliance: The health care industry is subject to voluminous and complex laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement laws and regulations, antikickback and antireferral laws, and false claims prohibitions, and in the case of tax-exempt hospitals, the requirements of tax exemption. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, antikickback and antireferral statutes and regulations by health care providers. The Hospital believes that it is in material compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing.

Recovery audit contractors demonstration project: In 2005, the Centers for Medicare & Medicaid Services (CMS) announced a new demonstration project using recovery audit contractors (RACs) as part of CMS' further efforts to assure accurate payments. The project uses the RACs to search for potentially improper Medicare payments that may have been made to health care providers and that were not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, it makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The Hospital will deduct from revenue amounts assessed under the RAC audits at the time a notice is received until such time that estimates of net amounts due can be reasonably estimated. The project began operating on a pilot basis in five states (including Florida), with a nationwide rollout of a permanent RAC program completed in 2010.

The net RAC recoveries from the Hospital during the fiscal years ended September 30, 2011 and 2010, were $320,000 and $66,000, respectively.

Health Information Technology for Economic and Clinic Health: The Health Information Technology for Economic and Clinic Health (HITECH) portion of the American Recovery and Reinvestment Act of 2009 includes $27.0 billion in incentives through Medicare and Medicaid reimbursement systems to foster electronic health record (EHR) adoption. In order to be eligible for EHR incentive funding, eligible hospitals and professionals must use a certified EHR, report quality measures, and achieve "meaningful use," as defined by HITECH. The Hospital anticipates it should meet all of the eligibility requirements by June 2013.

Note 12. Commitments and Contingencies (Continued)

Patient Protection and Affordable Care Act: In March 2010, President Obama signed the Patient Protection and Affordable Care Act (PPACA) into law. PPACA will result in sweeping changes across the health care industry, including how care is provided and paid for. A primary goal of this comprehensive reform legislation is to extend health coverage to approximately 32 million uninsured legal U.S. residents through a combination of public program expansion and private sector health insurance reforms. To fund the expansion of insurance coverage, the legislation contains measures designed to promote quality and cost efficiency in health care delivery and to generate budgetary savings in the Medicare and Medicaid programs. Given that the final regulations and interpretive guidelines have yet to be published, the Hospital is unable to fully predict the impact of PPACA on its operations and financial results. There are multiple lawsuits challenging the constitutionality of major portions of PPACA; to the extent that any significant elements of the law are overturned, additional uncertainty is introduced into the prediction of operational and financial effects. However, if the law is implemented as adopted, the Hospital's management expects that in the coming years, patients who were previously uninsured and unable to pay for care will have basic insurance coverage, and amounts for reimbursement for services from both public and private payors will be reduced and made conditional on various quality measures. Management of the Hospital is studying and evaluating the anticipated effects and developing strategies needed to prepare for implementation, and preparing to cooperate with other constituents to optimize available reimbursement.

International Statistical Classification of Diseases and Related Health Problems: The conversion from the International Statistical Classification of Diseases and Related Health Problems 9th Revision (ICD-9) to their 10th revision (ICD-10) will require the modification and reprogramming of many information technology (IT) applications affecting the Hospital's revenue cycle, net revenue realization, clinical and hospital processes, financial processes and IT software support. The Hospital has started the process of the conversion to ICD-10, which needs to be completed by October 1, 2013.

Note 13. Long-Term Debt

Long-term debt at September 30, 2011 and 2010, is summarized as follows:

	2011	2010
Industrial Development Revenue Bonds, 2005 variable-rate debt, minimum interest rate 3.25%, with monthly payments through 2034	$ 18,808,817	$ 18,244,483
Industrial Development Revenue Bonds, 2010 variable-rate debt, interest rate 1.00% to 10.00%, with annual payments through 2036	62,000,000	64,400,000
Total bonds payable	80,808,817	82,644,483
Capital lease obligations at 4.85% to 5.50% due in monthly installments of $269,827 through 2014	6,363,826	9,245,650
Less bonds payable and capital leases due within one year	(6,159,978)	(5,784,691)
	$ 81,012,665	$ 86,105,442

Note 13. Long-Term Debt (Continued)

In March 2005, the Polk County Industrial Development Authority (the Authority) issued the 2005 Industrial Development Revenue Bonds (2005 Series Bonds) pursuant to the provisions of an indenture dated March 1, 2005, between the Authority and SunTrust Bank, N.A., the Trustee. Simultaneously with the issuance of the 2005 Series Bonds, the Hospital, Mid-Florida and the Foundation, as members of the Obligated Group, issued a loan agreement between the Obligated Group and SunTrust Bank, N.A., which evidences and collateralizes the obligation of the Obligated Group. The Obligated Group entered into two interest rate swap contracts as part of the 2005 Series Bond offering. Those contracts contain provisions for providing collateral to the counterparties when the swap mark to market valuations exceed certain thresholds (see Note 14). These bonds were extinguished in May 2010 through issuance of the 2010 Series Bonds. $2,467,875 in deferred bond issuance costs were expensed in the other income section of the consolidated statement of operations as an extinguishment of debt.

In June 2006, the Authority issued the 2006 Industrial Development Revenue Bonds (2006 Series Bonds) pursuant to the provisions of an indenture dated June 11, 2006, between the Authority and SunTrust Bank, N.A., the Trustee.

