Winter Haven Hospital, Inc.

Financial and Compliance Report

September 30, 2012

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, 2012 and 2011, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Winter Haven Hospital, Inc. as of September 30, 2012 and 2011, 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 3, 2013, and January 11, 2012, 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 audits were conducted for the purpose of forming an opinion on the 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 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 and is not a required part of the consolidated financial statements. The schedules of expenditures and consolidating information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements, or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The accompanying Center for Behavioral Health supplemental schedules are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements. Accordingly, it is inappropriate to, and we do not, express an opinion on the supplementary information referred to above.

McGladrey LLP

Fort Lauderdale, Florida
January 3, 2013

Winter Haven Hospital, Inc.

Consolidated Balance Sheets
September 30, 2012 and 2011

Assets	**2012**	2011
Current Assets		
Cash and cash equivalents	**$ 14,882,487**	$ 18,464,566
Investments (Notes 6 and 7)	**10,088,716**	9,257,355
Assets limited as to use that are available for current liabilities (Note 6)	**1,913,727**	2,114,933
Patient accounts receivable, less allowances for doubtful accounts of $20,042,602 in 2012 and $17,272,058 in 2011	**44,930,527**	42,081,796
Other receivables	**1,340,137**	983,907
Pledges receivable, net (Note 8)	**29,500**	194,500
Estimated third-party settlements, net	**-**	143,114
Inventories	**6,330,269**	5,930,240
Prepaid expenses and other assets	**5,537,455**	4,921,596
Total current assets	**85,052,818**	84,092,007
Assets Limited as to Use, net of current portion (Notes 6 and 7)		
By Board:		
For self-insured liability	**4,543,487**	3,777,356
For funded depreciation	**33,924,501**	32,545,515
For nursing research	**107,422**	61,666
For capital improvements	**6,129,579**	4,584,704
Under bond indenture agreement:		
Project funds	**2,797,220**	3,435,931
Swap collateral (Note 14)	**7,575,886**	7,057,374
For donor stipulations for specific purposes	**1,636,025**	1,541,652
Funds held in trust	**250,096**	229,491
Land	**1,700,000**	-
Total assets limited as to use	**58,664,216**	53,233,689
Pledges Receivable, net (Note 8)	**115,534**	122,401
Property and Equipment, net (Note 9)	**119,319,157**	115,355,918
Deferred Loan Origination Costs, net	**720,148**	732,748
Due From Affiliate, net	**2,932,885**	2,624,468
Estimated Insurance Recoveries	**2,362,614**	2,339,559
Other Long-Term Assets, net (Note 10)	**3,424,134**	3,522,075
	128,874,472	124,697,169
Total assets	**$ 272,591,506**	$ 262,022,865

See Notes to Consolidated Financial Statements.

Liabilities and Net Assets	2012	2011
Current Liabilities		
Current portion of long-term debt (Note 13)	**$ 5,084,110**	$ 6,159,978
Accounts payable and accrued expenses	**17,578,060**	13,586,671
Accrued employee compensation and benefits	**15,929,652**	15,379,012
Current portion of self-insured liability	**2,185,512**	2,664,935
Estimated third-party settlements, net	**599,751**	-
Total current liabilities	**41,377,085**	37,790,596
Long-Term Debt, less current portion (Note 13)	**75,928,554**	81,012,665
Self-Insured Liability, less current portion	**8,520,357**	9,619,965
Deferred Revenue (Note 6)	**1,777,570**	78,550
Other Long-Term Liabilities (Note 11)	**16,559,280**	16,814,872
Total liabilities	**144,162,846**	145,316,648
Commitments and Contingencies (Notes 9, 12, 14 and 15)		
Net Assets		
Unrestricted	**126,407,542**	114,873,852
Temporarily restricted (Note 17)	**1,054,719**	865,966
Permanently restricted (Note 17)	**966,399**	966,399
Total net assets	**128,428,660**	116,706,217
Total liabilities and net assets	**$ 272,591,506**	$ 262,022,865

Winter Haven Hospital, Inc.

Consolidated Statements of Operations
Years Ended September 30, 2012 and 2011

	2012	2011
Revenues:		
Patient service revenue (net of contractual allowances and discounts)	**$ 278,815,196**	$ 251,558,685
Provision for bad debts	**(37,875,584)**	(26,771,802)
Net patient service revenue less provision for bad debts	**240,939,612**	224,786,883
Other revenue	**10,104,735**	8,460,202
Contributions	**1,876,766**	2,801,600
Satisfaction of donor restrictions	**108,744**	100,063
Total revenues	**253,029,857**	236,148,748
Expenses:		
Salaries, benefits and contract labor	**133,137,340**	126,327,159
Supplies	**48,892,053**	45,222,717
Professional services	**5,863,905**	3,659,347
Other direct expenses	**28,752,619**	25,135,919
Utilities	**5,223,496**	5,019,702
Insurance	**8,167,748**	7,892,688
Interest	**3,215,107**	4,239,798
Depreciation and amortization	**14,738,090**	17,033,800
Total expenses	**247,990,358**	234,531,130
Income from operations	**5,039,499**	1,617,618
Other income (expense):		
Investment income	**1,583,131**	3,639,416
Change in swap liability (Note 14)	**(528,333)**	(2,213,896)
Change in net unrealized gains (losses) on trading securities	**5,392,748**	(3,192,364)
Gain (loss) on disposal of assets	**46,645**	(65,178)
Excess (deficit) of revenues over expenses	**$ 11,533,690**	$ (214,404)

See Notes to Consolidated Financial Statements.

Winter Haven Hospital, Inc.

Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2012 and 2011

	2012	2011
Unrestricted net assets:		
Excess (deficit) of revenues over expenses	**$ 11,533,690**	$ (214,404)
Increase (decrease) in unrestricted net assets	**11,533,690**	(214,404)
Temporarily restricted net assets:		
Proceeds from fundraising events	**39,012**	20,845
All other contributions	**194,643**	213,556
Investment income	**31,938**	6,350
Change in net unrealized gains (loss)	**31,904**	(12,741)
Net assets released from restrictions	**(108,744)**	(100,063)
Increase in temporarily restricted net assets	**188,753**	127,947
Increase (decrease) in net assets	**11,722,443**	(86,457)
Net assets:		
Beginning of year	**116,706,217**	116,792,674
End of year	**$ 128,428,660**	$ 116,706,217

See Notes to Consolidated Financial Statements.

Winter Haven Hospital, Inc.