Simultaneously with the issuance of the 2006 Series Bonds, the Hospital, Mid-Florida and the Foundation, as members of the Obligated Group, issued a loan agreement between the Obligated Group and SunTrust Bank, N.A., which evidences and collateralizes the obligation of the Obligated Group. The Obligated Group entered into one interest rate swap contract as part of the 2006 Series Bond offering. The contract contains provisions for providing collateral to counterparties when the swap mark to market valuations exceed a threshold of $2 million (see Note 14). These bonds were extinguished in May 2010 through issuance of the 2010 Series Bonds. $778,632 in deferred bond issuance costs were expensed in the other income section of the consolidated statement of operations as an extinguishment of debt.

In March 2009, the Authority issued the 2009 Industrial Development Revenue Bonds (2009 Series Bonds) pursuant to the provisions of an indenture dated March 26, 2009, between the Authority and U.S. Bank, N.A., the Trustee. Simultaneously with the issuance of the 2009 Series Bonds, the Hospital, Mid-Florida and the Foundation, as members of the Obligated Group, issued a loan agreement between the Obligated Group and Regions Bank (the Loan Agreement), which evidences and collateralizes the obligation of the Obligated Group. The 2009 Series Bonds were structured as a $20,000,000 bank-qualified loan, which the Obligated Group may draw as advances. At September 30, 2011 and 2010, the cumulative advances were $19,227,126 and $18,244,483, respectively. All advances were required to be drawn down by December 31, 2010. The 2009 Loan Agreement provides a 25-year amortization of the 2009 Series Bonds. It further provides Regions Bank a put option five years after issuance (April 2014). Subsequent to September 30, 2011, the Obligated Group modified the 2009 Series Bonds. Under the new agreement, modifications were made to the variable-rate interest, and the put options were modified to be seven years from the date of modification (November 2018).

In May 2010, the Authority issued the 2010 Industrial Development Revenue Bonds 2010 Series A, 2010 Series B, and 2010 Series C (collectively the 2010 Series Bonds) pursuant to the provisions of indentures dated May 1, 2010, between the Authority and U.S. Bank, N.A., the Trustee. The primary purpose of the 2010 Series Bonds was to retire the 2005 and 2006 Series Bonds. Simultaneously with the issuance of the 2010 Series A Bonds, the Obligated Group entered into a loan agreement with T.D. Bank, N.A., which evidences and collateralizes the obligation to repay by the Obligated Group. The 2010 Series A Bonds are structured as a $26,100,000 bank-qualified loan with a 25-year amortization period and a put feature for T.D. Bank, N.A. seven years after issuance (2017).

Note 13. Long-Term Debt (Continued)

Simultaneously with the issuance of the 2010 Series B Bonds and the 2010 Series C Bonds, the Obligated Group entered into a Reimbursement and Credit Agreement with PNC Bank, N.A., which evidences and collateralizes the obligation to repay by the Obligated Group. The 2010 Series B Bonds and the 2010 Series C Bonds are structured as $40,600,000 of variable-rate demand bonds remarketed by PNC Bank, N.A. and are credit-enhanced by a noncancellable letter-of-credit agreement with PNC Bank, N.A. with an initial term of three years (2013). In 2011, the initial term was extended for an additional two years (2015). If the demand bonds are put by the bondholder and not able to be remarketed, the liquidity facility established with this letter of credit will advance the required payment. Any draws on the letter of credit are required to be repaid over the same term as the bond that was put. Bonds remaining as put bonds for an extended period may accelerate the amortization period for repayment.

The 2009 Series Bonds and 2010 Series Bonds are subject to a mortgage and security agreement and are secured by the gross revenues of the Obligated Group.

In the Master Trust Indenture and certain underlying trust indentures, the Obligated Group agrees to maintain certain financial covenants, including a specified debt service coverage ratio, a maximum debt-to-capitalization ratio, and days cash on hand, and agrees to certain covenants as to the incurrence of additional indebtedness and changes in organizational structure or ownership.

The table below reflects principal payments over the next five years and beyond and assumes that the letters of credit related to the Series 2010 B Bonds and Series 2010 C Bonds are renewed in 2015. If the letters of credit are not renewed, the outstanding balance of the Series 2010 B and C Bonds would be due on demand:

Years Ending September 30,	
2012	$ 3,173,852
2013	3,492,783
2014	3,312,338
2015	3,632,538
2016	2,053,404
Thereafter	65,143,902
	$ 80,808,817

Capital leases: The Hospital leases medical equipment under capital leases. As of September 30, 2011 and 2010, the gross costs of the assets and related accumulated amortization were as follows:

	2011	2010
Medical equipment	$ 17,673,194	$ 17,672,706
Less accumulated amortization	(10,467,995)	(7,697,751)
Property and equipment under capital leases, net	$ 7,205,199	$ 9,974,955

Note 13. Long-Term Debt (Continued)

Amortization of assets under capital leases is included in depreciation expense. The following is a schedule, by years, of future minimum lease payments under capital leases, together with the present value of the minimum lease payments as of September 30, 2011:

Years Ending September 30,	
2012	$ 3,237,923
2013	1,722,498
2014	1,028,747
2015	849,728
Total minimum lease payments	6,838,896
Less amount representing interest (effective rates from 4.85% to 5.50%)	(475,070)
Present value of the net minimum lease payments	$ 6,363,826

Note 14. Derivative Instruments

As of September 30, 2011, the Hospital has four outstanding floating-to-fixed interest rate swaps. The Hospital uses floating-to-fixed rate swaps to synthetically convert variable-rate debt to a fixed rate. Under these swaps, the Hospital receives a percentage of LIBOR and pays a fixed rate. Counterparties to these swaps are Morgan Stanley and Goldman Sachs for $40 million and $35 million, respectively, of the original notional amounts outstanding. The Hospital's derivative accounting policy is discussed in Note 1.