Consolidated Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities		
Change in net assets	$ 11,722,443	$ (86,457)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	14,738,090	17,033,800
Loss (gain) on disposal of property and equipment	(46,645)	65,178
Change in fair value of interest rate swap	528,333	2,213,896
Provision for bad debts	37,875,584	26,771,802
(Increase) decrease in assets:		
Patient accounts receivable	(40,718,231)	(30,354,340)
Trading securities	(4,460,276)	(166,903)
Other receivables	(379,285)	535,205
Pledges receivable	165,783	141,284
Estimated third-party settlements, net	1,346,166	(693,885)
Inventories	(400,029)	(839,292)
Prepaid expenses and other assets	(615,859)	139,443
Other long-term assets	57,456	(81,633)
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	3,977,874	946,432
Accrued employee compensation and benefits	550,640	(31,762)
Self-Insured liability	(1,579,031)	300,143
Estimated third-party settlements, net	(603,301)	161,571
Other current and long-term liabilities	(784,905)	66,500
Net cash provided by operating activities	**21,374,807**	16,120,982
Cash Flows From Investing Activities		
(Increase) decrease in assets limited as to use under bond indenture	120,199	(2,029,318)
Acquisitions of property and equipment	(18,639,472)	(14,480,950)
Proceeds from the sale of property and equipment	30,783	9,026
Net cash used in investing activities	**(18,488,490)**	(16,501,242)
Cash Flows From Financing Activities		
Increase in advances to affiliated entities	(308,417)	(1,363,016)
Payments on debt	(6,159,979)	(5,700,133)
Proceeds from issuance of debt	-	982,643
Net cash used in financing activities	**(6,468,396)**	(6,080,506)
Net decrease in cash and cash equivalents	**(3,582,079)**	(6,460,766)
Cash and Cash Equivalents		
Beginning of year	18,464,566	24,925,332
End of year	$ 14,882,487	$ 18,464,566

(Continued)

Winter Haven Hospital, Inc.

Consolidated Statements of Cash Flows (Continued)
Years Ended September 30, 2012 and 2011

		2012		2011
Supplemental Disclosures of Cash Flow Information				
Cash paid during the year for interest, excluding capitalized interest of $386,000 in 2012 and $3,000 in 2011	**$**	**3,144,977**	$	3,707,507
Supplemental Disclosures of Noncash Investing and Financing Activities				
Fair value of donated land and deferred revenue	**$**	**1,700,000**	$	-
Acquisition of property and equipment through accounts payable		**858,597**		845,082
Increase of property and equipment through asset retirement obligation		**-**		2,142,910
Decrease in pledge receivables restricted for capital		**-**		(141,284)

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: In 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. In 2009, Mid-Florida created Mid-Florida Orthopedic Physician Services, LLC. In 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 with 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 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.

Patient receivables and net patient service revenue: Patient receivables, where a third party is responsible for paying the amount, are carried at a net amount determined by the original charge for the services provided, less an estimate made for contractual adjustments or discounts provided to third-party payers.

Estimated settlements on various risk contracts that the Hospital participates in are reported as third-party payer receivables or payables.

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Hospital's allowance for doubtful accounts for self-pay patients increased from 64 percent of self-pay accounts receivable at September 30, 2011, to 67 percent of self-pay accounts receivable at September 30, 2012. In addition, the Hospital's self-pay write-offs increased $1,859,647 from $34,047,074 for fiscal year 2011 to $35,906,721 for fiscal year 2012. The increase was the result of negative trends experienced in the collection of amounts from self-pay patients in fiscal year 2012. The Hospital has not changed its charity care or uninsured discount policies during fiscal years 2011 or 2012.

The Hospital does not maintain a material allowance for doubtful accounts from third-party payers, nor did it have significant write-offs from third-party payers.

Net patient services revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. 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. Net patient services revenue is reported net of provision for bad debts.

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

Patient services revenue at established rates, less third-party contractual adjustments (but before the provision for bad debts), recognized in the years ended September 30, 2012 and 2011, was approximately:

	2012	2011
Third-party payers	$ 227,841,000	$ 210,175,000
Self-pay	50,974,000	41,384,000
	$ 278,815,000	$ 251,559,000

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: 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.

Assets limited as to use under bond indenture agreement: Assets limited as to use under the bond indenture agreement includes 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. Interest capitalized during 2012 and 2011 totaled approximately $386,000 and $3,000, respectively.

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.

Depreciation is provided using the straight-line method over the following estimated useful lives, which are generally 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

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

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, 2012 or 2011.

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.

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 are reported at fair value at the date the donor-imposed condition is met. Deferred revenue is recognized if an asset is received but the conditions of the gift have not yet been met. Unconditional promises to give cash and other assets are reported at fair value at the date the promise 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.

Excess (deficit) of revenues over expenses: The consolidated statements of operations include excess (deficit) of revenues over expenses. Changes in unrestricted net assets that are excluded from excess (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).

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

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, 2012 and 2011, 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, 2012 or 2011.

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, 2012 and 2011.

Derivative financial instruments: 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,* during the year ended September 30, 2011. The remaining provisions were adopted during the year ended September 30, 2012. The adoption improved the disclosures and increases the transparency in financial reporting of fair values in the notes to the Hospital’s consolidated financial statements.

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

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 were adopted during the year ended September 30, 2012. The Hospital applied the provisions of ASU 2010-24 for the year ended September 30, 2012. Retrospective application of the provisions of ASU 2010-24 is permitted, and accordingly, for the year ended September 30, 2011, the Hospital reclassified estimated insurance recoveries of $2,340,000, previously presented as net against claims liabilities. Estimated insurance recoveries totaled approximately $2,363,000 as of September 30, 2012.

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 operations 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. The Hospital adopted ASU 2011-07 for the year ended September 30, 2012 and has retrospectively applied the provisions to September, 30, 2011, as required, with no effect on operating income or net assets.

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. The Hospital adopted ASU 2011-09 in 2012, resulting in expanded pension plan disclosures. See Note 15.

Reclassification of certain balances: Certain items on the 2011 consolidated balance sheet and statement of operations 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 3, 2013, 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, 2012 and 2011, are summarized as follows:

	2012	2011
Patient service revenue	$ 1,184,858,264	$ 1,044,646,425
Contractual adjustments	(890,564,522)	(777,052,408)
Domestic employee claims reclassification	(15,478,546)	(16,035,332)
Patient service revenue (net of contractual allowances and discounts)	278,815,196	251,558,685
Provision for bad debts	(37,875,584)	(26,771,802)
Net patient service revenue less provision for bad debts	$ 240,939,612	$ 224,786,883

The Hospital has agreements with third-party payers 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 payers 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.