Each of the swap agreements contains threshold amounts to the underlying rating of the Obligated Group. The Obligated Group maintains an underlying rating of BBB as of April 20, 2011, from Fitch ratings and BBB as of May 2011 from Standard & Poor's. In the event the underlying rating of the Obligated Group falls to BBB-, the collateral posting threshold would be reduced to $-0-. An underlying rating below BBB- would trigger a termination of the swaps.

The following table shows the outstanding notional amount of derivative instruments measured at fair value as reported in other accrued liabilities in the consolidated balance sheet as of September 30, 2011:

	Maturity Date of Derivatives	Fixed Rate	Collateral Posting Threshold	Notional Amount Outstanding	Fair Value of Swap 2011	Fair Value of Swap 2010	Collateral Posted
Derivatives:							
Interest rate swaps:							
Series 2010 A	2034	5.076%	$ 5,000,000	$ 23,800,434	$ 5,042,782	$ 4,232,653	$ 828,687
Series 2010 B	2034	3.476%		7,932,566	1,680,721	1,410,695	828,687
Series 2010 B	2034	3.457%	2,000,000	15,867,000	3,264,329	2,788,392	2,700,000
Series 2010 C	2036	3.841%		14,400,000	4,204,301	3,546,497	2,700,000
Total				$ 62,000,000	$ 14,192,133	$ 11,978,237	$ 7,057,374

Note 14. Derivative Instruments (Continued)

Prior to the 2010 refinancing, the effective changes in the fair values of the swaps were not recorded as a component of the excess of revenue over expenses, and ineffective changes in the fair values were recorded as other income (expense), a component of the excess of revenue over expenses, as incurred. Beginning May 2010, previously designated cash flow hedging relationships were considered no longer effective for accounting purposes. The change in fair value for all swaps for September 30, 2011 and 2010, is approximately $2,214,000 and $4,783,000, respectively, recorded within other income in the consolidated statement of operations. Because of this change in accounting in 2010, a transfer of the accumulated change in fair value of the effective hedge at the date the hedge was determined ineffective was made, which reduced the excess of revenue over expenses by $6,692,200.

Note 15. Pension Plan

Qualified Hospital employees participate in the Mid-Florida Medical Services, Inc. Pension Plan (the Plan), a cash balance hybrid multiemployer plan. The Plan covers Mid-Florida and all of its affiliates, including the Hospital. Separate accounting for the assets and liabilities of each entity is not maintained, and the Hospital does not record an asset or liability for any over- or underfunding of the Plan. A qualified employee is one who is over the age of 21, has received credit for at least 1,000 hours of service in a 12-month period, and was not over the age of 60 when hired. Mid-Florida's funding policy is to fund at least the minimum required ERISA contribution. At September 30, 2011 and 2010, Mid-Florida has cumulative contributions in excess of net periodic benefit costs of approximately $6,136,000 and $7,569,000, respectively. The Plan's funded status is a deficit of approximately $11,921,000 and $6,776,000 as of September 30, 2011 and 2010, respectively. Contributions by Mid-Florida were $1,500,000 and $3,000,000 for the years ended September 30, 2011 and 2010, respectively. In October 2010, Mid-Florida's board of trustees amended the Plan to prohibit any new enrollees for employees hired after January 1, 2011.

The Hospital is billed for pension expense by Mid-Florida based upon the qualified employees accruing benefits under the Plan. Hospital pension expense was approximately $2,933,000 and $2,688,000 for the years ended September 30, 2011 and 2010, respectively.

Other retirement plan: The Hospital sponsors a 403(b) plan for eligible employees. A qualified employee is one who is over the age of 21 and has completed 1,000 hours of service in a 12-month period. Pension expense related to the 403(b) plan for the years ended September 30, 2011 and 2010, was approximately $930,000 and $940,000, respectively.

Note 16. Related-Party Transactions

The Hospital entered into the following related-party transactions as of September 30, 2011 and 2010:

Mid-Florida Medical Services, Inc.: On September 30, 1987, the Hospital entered into a leasing agreement with Mid-Florida. The Hospital leases the Regency Center for Women and Infants under a noncancelable renewable operating lease at annual rentals of $225,000.

Mid-Florida Physician Services, LLC: During the years ended September 30, 2011 and 2010, the Hospital advanced $2,779,214 and $932,924, respectively, to the LLC entities for working capital.

Note 17. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available to provide support for the Hospital by purchasing medical equipment, education and specific capital improvements. Amounts are released from restrictions by incurring expenditures satisfying their restricted purposes for property and equipment and reimbursement of charity care provided and operating expenses incurred. The balances at September 30, 2011 and 2010, are as follows:

	Purpose	2011	2010
Fuller Fund	Life insurance	$ 50,000	$ 50,000
Scholarship program from 2004 Gala	Scholarships	36,584	18,295
Findon Trust	Funds held in trust	123,728	130,646
Soevig Trust	Funds held in trust	105,763	115,155
Rynerson Fund	Scholarships	16,347	53,911
Acker Fund	Scholarships	12,186	11,404
Nursing—Florida Southern College	Scholarships	7,578	10,234
Polk State College	Scholarships	108,754	112,500
Big Bass Bash/Women's Health Fair	Regency Medical Center	36,309	21,429
Stroke Center	Stroke Center	173,276	180,299
Cassidy Cancer Center	Cassidy Cancer Center	47,807	20,634
Indigency Fund	Indigent care	125,256	-
Bostick Heart Center	Bostick Heart Center	11,324	2,614
Center for Urology	Center for Urology	10,000	-
Other	Other	1,054	10,898
		$ 865,966	$ 738,019