The Hospital's Medicare cost reports have been audited and final settlements determined by the fiscal intermediary for all years through September 30, 2007. 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.

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

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 payers for the years ended September 30, 2012 and 2011, are in the following percentages:

	2012	2011
Medicare (including Medicare HMO and Medicare PPO)	35%	32%
Medicaid (including Medicaid HMO)	9%	10%
Other third-party payers	39%	41%
Patients without third-party coverage	17%	17%
	100%	100%

Contractual adjustment expense for the years ended September 30, 2012 and 2011, includes the effect of a change in the amount of estimated contractual adjustments under third-party reimbursement programs and retroactive adjustments based on final settlements of cost reports. The effect of these changes in estimate is an increase in contractual adjustment expense of approximately $743,000 and a decrease in contractual adjustment expense of approximately $532,000 for the years ended September 30, 2012 and 2011, respectively.

Also in 2012, the Hospital received a settlement from Medicare of approximately $2,900,000, which is included as a reduction of contractual adjustment expense. This settlement was the result of a national lawsuit claiming that the Centers for Medicare & Medicaid Services (CMS) had applied a negative budget neutrality adjustment to the Medicare inpatient prospective payment system each year since 1998 to account for the increase in payments related to the Medicare wage index rural floor.

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 forgone 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 $913,837 and $970,886 during the years ended September 30, 2012 and 2011, 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 from the Medicare cost report filed for fiscal year 2011, updated by the tentative settlement. A summary of charity care provided is as follows:

	Years Ended September 30	
	2012	2011
Charges foregone	$ 46,716,000	$ 53,037,000
Cost of charity care provided	$ 10,370,952	$ 11,986,362
Receipts from Polk Healthcare Plan	(913,837)	(970,886)
Cost in excess of receipts	$ 9,457,115	$ 11,015,476

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 payer agreements. Net patient account receivables from patients and third-party payers at September 30, 2012 and 2011, are in the following percentages:

	2012	2011
Medicare (including Medicare HMO and Medicare PPO)	35%	30%
Medicaid (including Medicaid HMO)	11%	9%
Other third-party payers	39%	42%
Patients without third-party coverage	15%	19%
	100%	100%

Note 5. Other Direct Expenses

The components of other direct expenses for the years ended September 30, 2012 and 2011, are summarized as follows:

	2012	2011
Maintenance and repair	$ 8,804,061	$ 8,152,051
Outside services	4,681,481	4,726,444
Indigent care fund	2,671,661	2,677,299
Legal, audit and consulting	4,655,801	3,619,792
Advertising	1,022,457	1,085,576
All other	6,917,158	4,874,757
	$ 28,752,619	$ 25,135,919

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 $2,672,000 and $2,677,000 for the years ended September 30, 2012 and 2011, respectively.

Note 6. Investments and Assets Limited as to Use

Investments: Investments at September 30, 2012 and 2011, are summarized as follows:

	2012	2011
Mutual funds	$ 8,958,496	$ 8,366,969
Exchange-traded funds	264,253	253,826
Equity securities	853,526	636,560
Other	12,441	-
	$ 10,088,716	$ 9,257,355

Assets limited as to use by Board:

For self-insured liability: Board-designated funds at September 30, 2012 and 2011, are summarized as follows:

	2012	2011
Cash equivalents	$ 185,798	$ 534,956
Mutual funds	3,406,455	2,961,543
Exchange-traded funds	215,530	-
Equity securities	2,074,084	1,826,337
Alternative investments and other	575,347	569,453
	6,457,214	5,892,289
Less amounts available for current liabilities	(1,913,727)	(2,114,933)
	$ 4,543,487	$ 3,777,356

For funded depreciation: Board-designated funds at September 30, 2012 and 2011, are summarized as follows:

	2012	2011
Cash equivalents	$ 1,849,549	$ 1,282,166
Mutual funds	12,849,676	12,126,032
Exchange-traded funds	836,161	1,395,125
Government and agency securities	1,099,775	1,071,793
Corporate and other debt securities	952,993	603,519
Equity securities	12,175,261	11,609,576
Alternative investments and other	4,161,086	4,457,304
	$ 33,924,501	$ 32,545,515

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

For nursing research and capital improvements: Board-designated funds at September 30, 2012 and 2011, are summarized as follows:

	2012	2011
Cash equivalents	$ 1,273,097	$ 1,338,043
Mutual funds	2,498,610	1,537,222
Exchange-traded funds	1,144,698	705,108
Equity securities	1,265,886	1,065,997
Government and agency securities	28,135	-
Corporate and other debt securities	26,575	-
	$ 6,237,001	$ 4,646,370

For Trustee-held fund: Bond project funds at September 30, 2012 and 2011, are summarized as follows:

	2012	2011
Cash	$ 2,797,220	$ 3,435,931

Swap collateral funds are held in cash and money market funds at September 30, 2012 and 2011.

Assets limited as to use by Board for donor-specific purposes: Assets limited as to use by the Board for donor-specific purposes at September 30, 2012 and 2011, are summarized as follows:

	2012	2011
Cash equivalents	$ 206,665	$ 201,303
Mutual funds	555,778	514,590
Exchange-traded funds	302,139	143,297
Government and agency securities	70,925	82,309
Corporate and other debt securities	66,992	45,685
Equity securities	433,526	554,468
	$ 1,636,025	$ 1,541,652

During the year ended September 30, 2012, the Foundation received title to a parcel of land from a donor. The land was conveyed with a use restriction that limits the use of the land to a not-for-profit medical facility. The use restriction is effective as long as the donor owns the adjacent property, and the Hospital does not have the right to assign this agreement to any other party. The land transfer is conditioned on the Hospital commencing the development and construction of the medical facility within 18 months from the date of closing (June 29, 2012). The donor maintains architectural control over the proposed medical facility. The Hospital recognized the land at its estimated fair value of $1,700,000 and also recorded deferred revenue of the same amount. When the conditions of the donor agreement have been met regarding construction of the medical facility, the Hospital will recognize temporarily restricted contribution revenue at the fair value of the land at that date. The donated land will remain classified as temporarily restricted as long as the donor’s stipulations limiting use of the medical facility remains.

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

Investment gain, including net realized gains of $156,380 and $2,114,000, respectively, for the years ended September 30, 2012 and 2011, are as follows:

	2012	2011
Income (loss):		
Investment income:		
Unrestricted	$ 1,583,131	$ 3,639,416
Temporarily restricted	31,938	6,350
Net unrealized gains (losses) on trading securities:		
Unrestricted	5,392,748	(3,192,364)
Temporarily restricted	31,904	(12,741)
Total investment gain	$ 7,039,721	$ 440,661

Note 7. Fair Value Measurements

All financial assets and liabilities are recognized or disclosed at fair value in the financial statements. Accounting Standards Codification (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 related to 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 as follows:

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.

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.

Note 7. Fair Value Measurements (Continued)

For the years ended September 30, 2012 and 2011, 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 $4,736,433 and $5,026,757 at September 30, 2012 and 2011, 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.

The following presents financial instruments measured at fair value on a recurring basis as of September 30, 2012 and 2011:

	Fair Value Measurements at September 30, 2012, 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, 2012
Assets:				
Common stocks	$ 16,798,153	$ -	$ -	$ 16,798,153
Fixed-income corporate securities	-	1,052,603	-	1,052,603
Fixed-income government securities and agencies	-	1,205,233	-	1,205,233
Equity mutual funds	5,263,242	-	-	5,263,242
Fixed-income mutual fund	23,005,774	-	-	23,005,774
Alternative investments	-	-	4,736,433	4,736,433
Commodity ETFs	2,762,781	-	-	2,762,781
Cash and cash equivalents	13,892,344	-	-	13,892,344
Funds held in trust	-	-	250,096	250,096
Total assets	$ 61,722,294	$ 2,257,836	$ 4,986,529	$ 68,966,659
Liabilities:				
Interest rate swap instruments	$ -	$ 14,720,466	$ -	$ 14,720,466

Note 7. Fair Value Measurements (Continued)

At September 30, 2012, alternative investments recorded at net asset value consisted of the following:

	September 30, 2012			
Major Category	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Multistrategy hedge funds	$ 4,736,433	$ -	Quarterly	60–95 days

	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	8,308,016	-	-	8,308,016
Fixed-income mutual fund	18,227,735	1,578,353	-	19,806,088
Alternative investments	-	-	5,026,757	5,026,757
Cash and cash equivalents	13,747,339	-	-	13,747,339
Funds held in trust	-	-	229,491	229,491
Total assets	$ 55,953,410	$ 3,396,319	$ 5,256,248	$ 64,605,977
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:

	September 30, 2011			
Major Category	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Multistrategy hedge funds	$ 5,026,757	$ -	Quarterly	60–95 days

Note 7. Fair Value Measurements (Continued)

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:

	Alternative Investments	Funds Held in Trust
Balance at September 30, 2010	$ 3,210,448	$ 245,801
Total gains or losses (realized or unrealized) included in excess of revenues over expenses	60,574	-
Purchases, issuances and settlements, net	1,755,735	-
Change in estimate of beneficial interest in trust	-	(16,310)
Balance at September 30, 2011	5,026,757	229,491
Total gains or losses (realized or unrealized) included in excess of revenues over expenses	134,727	-
Purchases, issuances and settlements, net	(425,051)	-
Change in estimate of beneficial interest in trust	-	20,605
Balance at September 30, 2012	$ 4,736,433	$ 250,096

Note 8. Pledges Receivable

Pledges receivable at September 30, 2012 and 2011, are expected to be realized in future years and are classified as follows:

	2012	2011
Less than one year	$ 29,500	$ 194,500
One to five years	65,534	157,401
More than five years	50,000	50,000
	145,034	401,901
Less allowance for doubtful pledges	-	(85,000)
	$ 145,034	$ 316,901

The long-term portion of pledges receivable has been discounted to reflect the estimated future cash flows. At September 30, 2012 and 2011, 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 $2,000 and $3,400 at September 30, 2012 and 2011, respectively.

Certain members of the Board of Trustees and management have pledged amounts to the Foundation, and those pledges have outstanding balances of $47,000 and $7,000 at September 30, 2012 and 2011, 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, 2012 and 2011, is summarized as follows:

	2012	2011
Land and land improvements	$ 8,311,849	$ 8,310,810
Buildings	93,410,414	93,058,725
Fixed equipment	53,600,568	53,131,615
Movable equipment	110,408,883	103,323,923
Capital leases, principally equipment	17,673,194	17,673,194
	283,404,908	275,498,267
Less accumulated depreciation	(180,282,836)	(166,425,672)
	103,122,072	109,072,595
Construction in progress	16,197,085	6,283,323
	$ 119,319,157	$ 115,355,918

Depreciation expense approximated $14,706,000 and $17,002,000 at September 30, 2012 and 2011, 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.

Construction in progress at September 30, 2012, consists primarily of the McKesson I.T. Project, Swann Building (mainly Lab), NextGen I.T. Project, Health Center and various other projects. Estimated costs to complete these projects amount to approximately $18,975,000 at September 30, 2012.

Rent expense approximated $1,230,000 and $1,544,000 for the years ended September 30, 2012 and 2011, respectively, which includes contingent rent expense based on usage of medical equipment of approximately $541,000 and $420,000 for the years ended September 30, 2012 and 2011, respectively.

Note 10. Other Long-Term Assets

Other long-term assets at September 30, 2012 and 2011, are as follows:

	2012	2011
Physician income guarantee	$ 294,058	$ 391,999
Land held for resale	3,000,019	3,000,019
Other	130,057	130,057
	$ 3,424,134	$ 3,522,075

Note 11. Other Long-Term Liabilities

The Hospital's other long-term liabilities at September 30, 2012 and 2011, are as follows:

	2012	2011
Physician income guarantee liability	$ 294,058	$ 391,998
Interest rate swaps (Note 14)	14,720,466	14,192,133
Conditional asset retirement obligation	1,544,756	2,230,741
	$ 16,559,280	$ 16,814,872

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, 2012 and 2011. 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, 2012 and 2011, were discounted at a rate of 2 percent and 2.5 percent, respectively. The undiscounted reserve for professional liability claims, including incurred but not reported claims, was approximately $8,972,000 and $10,725,000 at September 30, 2012 and 2011, respectively. The discount on the reserve for professional liability claims was approximately $560,000 and $812,000 at September 30, 2012 and 2011, respectively. Total expenses under this program, including premiums for excess coverage, amounted to approximately $1,154,000 and $2,844,000 for the years ended September 30, 2012 and 2011, 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 years 2012 and 2011. Total gross expenses under this program amounted to approximately $19,559,000 and $18,375,000 for the years ended September 30, 2012 and 2011, respectively. Group health insurance claims payable, including an estimate for incurred but not reported claims, were approximately $3,889,000 and $3,166,000 at September 30, 2012 and 2011, 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 $15,479,000 and $16,035,000 for the years ended September 30, 2012 and 2011, respectively.