Permanently restricted net assets consist of four donor-restricted funds. The balances at September 30, 2011 and 2010, are summarized as follows:

	Purpose	2011	2010
Sweet Fund	Capital improvement	$ 723,399	$ 723,399
Rynerson Fund	Scholarships	88,000	88,000
Acker Fund	Scholarships	35,000	35,000
Auxiliary Fund	Scholarships	120,000	120,000
		$ 966,399	$ 966,399

Note 18. Functional Expenses

The expenses reported in the consolidated statements of operations for the years ended September 30, 2011 and 2010, were incurred for the following:

	2011	2010
Patient care services	$ 178,843,122	$ 194,564,712
General and administrative	82,319,972	80,303,543
Fundraising	139,838	169,156
	$ 261,302,932	$ 275,037,411

Winter Haven Hospital, Inc.

Consolidating Balance Sheet
September 30, 2011

Assets	Winter Haven Hospital, Inc.	Mid-Florida Medical Services Foundation, Inc.	Eliminating Entries	Consolidated Winter Haven Hospital, Inc.
Current Assets				
Cash and cash equivalents	$ 18,017,539	$ 447,027	$ -	$ 18,464,566
Investments	8,711,487	545,868	-	9,257,355
Assets limited as to use that are available for current liabilities	2,114,933	-	-	2,114,933
Patient accounts receivable, net	42,081,796	-	-	42,081,796
Other receivables	983,907	-	-	983,907
Pledges receivable, net	-	194,500	-	194,500
Estimated third-party settlements, net	143,114	-	-	143,114
Due from affiliates, net	2,731,940	-	(107,472)	2,624,468
Inventories	5,930,240	-	-	5,930,240
Prepaid expenses and other assets	4,888,590	33,006	-	4,921,596
Total current assets	85,603,546	1,220,401	(107,472)	86,716,475
Assets Limited as to Use, net of current portion				
By Board:				
For self-insured liability	3,777,356	-	-	3,777,356
For funded depreciation	32,545,515	-	-	32,545,515
For nursing research	-	61,666	-	61,666
For capital improvements	-	4,584,704	-	4,584,704
Under bond indenture agreement:				
Project funds	3,435,931	-	-	3,435,931
Swap collateral	7,057,374	-	-	7,057,374
By donors for specific purposes	-	1,541,652	-	1,541,652
Total assets limited as to use	46,816,176	6,188,022	-	53,004,198
Pledges Receivable, net	-	122,401	-	122,401
Property and Equipment, net	115,353,780	2,138	-	115,355,918
Deferred Loan Origination Costs, net	732,748	-	-	732,748
Other Long-Term Assets, net	522,056	5,929,510	(2,700,000)	3,751,566
Investment in Subsidiary	13,276,450	-	(13,276,450)	-
	129,885,034	6,054,049	(15,976,450)	119,962,633
Total assets	$ 262,304,756	$ 13,462,472	$ (16,083,922)	$ 259,683,306

Liabilities and Net Assets	Winter Haven Hospital, Inc.	Mid-Florida Medical Services Foundation, Inc.	Eliminating Entries	Consolidated Winter Haven Hospital, Inc.
Current Liabilities				
Current portion of long-term debt	$ 6,159,978	$ -	$ -	$ 6,159,978
Accounts payable and accrued expenses	13,586,671	-	-	13,586,671
Accrued employee compensation and benefits	15,379,012	-	-	15,379,012
Current portion of self-insured liability	2,335,040	-	-	2,335,040
Due to affiliates, net	-	107,472	(107,472)	-
Total current liabilities	37,460,701	107,472	(107,472)	37,460,701
Long-Term Debt, less current portion	83,712,665	-	(2,700,000)	81,012,665
Self-Insured Liability, less current portion	7,610,301	-	-	7,610,301
Deferred Revenue	-	78,550	-	78,550
Other Long-Term Liabilities	16,814,872	-	-	16,814,872
Total liabilities	145,598,539	186,022	(2,807,472)	142,977,089
Net Assets				
Unrestricted	103,429,767	11,444,085	-	114,873,852
Temporarily restricted	-	865,966	-	865,966
Permanently restricted	-	966,399	-	966,399
Equity in subsidiary	13,276,450	-	(13,276,450)	-
Total net assets	116,706,217	13,276,450	(13,276,450)	116,706,217
Total liabilities and net assets	$ 262,304,756	$ 13,462,472	$ (16,083,922)	$ 259,683,306

Winter Haven Hospital, Inc.

Consolidating Statement of Operations
Year Ended September 30, 2011

	Winter Haven Hospital, Inc.	Mid-Florida Medical Services Foundation, Inc.	Eliminating Entries	Consolidated Winter Haven Hospital, Inc.
Revenues:				
Net patient service revenue	$ 251,558,685	$ -	$ -	$ 251,558,685
Other revenue	10,549,990	-	-	10,549,990
Contributions	-	2,801,600	(2,089,788)	711,812
Satisfaction of donor restrictions	-	100,063	-	100,063
Equity in subsidiary	726,497	-	(726,497)	-
Total revenues	262,835,172	2,901,663	(2,816,285)	262,920,550
Expenses:				
Salaries, benefits and contract labor	126,183,676	143,483	-	126,327,159
Supplies	45,222,717	-	-	45,222,717
Professional services	3,659,347	-	-	3,659,347
Other direct expenses	24,709,246	440,413	-	25,149,659
Utilities	5,019,702	-	-	5,019,702
Insurance	7,878,948	-	-	7,878,948
Interest	4,334,028	-	(94,230)	4,239,798
Depreciation and amortization	17,032,596	1,204	-	17,033,800
Provision for bad debts	26,686,802	85,000	-	26,771,802
Contribution expense	-	2,089,788	(2,089,788)	-
Total expenses	260,727,062	2,759,888	(2,184,018)	261,302,932
Income from operations	2,108,110	141,775	(632,267)	1,617,618
Other income:				
Investment income	3,303,514	430,132	(94,230)	3,639,416
Change in swap liability	(2,213,896)	-	-	(2,213,896)
Change in net unrealized gains (loss) on trading securities	(2,932,754)	(259,610)	-	(3,192,364)
Loss on disposal of assets	(65,178)	-	-	(65,178)
Excess (deficit) of revenues over expenses	$ 199,796	$ 312,297	$ (726,497)	$ (214,404)

Winter Haven Hospital, Inc.

Consolidating Statement of Changes in Net Assets
Year Ended September 30, 2011

	Winter Haven Hospital, Inc.	Mid-Florida Medical Services Foundation, Inc.	Eliminating Entries	Consolidated Winter Haven Hospital, Inc.
Unrestricted net assets:				
Excess (deficit) of revenues over expenses	$ 199,796	$ 312,297	$ (726,497)	$ (214,404)
Net assets transferred (to) from	(286,253)	286,253	-	-
Increase (decrease) in unrestricted net assets	(86,457)	598,550	(726,497)	(214,404)
Temporarily restricted net assets:				
Proceeds from fundraising events	-	20,845	-	20,845
All other contributions	-	213,556	-	213,556
Investment income	-	6,350	-	6,350
Change in net unrealized gains (loss) on trading securities	-	(12,741)	-	(12,741)
Net assets released from restrictions	-	(100,063)	-	(100,063)
Increase in temporarily restricted net assets	-	127,947	-	127,947
Increase (decrease) in net assets	(86,457)	726,497	(726,497)	(86,457)
Net assets:				
Beginning of year	116,792,674	12,549,953	(12,549,953)	116,792,674
End of year	$ 116,706,217	$ 13,276,450	$ (13,276,450)	$ 116,706,217

Winter Haven Hospital, Inc.

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2011

Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identification Number	Award Amount	Federal Expenditures
U.S. Department of Justice:				
Office of Victims of Crime:				
Passed through State of Florida Office of the Attorney General:				
Crime Victim Assistance	16.575	V10064	$ 25,000	$ 7,726
U.S. Department of Health and Human Services:				
Passed through Florida Department of Children and Families:				
Community Substance Abuse Services:				
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	LD920	150,000	50,000
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	LD958	93,750	93,750
Temporary Assistance for Needy Families:				
Family Support Services	93.558	THJ29	547,022	374,763
Children's Health Insurance Program	93.767	THJ23	825,991	214,000
Block Grants for Community Mental Health Services	93.958	THJ29	833,365	67,899
Passed through Heartland for Children:				
Promoting Safe & Stable Families	93.556	HWHMS1	417,746	105,637
Promoting Safe & Stable Families	93.556	GWHFA1	417,746	312,109
Child Abuse and Neglect State Grants	93.669	HWHMS1	35,832	9,651
Child Abuse and Neglect State Grants	93.669	GWHFI1	44,134	32,925
Total U.S. Department of Health and Human Services				1,260,734
Total expenditures of federal awards				$ 1,268,460

See Notes to Schedules of Expenditures of Federal Awards and State Financial Assistance.

Winter Haven Hospital, Inc.

Schedule of Expenditures of State Financial Assistance
Year Ended September 30, 2011

Grantor/Pass-Through Grantor/Project Title	CSFA Number	Contract Number	Award Amount	State Expenditures
Florida Department of Children and Families:				
Direct projects:				
Children's Baker Act Services	60.001	THJ29	$ 60,000	$ 20,814
Baker Act	60.006	THJ29	386,079	75,437
Indigent Psychiatric Outpatient Services	60.039	THJ29	218,424	45,658
Children's M.H. SIPP RTC	60.048	THJ29	55,445	55,445
Adult Community Mental Health Community Support Services	60.053	THJ29	1,722,767	424,693
Adult Community Mental Health Emergency Stabilization Services	60.054	THJ29	281,595	64,589
Children's Mental Health Community Services	60.055	THJ29	618,881	133,819
Passed through Heartland for Children:				
Community Based Care Supports:				
Family Intervention Team	60.094	HWHMS1	561,378	139,493
Family Intervention Team	60.094	GWHFI1	548,086	408,884
Family Intervention Team (noncash—laptops)	60.094	GWHFI1	18,040	18,040
Family Assistance Support Team (noncash—laptops)	60.094	GWHFA1	13,530	13,530
Total Florida Department of Children and Families				1,400,402
Florida Department of Health:				
Medical Services for Abused/Neglected Children:				
Sexual Abuse Treatment Program	64.006	CSAWH	90,000	30,000
Total Florida Department of Health				30,000
Total expenditures of state financial assistance				$ 1,430,402
Matching funds for federal programs:				
Block Grants for Community Mental Health:				
Child Welfare Wraparound	93.958	GWHMH1	$ 107,000	$ 44,313

See Notes to Schedules of Expenditures of Federal Awards and State Financial Assistance.

Note 1. Basis of Presentation

The accompanying schedules of expenditures of federal awards and state financial assistance (the Schedules) include the federal and state grant activity of Winter Haven Hospital, Inc. (the Hospital) under programs and projects of the federal and state government for the year ended September 30, 2011. The information in these Schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and Chapter 10.650, *Rules of the Auditor General of the State of Florida.* Because the Schedules present only a selected portion of the operations of the Hospital, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Hospital.