Note 12. Commitments and Contingencies (Continued)

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 $1,100,000 and $765,000 for the years ended September 30, 2012 and 2011, respectively. The actuarially determined liability for workers' compensation claims included in the consolidated financial statements at September 30, 2012 and 2011, was discounted at a rate of 2 percent and 2.5 percent, respectively. The undiscounted reserve for workers' compensation claims was approximately $2,569,000 and $2,747,000 at September 30, 2012 and 2011, respectively. The discount on the reserve for workers' compensation claims was approximately $275,000 and $375,000 at September 30, 2012 and 2011, 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, 2013.

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, 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: CMS uses recovery audit contractors (RACs) as part of CMS' further efforts to assure accurate payments. RACs 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 net RAC recoveries from the Hospital during the fiscal years ended September 30, 2012 and 2011, were approximately $1,249,000 and $320,000, respectively.

Note 12. Commitments and Contingencies (Continued)

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 for stage I meaningful use by June 2013.

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. 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 payers 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, 2014.

Note 13. Long-Term Debt

Long-term debt at September 30, 2012 and 2011, is summarized as follows:

	2012	2011
Industrial Development Revenue Bonds, 2009 variable-rate debt, minimum interest rate 1.85%, with monthly payments through 2034	$ 18,234,965	$ 18,808,817
Industrial Development Revenue Bonds, 2010 variable-rate debt, interest rate 1.00% to 10.00%, with annual payments through 2036	59,400,000	62,000,000
Total bonds payable	77,634,965	80,808,817
Capital lease obligations at 4.85% to 5.50% due in monthly installments of $143,541 through 2014	3,377,699	6,363,826
Less bonds payable and capital leases due within one year	(5,084,110)	(6,159,978)
	$ 75,928,554	$ 81,012,665

Note 13. Long-Term Debt (Continued)

In March 2009, the Polk County Industrial Development Authority (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 Loan Agreement provides a 25-year amortization of the 2009 Series Bonds. In November 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).

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 noncancelable 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.

Note 13. Long-Term Debt (Continued)

The table below reflects principal payments over the next five years and beyond and assumes that the letters of credit related to the 2010 Series B and C Bonds are renewed in 2015 and that T.D. Bank, N.A. does not exercise its put option for the 2010 Series A Bonds in 2017 and that Regions Bank does not exercise its put option for the 2009 Series Bonds in 2018. If the letters of credit are not renewed, the outstanding balance of the 2010 Series Bonds would be due on demand, as described above, in 2015 and 2017.

Years Ending September 30,	
2013	$ 3,492,783
2014	3,312,338
2015	3,632,538
2016	2,053,404
2017	2,434,959
Thereafter	62,708,943
	$ 77,634,965

Capital leases: The Hospital leases medical equipment under capital leases. As of September 30, 2012 and 2011, the gross cost of the assets and related accumulated amortization were as follows:

	2012	2011
Medical equipment	$ 17,673,194	$ 17,673,194
Less accumulated amortization	(13,134,644)	(10,467,995)
Property and equipment under capital leases, net	$ 4,538,550	$ 7,205,199

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, 2012:

Years Ending September 30,	
2013	$ 1,722,496
2014	1,028,747
2015	849,728
Total minimum lease payments	3,600,971
Less amount representing interest (effective rates from 4.85% to 5.50%)	(223,272)
Present value of the net minimum lease payments	$ 3,377,699

Note 14. Derivative Instruments

As of September 30, 2012, 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.

Note 14. Derivative Instruments (Continued)

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 2012 from Fitch ratings and BBB as of May 2012 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 long-term liabilities in the consolidated balance sheets as of September 30, 2012:

	Maturity Date of Derivatives	Fixed Rate	Collateral Posting Threshold	Notional Amount Outstanding	Fair Value of Swap 2012	Fair Value of Swap 2011	Collateral Posted
Derivatives:							
Interest rate swaps:							
Series 2010 A	2034	5.076%	$ 5,000,000	$ 22,550,148	$ 5,203,700	$ 5,042,782	$ 987,943
Series 2010 B	2034	3.476%		7,515,852	1,734,261	1,680,721	987,943
Series 2010 B	2034	3.457%	2,000,000	15,034,000	3,377,289	3,264,329	2,800,000
Series 2010 C	2036	3.841%		14,300,000	4,405,216	4,204,301	2,800,000
Total				$ 59,400,000	$ 14,720,466	$ 14,192,133	$ 7,575,886

The change in fair value for all swaps for September 30, 2012 and 2011, is approximately $528,000 and $2,214,000, respectively, recorded within other income in the consolidated statements of operations.

Note 15. Retirement Plans

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. Net periodic pension cost is recorded as benefits expense on the consolidated statement of operations. 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, 2012 and 2011, Mid-Florida has cumulative contributions in excess of net periodic benefit costs of approximately $ 4,010,000 and $6,136,000, respectively. The Plan's funded status is a deficit of approximately $ 16,164,000 and $11,921,000 as of September 30, 2012 and 2011, respectively. Contributions by Mid-Florida were $1,500,000 for each of the years ended September 30, 2012 and 2011. 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 Pension Protection Act of 2006 (PPA) measures funding status on pension plans differently from generally accepted accounting principles. The PPA sets funding targets to assess whether pension plans are at risk through measurement of the adjusted funding target attainment percentage (AFTAP). AFTAP levels below 60 percent trigger a plan freeze and below 80 percent trigger required accelerated contributions. AFTAP is measured approximately 8 ½ months after the fiscal year-end measurement date, and contributions made then may be eligible in its calculations. At September 30, 2011, the Plan's AFTAP was approximately 80 percent. Mid-Florida does not expect its AFTAP to fall below 80 percent at September 30, 2012.