Note 2. Summary of Significant Accounting Principles

Expenditures reported on the Schedules are reported on the accrual basis of accounting. Direct and indirect costs are charged to awards in accordance with cost principles contained in the Department of Health and Human Services, Office of the Assistant Secretary Comptroller (OASC), OASC-3, *A Guide for Hospitals*. Under these cost principles, certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Contracts are subject to amendment; therefore, the pro rata monthly revenue recognition is subject to change during the term of the contracts. The award amount is the maximum reimbursement under the contract; however, the actual reimbursement is limited to the actual expenses incurred or units provided.

Compliance Section

McGladrey

Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards*

To the Board of Trustees
Winter Haven Hospital, Inc.

We have audited the consolidated financial statements of Winter Haven Hospital, Inc. (the Hospital) as of and for the year ended September 30, 2011, and have issued our report thereon dated January 11, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Hospital is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Hospital in a separate letter dated January 11, 2012.

This report is intended solely for the information and use of Winter Haven Hospital, Inc.'s Board of Trustees, audit committee and management, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Orlando, Florida
January 11, 2012

McGladrey

Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Federal Program and Major State Projects and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and Chapter 10.650, *Rules of the Auditor General of the State of Florida*

To the Board of Trustees
Winter Haven Hospital, Inc.

Compliance

We have audited the compliance of Winter Haven Hospital, Inc. (the Hospital) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the requirements described in the *Executive Office of the Governor's State Projects Compliance Supplement* that could have a direct and material effect on its major federal program and major state projects for the year ended September 30, 2011. The Hospital's major federal program and major state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program and major state projects is the responsibility of the Hospital's management. Our responsibility is to express an opinion on the Hospital's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and Chapter 10.650, *Rules of the Auditor General of the State of Florida*. Those standards, OMB Circular A-133 and Chapter 10.650, *Rules of the Auditor General of the State of Florida*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Hospital's compliance with those requirements.

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program and major state projects for the year ended September 30, 2011.

Internal Control Over Compliance

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs and state projects. In planning and performing our audit, we considered the Hospital's internal control over compliance with requirements that could have a direct and material effect on a major federal program or state project to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.650, *Rules of the Auditor General of the State of Florida*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. A *material weakness in internal control over compliance* is a deficiency or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or state project will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of Winter Haven Hospital, Inc.'s Board of Trustees, audit committee, management, state and federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Orlando, Florida
January 11, 2012

Winter Haven Hospital, Inc.

Schedule of Findings and Questioned Costs
Year Ended September 30, 2011

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

A. Financial Statements

1. Type of auditor's report issued on the financial statements: Unqualified

2. Internal control over financial reporting:

• Material weakness(es) identified?	______Yes	__x__No
• Significant deficiency(ies) identified?	______Yes	__x__None reported

3. Noncompliance material to financial statements noted? ______Yes __x__No

B. Federal Awards

1. Internal control over major programs:

• Material weakness(es) identified?	______Yes	__x__No
• Significant deficiency(ies) identified?	______Yes	__x__None reported

2. Type of auditor's report issued on compliance for major programs: Unqualified

   - Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ______Yes __x__No

3. The program tested as major included the following:

CFDA Number	Name of Federal Program
93.556	Promoting Safe & Stable Families

Dollar threshold used to distinguish between Type A or Type B programs: $300,000

Auditee qualify as a low-risk auditee? __x__Yes ______No

(Continued)

C. State Financial Assistance

1. Internal control over major projects:

- Material weakness(es) identified? ______Yes ___x___No
- Significant deficiency(ies) identified ? ______Yes ___x___None reported

2. Type of auditor's report issued on compliance for major projects: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with Chapter 10.650, *Rules of the Auditor General*? ______Yes ___x___No

3. The projects tested as major included the following:

CSFA Numbers	Name of State Project
60.053	Florida Department of Children and Families: Adult Community Mental Health Community Support Services
60.094	Florida Department of Children and Families: Community Based Care Supports

Dollar threshold used to distinguish between Type A or Type B projects: $300,000

II. FINANCIAL STATEMENT FINDINGS

None reported.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

IV. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

None reported.

V. MANAGEMENT LETTER

No items related to state financial assistance required to be reported in the management letter.

Winter Haven Hospital, Inc.

Summary of Prior Audit Findings
Year Ended September 30, 2011

None reported.

Unaudited Supplemental Schedules

Winter Haven Hospital, Inc.
Center for Behavioral Health

Supplemental Schedule 1
Program/Cost Center Actual Expenses and Revenues Schedule (Unaudited)
Year Ended June 30, 2011

	State SAMH-Funded Cost Centers							
Funding Sources and Revenues	Assessment	Case Management	Crisis Support	Incidentals	Medical	Out Patient	Outreach	Prevention/ Intervention
Total state SAMH funding:								
From the district funding this contract	$ 97,298	$ 329,307	$ 165,320	$ 87,276	$ 422,085	$ 216,522	$ 77,962	$ 65,689
From other districts (Central Fl Behavioral Health)	-	-	-	-	-	-	-	-
Total state funding	97,298	329,307	165,320	87,276	422,085	216,522	77,962	65,689
Other government funding:								
Other state agency funding	-	-	-	-	-	-	-	-
Medicaid	293,675	58,146	-	-	1,176,122	290,850	-	98,725
Local government	-	-	-	-	-	-	-	-
Federal grants and contracts	-	-	-	-	-	-	-	-
In-kind from local government only	-	-	-	-	-	-	-	-
Total other government funding	293,675	58,146	-	-	1,176,122	290,850	-	98,725
All other revenues:								
First- and second-party payments	5,367	-	-	-	46,277	2,228	-	-
Third-party payments (except Medicare)	7,171	-	-	-	37,407	10,585	-	-
Medicare	7,881	-	-	-	113,115	14,422	-	-
Contributions and donations	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
In-kind	-	-	-	-	-	-	-	-
Total all other revenues	20,419	-	-	-	196,799	27,235	-	-
Total actual funding	$ 411,392	$ 387,453	$ 165,320	$ 87,276	$ 1,795,006	$ 534,607	$ 77,962	$ 164,414

(Continued)

Supported Employment	Supported Housing	Self Help Center	In-Home and On Site	Total for Combined Programs	Total for State SAMH-Funded Cost Centers	Total for Non-State SAMH-Funded Cost Centers	Total for All State-Designated SAMH Cost Centers	Total Funding
$ 39	$ 24	$ 22,328	$ 5,598	$ 1,489,448	$ 1,489,448	$ -	$ 1,489,448	$ 1,489,448
-	-	-	-	-	-	-	-	-
39	24	22,328	5,598	1,489,448	1,489,448	-	1,489,448	1,489,448
-	-	-	-	-	-	1,385,536	1,385,536	1,385,536
61	1,670	-	8,003	1,927,252	1,927,252	-	1,927,252	1,927,252
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
61	1,670	-	8,003	1,927,252	1,927,252	1,385,536	3,312,788	3,312,788
-	-	-	-	53,872	53,872	89,868	143,740	143,740
-	-	-	-	55,163	55,163	139,626	194,789	194,789
-	-	-	-	135,418	135,418	81,202	216,620	216,620
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	45,133	45,133	45,133
-	-	-	-	-	-	153,520	153,520	153,520
-	-	-	-	244,453	244,453	509,349	753,802	753,802
$ 100	$ 1,694	$ 22,328	$ 13,601	$ 3,661,153	$ 3,661,153	$ 1,894,885	$ 5,556,038	$ 5,556,038

Winter Haven Hospital, Inc.
Center for Behavioral Health

Supplemental Schedule 1 (Continued)
Program/Cost Center Actual Expenses and Revenues Schedule (Unaudited)
Year Ended June 30, 2011

	State SAMH-Funded Cost Centers							
Expense Categories	Assessment	Case Management	Crisis Support	Incidentals	Medical	Out Patient	Outreach	Prevention/ Intervention
Personnel expenses:								
Salaries	$ 186,867	$ 275,562	$ 124,056	$ -	$ 1,079,217	$ 332,584	$ 72,705	$ 80,496
Fringe benefits	17,486	25,785	11,608	-	100,985	31,121	6,803	7,532
Total personnel expenses	204,353	301,347	135,664	-	1,180,202	363,705	79,508	88,028
Other expenses:								
Building occupancy	3,493	5,738	499	-	2,495	7,484	249	-
Professional services	-	-	-	-	-	-	-	-
Travel	4,071	13,986	-	-	6,009	14,543	5,560	-
Equipment	-	-	-	-	-	-	-	-
Food services	-	-	-	-	-	-	-	-
Medical and pharmacy	-	-	-	-	94,532	-	-	-
Subcontracted services	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-
Interest paid	-	-	-	-	-	-	-	-
Operating supplies and expenses	3,191	6,681	3,027	-	16,626	9,379	2,096	162
Other	-	-	-	87,276	-	-	-	-
Donated items	-	-	-	-	-	-	-	-
Total other expenses	10,755	26,405	3,526	87,276	119,662	31,406	7,905	162
Total personnel and other expenses	215,108	327,752	139,190	87,276	1,299,864	395,111	87,413	88,190
Distributed indirect costs:								
Other support costs (optional)	138,294	210,714	89,486	56,110	835,690	254,019	56,198	56,698
Administration	58,469	89,087	37,833	23,723	353,318	107,396	23,760	23,971
Total distributed indirect costs	196,763	299,801	127,319	79,833	1,189,008	361,415	79,958	80,669
Total projected operational expenses	411,871	627,553	266,509	167,109	2,488,872	756,526	167,371	168,859
Unallowable costs	-	-	-	-	-	-	-	-
Total SAMH lines of credit equivalent	-	-	-	-	-	-	-	-
Total allowable projected operating expenditures, excluding SAMH credit equivalent	$ 411,871	$ 627,553	$ 266,509	$ 167,109	$ 2,488,872	$ 756,526	$ 167,371	$ 168,859
Capital expenditures	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

See Notes to Supplemental Schedules.