Note 15. Retirement Plans (Continued)

The Plan is measured annually on September 30. Information about the Plan follows:

	2012	2011
Accumulated benefit obligation	$ 55,850,537	$ 47,823,214
Change in projected benefit obligation:		
Projected benefit obligation, beginning of year	$ 49,646,857	$ 47,412,110
Service cost	2,256,154	2,277,608
Interest cost	2,584,456	2,508,813
Actuarial loss (gain)	7,403,782	891,571
Benefits paid	(3,681,445)	(3,443,245)
Projected benefit obligation, end of year	58,209,804	49,646,857
Change in plan assets:		
Plan assets at fair value, beginning of year	37,725,691	40,635,807
Employer contributions	1,500,000	1,500,000
Actual return on plan assets	6,501,712	(966,871)
Benefits paid	(3,681,445)	(3,443,245)
Plan assets at fair value, end of year	42,045,958	37,725,691
Funded status	$ (16,163,846)	$ (11,921,166)
Prior service credit	$ 2,798,804	$ 3,349,749
Accumulated loss	(22,972,346)	(21,406,877)
Cumulative employer contributions in excess of net periodic benefit cost	4,009,696	6,135,962
Accrued pension cost	$ (16,163,846)	$ (11,921,166)
Weighted-average assumptions for benefit obligations at September 30:		
Discount rate	4.12%	5.31%
Rate of increase in future compensation levels	3.00%	3.00%
Weighted-average assumptions for net periodic benefit costs at September 30:		
Discount rate	5.31%	5.36%
Expected return on plan assets	7.75%	7.75%
Rate of compensation increase	3.00%	3.00%
Components of net periodic pension cost:		
Service cost	$ 2,256,154	$ 2,277,608
Interest cost	2,584,456	2,508,813
Expected return on plan assets	(2,778,849)	(3,071,885)
Amortization of prior service cost	(550,945)	(550,945)
Amortization of loss	2,115,450	1,769,635
Net periodic pension cost	$ 3,626,266	$ 2,933,226

Note 15. Retirement Plans (Continued)

Estimated future benefits are as follows:

Years Ending September 30,		
2013	$	3,406,845
2014		2,971,157
2015		2,951,391
2016		3,669,272
2017		3,967,957
Thereafter		21,333,908
	$	38,300,530

The plan assets are administered by a trustee and are invested in the following percentages in various instruments at September 30, 2012 and 2011:

	2012	2011
Equity securities	67%	66%
Debt securities	30%	30%
Other	3%	4%
	100%	100%

The fair values of the pension plan assets at September 30, 2012 and 2011, by asset category are as follows:

	Fair Value Measurements at September 30, 2012, 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, 2012	
Assets:								
Common stocks	$	5,937,893	$	-	$	-	$	5,937,893
Equity mutual funds		18,381,289		-		-		18,381,289
Fixed-income mutual fund		7,026,524		9,617,808		-		16,644,332
Cash and cash equivalents		1,082,444		-		-		1,082,444
Total assets	$	32,428,150	$	9,617,808	$	-	$	42,045,958

	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	$	2,170,866	$	-	$	-	$	2,170,866
Equity mutual funds		18,129,643		4,724,565		-		22,854,208
Fixed-income mutual fund		7,681,533		3,693,398		-		11,374,931
Cash and cash equivalents		1,325,686		-		-		1,325,686
Total assets	$	29,307,728	$	8,417,963	$	-	$	37,725,691

Note 15. Retirement Plans (Continued)

The Plan's valuation methodologies for assets and liabilities measured at fair value are consistent with the fair value hierarchy described in Note 7 as Levels 1, 2 and 3.

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 $3,563,000 and $2,933,000 for the years ended September 30, 2012 and 2011, 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, 2012 and 2011, was approximately $1,117,000 and $930,000, respectively.

Note 16. Related-Party Transactions

The Hospital entered into the following related-party transactions as of September 30, 2012 and 2011:

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. As of September 30, 2012 and 2011, the balance due to Mid-Florida was $4,937,815 and $2,512,797, respectively.

Mid-Florida Physician Services, LLC: During the years ended September 30, 2012 and 2011, the Hospital advanced $2,733,436 and $2,779,214, respectively, to the LLC entities for working capital. As of September 30, 2012 and 2011, the balance due from the LLC entities was $7,870,700 and $5,137,264, respectively.

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, 2012 and 2011, are as follows:

	Purpose	2012	2011
Fuller Fund	Life insurance	$ 50,000	$ 50,000
Scholarship program from 2004 Gala	Scholarships	4,154	36,584
Findon Trust	Funds held in trust	134,608	123,728
Soevig Trust	Funds held in trust	115,487	105,763
Rynerson Fund	Scholarships	27,904	16,347
Auxiliary Fund	Scholarships	12,139	-
Acker Fund	Scholarships	19,465	12,186
Nursing—Florida Southern College	Scholarships	8,747	7,578
Fund for Women and Children	Women and children	13,801	-
Regency Medical Center	Regency Medical Center	57,905	36,309
Stroke Center	Stroke Center	171,783	173,276
Cassidy Cancer Center	Cassidy Cancer Center	72,857	47,807
Indigency Fund	Indigent care	134,547	125,256
Bostick Heart Center	Bostick Heart Center	14,114	11,324
Center for Urology	Center for Urology	100,250	10,000
Emergency Room	Emergency room	10,073	-
Other	Other	2,799	1,054
		$ 1,054,719	$ 865,966

Permanently restricted net assets consist of four donor-restricted funds. The balances at September 30, 2012 and 2011, are summarized as follows:

	Purpose	2012	2011
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

Permanently restricted funds include those assets of donor-restricted funds that the Foundation must hold in perpetuity. Such assets are invested in a manner that is intended to produce a real return consistent with that of other investments of the Foundation. Actual returns in any given year may vary from this amount. Each of the above permanently restricted net assets related to Foundation donor stipulations to preserve the original (gift) corpus and enable use of interest or appreciation for the purpose is set forth as described below.

Note 17. Temporarily and Permanently Restricted Net Assets (Continued)

Effective July 1, 2012, the State of Florida enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). As a result, the Foundation has adopted accounting standards codification guidance related to the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA and included additional disclosures about the Foundation's endowment funds as follows:

The Foundation's endowments consist of various donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Foundation has interpreted UPMIFA as recommending the preservation of the fair value of the original gift as of the gift date of the donor-restricted funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowments, (b) the original value of subsequent gifts to the permanent endowments and (c) accumulations to the permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 5 percent over the long term. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objective with prudent risk constraints.

The Foundation has a policy of appropriating for distribution each year a maximum of 5 percent of the three-year (12 quarters) rolling average of the market value of each endowment fund, although (absent donor stipulations) they are not required to approximate any amount for distribution. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of the long-term rate of inflation.

Note 17. Temporarily and Permanently Restricted Net Assets (Continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no deficiencies of this nature reported in unrestricted net assets as of September 30, 2012 and 2011. In the event any such deficiencies were to exist, the Foundation would report these losses as a reduction of unrestricted net assets.

Endowments: The endowment net asset composition by type of fund consisted of the following as of September 30, 2012 and 2011:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds:			
2012	$ 36,634	$ 966,399	$ 1,003,033
2011	15,219	966,399	981,618

Changes in endowment net assets for the years ended September 30, 2012 and 2011, consisted of the following:

	Year Ended September 30, 2012		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 32,828	$ 966,399	$ 999,227
Investment return:			
Investment income	710	51,645	52,355
Change in net unrealized gain (loss)	1,838	141,329	143,167
	2,548	192,974	195,522
Transfer of earnings	192,974	(192,974)	-
Appropriation of endowment funds for expenditure:			
Rynerson Fund	(8,400)	-	(8,400)
Sweet Fund	(159,707)	-	(159,707)
Auxiliary Fund	(6,000)	-	(6,000)
Acker Fund	-	-	-
	(174,107)	-	(174,107)
Endowment net assets, end of year	$ 54,243	$ 966,399	$ 1,020,642

Note 17. Temporarily and Permanently Restricted Net Assets (Continued)

	Year Ended September 30, 2011		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 10,555	$ 966,399	$ 976,954
Investment return:			
Investment income	758	88,990	89,748
Change in net unrealized gain (loss)	(577)	(64,235)	(64,812)
	181	24,755	24,936
Transfer of earnings	24,755	(24,755)	-
Appropriation of endowment funds for expenditure:			
Rynerson Fund	-	-	-
Sweet Fund	(17,609)	-	(17,609)
Auxiliary Fund	(2,663)	-	(2,663)
Acker Fund	-	-	-
	(2,663)	-	(2,663)
Endowment net assets, end of year	$ 32,828	$ 966,399	$ 999,227

Note 18. Functional Expenses

The expenses reported in the consolidated statements of operations for the years ended September 30, 2012 and 2011, were incurred for the following:

	2012	2011
Patient care services	$ 160,961,171	$ 152,071,320
General and administrative	86,735,640	82,319,972
Fundraising	293,547	139,838
	$ 247,990,358	$ 234,531,130

Winter Haven Hospital, Inc.

Consolidating Balance Sheet
September 30, 2012

Assets	Winter Haven Hospital, Inc.	Mid-Florida Medical Services Foundation, Inc.	Eliminating Entries	Consolidated Winter Haven Hospital, Inc.
Current Assets				
Cash and cash equivalents	$ 14,381,382	$ 501,105	$ -	$ 14,882,487
Investments	9,467,928	620,788	-	10,088,716
Assets limited as to use that are available for current liabilities	1,913,727	-	-	1,913,727
Patient accounts receivable, net	44,930,527	-	-	44,930,527
Other receivables	1,340,137	-	-	1,340,137
Pledges receivable, net	-	29,500	-	29,500
Inventories	6,330,269	-	-	6,330,269
Prepaid expenses and other assets	5,502,956	34,499	-	5,537,455
Total current assets	83,866,926	1,185,892	-	85,052,818
Assets Limited as to Use, net of current portion				
By Board:				
For self-insured liability	4,543,487	-	-	4,543,487
For funded depreciation	33,924,501	-	-	33,924,501
For nursing research	-	107,422	-	107,422
For capital improvements	-	6,129,579	-	6,129,579
Under bond indenture agreement:				
Project funds	2,797,220	-	-	2,797,220
Swap collateral	7,575,886	-	-	7,575,886
For donor stipulations for specific purposes	-	1,636,025	-	1,636,025
Funds held in trust	-	250,096	-	250,096
Land	-	1,700,000	-	1,700,000
Total assets limited as to use	48,841,094	9,823,122	-	58,664,216
Pledges Receivable, net	-	115,534	-	115,534
Property and Equipment, net	119,238,698	80,459	-	119,319,157
Deferred Loan Origination Costs, net	720,148	-	-	720,148
Due From Affiliate, net	3,002,870	-	(69,985)	2,932,885
Estimated Insurance Recoveries	2,362,614	-	-	2,362,614
Other Long-Term Assets, net	424,115	5,700,019	(2,700,000)	3,424,134
Investment in Subsidiary	15,056,660	-	(15,056,660)	-
	140,805,105	5,896,012	(17,826,645)	128,874,472
Total assets	$ 273,513,125	$ 16,905,026	$ (17,826,645)	$ 272,591,506

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	$ 5,084,110	$ -	$ -	$ 5,084,110
Accounts payable and accrued expenses	17,577,249	811	-	17,578,060
Accrued employee compensation and benefits	15,929,652	-	-	15,929,652
Current portion of self-insured liability	2,185,512	-	-	2,185,512
Estimated third-party settlements, net	599,751	-	-	599,751
Due to affiliates, net	-	69,985	(69,985)	-
Total current liabilities	41,376,274	70,796	(69,985)	41,377,085
Long-Term Debt, less current portion	78,628,554	-	(2,700,000)	75,928,554
Self-Insured Liability, less current portion	8,520,357	-	-	8,520,357
Deferred Revenue	-	1,777,570	-	1,777,570
Other Long-Term Liabilities	16,559,280	-	-	16,559,280
Total liabilities	145,084,465	1,848,366	(2,769,985)	144,162,846
Net Assets				
Unrestricted	113,372,000	13,035,542	-	126,407,542
Temporarily restricted	-	1,054,719	-	1,054,719
Permanently restricted	-	966,399	-	966,399
Equity in subsidiary	15,056,660	-	(15,056,660)	-
Total net assets	128,428,660	15,056,660	(15,056,660)	128,428,660
Total liabilities and net assets	$ 273,513,125	$ 16,905,026	$ (17,826,645)	$ 272,591,506

Winter Haven Hospital, Inc.