Supported Employment	Supported Housing	Self Help Center	In-Home and On Site	Total for Program 1 or Combined	Total for State SAMH-Funded Cost Centers	Total for Non-State SAMH-Funded Cost Centers	Total for All State-Designated SAMH Cost Centers	Other Support Costs (Optional)	Administration	Total Expenses
$ 6,193	$ 8,042	$ 8,256	$ 19,047	$ 2,193,025	$ 2,193,025	$ 1,230,823	$ 3,423,848	$ -	$ 451,252	$ 3,875,100
579	752	773	1,782	205,206	205,206	115,171	320,377	294,239	42,225	656,841
6,772	8,794	9,029	20,829	2,398,231	2,398,231	1,345,994	3,744,225	294,239	493,477	4,531,941
1,247	1,247	-	-	22,452	22,452	2,495	24,947	1,450,945	-	1,475,892
-	-	-	-	-	-	-	-	-	-	-
192	192	-	1,279	45,832	45,832	71,274	117,106	-	4,357	121,463
-	-	-	-	-	-	-	-	9,711	-	9,711
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	94,532	94,532	15	94,547	-	-	94,547
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
342	342	4,800	447	47,093	47,093	42,615	89,708	1,484,369	217,422	1,791,499
-	-	-	-	87,276	87,276	11,885	99,161	-	-	99,161
-	-	-	-	-	-	153,520	153,520	-	-	153,520
1,781	1,781	4,800	1,726	297,185	297,185	281,804	578,989	2,945,025	221,779	3,745,793
8,553	10,575	13,829	22,555	2,695,416	2,695,416	1,627,798	4,323,214	3,239,264	715,256	8,277,734
5,499	6,799	8,891	14,501	1,732,900	1,732,900	1,046,521	2,779,421	(3,239,264)	459,843	-
2,325	2,874	3,759	6,131	732,645	732,645	442,454	1,175,099	-	(1,175,099)	-
7,824	9,673	12,650	20,632	2,465,545	2,465,545	1,488,975	3,954,520	(3,239,264)	(715,256)	-
16,377	20,248	26,479	43,187	5,160,961	5,160,961	3,116,773	8,277,734	-	-	8,277,734
-	-	-	-	-	-	221,242	221,242	-	-	221,242
-	-	-	-	-	-	-	-	-	-	-
$ 16,377	$ 20,248	$ 26,479	$ 43,187	$ 5,160,961	$ 5,160,961	$ 2,895,531	$ 8,056,492	$ -	$ -	$ 8,056,492
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Winter Haven Hospital, Inc.
Center for Behavioral Health

Supplemental Schedule 2
Schedule of Related-Party Transaction Adjustments (Unaudited)
Year Ended June 30, 2011

		Allocation of Related-Party Transactions Adjustment				
	Related Party	1	2	3	……	Total
Revenues from grantee:						
Rent	$ -	$ -	$ -	$ -	$ -	$ -
Services	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total revenue from grantee	-	-	-	-	-	-
Expenses associated with grantee transactions:						
Personnel services	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total associated expenses	-	-	-	-	-	-
Related-party transaction adjustment	$ -	$ -	$ -	$ -	$ -	$ -

See Notes to Supplemental Schedules.

Winter Haven Hospital, Inc.
Center for Behavioral Health

Supplemental Schedule 3
Schedule of Bed-Day Availability Payments (Unaudited)
Year Ended June 30, 2011

Program A	Cost Center B	State Contracted Rate C	Total Units of Service Provided D	Total Units of Service Paid by Third-Party Contracts, Local Government or Other State Agencies E	Maximum Number of Units Eligible for Payment by Department (D-E), F	Amount Paid for Services by Department G	Maximum $ Value of Units in Column F (F x C), H	Amount Owed to Department (G-H or $-0-, Whichever Is Greater) I
Children's MH	Crisis Stabilization Unit	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Adult MH	Crisis Stabilization Unit	-	-	-	-	-	-	-
Children's SA	Substance Abuse Detox	-	-	-	-	-	-	-
Adult SA	Substance Abuse Detox	-	-	-	-	-	-	-
Adult MH	Short-term Residential Treatment	-	-	-	-	-	-	-

See Notes to Supplemental Schedules.

Winter Haven Hospital, Inc.
Center for Behavioral Health

Supplemental Schedule 4
Schedule of State Earnings (Unaudited)
Year Ended June 30, 2011

1	Total Expenditures	$ 8,277,734
2	Less Other State and Federal Funds	(3,312,788)
3	Less Non-Match SAMH Funds	(1,021,422)
4	Less Unallowable Costs per 65E-14, F.A.C.	(221,242)
5	Total Allowable Expenditures (Sum of lines 1, 2, 3, and 4)	3,722,282
6	Maximum Available Earnings (Line 5 times 75%)	2,791,712
7	Amount of State Funds Requiring Match	443,026
8	Amount Due to Department (Subtract line 7 from line 6)	$ 2,348,686

See Notes to Supplemental Schedules.

Note 1. Purpose of Supplemental Schedules

The accompanying supplemental schedules of Winter Haven Hospital Center for Behavioral Health (CBH), an operational department of Winter Haven Hospital, Inc. (the Hospital), are presented for the use of the State of Florida Department of Children and Families (DCF) in connection with the financial and compliance audit of performance contracts for Substance Abuse and Mental Health Services (SAMH) for the year ended June 30, 2011. CBH has contracts with DCF that require a local match for certain mental health outpatient services, as further discussed in Note 3.

Note 2. Basis of Presentation

The supplemental schedules have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Contract revenue is recognized based on the pro rata monthly portion of the total contract amount. Indigent drug program revenue and expenses are recognized when the drugs are received from DCF. Medicaid revenue is recognized when the related services are performed, less a provision for contractual adjustments. Costs are allocated based on each program's pro rata share of total expenses.

Contracts are based on a July 1 to June 30 fiscal year, while the financial and compliance audit of the Hospital is based on the Hospital's October 1 to September 30 fiscal year. Contracts are subject to amendment; therefore, the pro rata monthly revenue recognition is subject to change during the term of the contracts. The "Contract Amount" is the maximum reimbursement under the contract; however, the actual reimbursement is limited to the actual expenses incurred or units provided.

Note 3. Match Requirements of DCF Contracts

CBH has contracts with DCF for substance abuse and mental health services, some of which require a 25 percent local match. Supplemental Schedule 4 indicates that CBH exceeded its local share match for the time period shown.