Consolidating Statement of Operations
Year Ended September 30, 2012

	Winter Haven Hospital, Inc.	Mid-Florida Medical Services Foundation, Inc.	Eliminating Entries	Consolidated Winter Haven Hospital, Inc.
Revenues:				
Patient service revenue (net of contractual allowances and discounts)	$ 278,815,196	$ -	$ -	$ 278,815,196
Provision for bad debts	(37,869,500)	-	(6,084)	(37,875,584)
Net patient service revenue less provision for bad debts	240,945,696	-	(6,084)	240,939,612
Other revenue	11,179,792	-	(1,075,057)	10,104,735
Contributions	-	1,876,766	-	1,876,766
Satisfaction of donor restrictions	-	108,744	-	108,744
Equity in subsidiary	1,780,210	-	(1,780,210)	-
Total revenues	253,905,698	1,985,510	(2,861,351)	253,029,857
Expenses:				
Salaries, benefits and contract labor	132,983,245	154,095	-	133,137,340
Supplies	48,892,053	-	-	48,892,053
Professional services	5,863,905	-	-	5,863,905
Other direct expenses	28,534,697	217,922	-	28,752,619
Utilities	5,223,496	-	-	5,223,496
Insurance	8,167,748	-	-	8,167,748
Interest	3,309,337	-	(94,230)	3,215,107
Depreciation and amortization	14,733,052	5,038	-	14,738,090
Provision for bad debts	-	6,084	(6,084)	-
Contribution expense	-	1,075,057	(1,075,057)	-
Total expenses	247,707,533	1,458,196	(1,175,371)	247,990,358
Income from operations	6,198,165	527,314	(1,685,980)	5,039,499
Other income (expense):				
Investment income	1,388,146	289,215	(94,230)	1,583,131
Change in swap liability	(528,333)	-	-	(528,333)
Change in net unrealized gains on trading securities	4,785,359	607,389	-	5,392,748
Gain on disposal of assets	46,645	-	-	46,645
Excess of revenues over expenses	$ 11,889,982	$ 1,423,918	$ (1,780,210)	$ 11,533,690

Winter Haven Hospital, Inc.

Consolidating Statement of Changes in Net Assets
Year Ended September 30, 2012

	Winter Haven Hospital, Inc.	Mid-Florida Medical Services Foundation, Inc.	Eliminating Entries	Consolidated Winter Haven Hospital, Inc.
Unrestricted net assets:				
Excess of revenues over expenses	$ 11,889,982	$ 1,423,918	$ (1,780,210)	$ 11,533,690
Net assets transferred (to) from	(167,539)	167,539	-	-
Increase in unrestricted net assets	11,722,443	1,591,457	(1,780,210)	11,533,690
Temporarily restricted net assets:				
Proceeds from fundraising events	-	39,012	-	39,012
All other contributions	-	194,643	-	194,643
Investment income	-	31,938	-	31,938
Change in net unrealized gains on trading securities	-	31,904	-	31,904
Net assets released from restrictions	-	(108,744)	-	(108,744)
Increase in temporarily restricted net assets	-	188,753	-	188,753
Increase in net assets	11,722,443	1,780,210	(1,780,210)	11,722,443
Net assets:				
Beginning of year	116,706,217	13,276,450	(13,276,450)	116,706,217
End of year	$ 128,428,660	$ 15,056,660	$ (15,056,660)	$ 128,428,660

Winter Haven Hospital, Inc.

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2012

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	V11064	$ 13,000	$ 10,045
Total U.S. Department of Justice				10,045
U.S. Department of Health and Human Services:				
Passed through Florida Department of Children and Families:				
Temporary Assistance for Needy Families	93.558	THJ29	364,681	274,799
Social Services Block Grant	93.667	THJ29	42,626	9,076
Children's Health Insurance Program	93.767	THJ23	211,000	142,000
Block Grants for Community Mental Health Services	93.958	THJ29	136,871	97,257
Passed through Central Florida Behavioral Health:				
Temporary Assistance for Needy Families	93.558	CF1053-1215	352,909	67,498
Social Services Block Grant	93.667	CF1053-1215	13,941	2,219
Children's Health Insurance Program	93.767	CF1053-1215	261,284	36,000
Block Grants for Community Mental Health Services	93.958	CF1053-1215	140,353	24,666
Passed through Heartland for Children:				
Promoting Safe & Stable Families	93.556	HWHMS1 (11-12)	417,746	312,109
Promoting Safe & Stable Families	93.556	HWHMS1 (12-13)	416,146	104,036
Child Abuse and Neglect State Grants	93.669	HWHMS1 (11-12)	39,081	28,907
Child Abuse and Neglect State Grants	93.669	HWHMS1 (12-13)	43,897	10,853
Total U.S. Department of Health and Human Services				1,109,420
Total expenditures of federal awards				$ 1,119,465

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

Winter Haven Hospital, Inc.

Schedule of Expenditures of State Financial Assistance
For the Year Ended September 30, 2012

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	$ 20,000	$ 18,981
Baker Act	60.006	THJ29	78,955	60,892
Indigent Psychiatric Outpatient Services	60.039	THJ29	52,842	40,754
Children's M.H. SIPP RTC	60.048	THJ29	97,016	84,355
Adult Community Mental Health Community Support Services	60.053	THJ29	400,959	301,600
Adult Community Mental Health Emergency Stabilization Services	60.054	THJ29	77,859	60,048
Children's Mental Health Community Services	60.055	THJ29	52,000	52,000
Children's Mental Health Services:				
Special Projects—Emergency Stabilization	60.059	THJ29	15,000	11,348
Passed through Central Florida Behavioral Health:				
Baker Act	60.006	CF1053-1215	76,406	19,102
Indigent Psychiatric Outpatient Services	60.039	CF1053-1215	51,136	-
Children's M.H. SIPP RTC	60.048	CF1053-1215	129,567	20,626
Adult Community Mental Health Community Support Services	60.053	CF1053-1215	360,353	70,878
Adult Community Mental Health Emergency Stabilization Services	60.054	CF1053-1215	75,345	18,836
Children's Mental Health Community Services	60.055	CF1053-1215	50,321	8,014
Children's Mental Health Emergency Stabilization	60.057	CF1053-1215	15,305	4,838
Passed through Heartland for Children:				
Community Based Care Supports:				
Family Intervention Team	60.094	HWHMS1 (11-12)	564,865	417,814
Family Intervention Team	60.094	HWHMS1 (12-13)	634,463	156,858
Total Florida Department of Children and Families				1,346,944
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				$ 1,376,944

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 governments for the year ended September 30, 2012. 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, they are not intended to, and do 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, 2012, and have issued our report thereon dated January 3, 2013. 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.*

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 LLP

Fort Lauderdale, Florida
January 3, 2013

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, 2012. 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, 2012.

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 LLP

Fort Lauderdale, Florida
January 3, 2013

Winter Haven Hospital, Inc.

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2012

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 of the State of Florida*? ______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.

Summary of Prior Audit Findings
For the Year Ended September 30, 2012

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, 2012

	State SAMH-Funded Cost Centers							
Funding Sources and Revenues	Assessment	Case Management	Intervention	Crisis Support	Incidentals	Medical	Out Patient	Outreach
Total state SAMH funding:								
From the district funding this contract	$ 105,803	$ 343,298	$ 176,389	$ 212,858	$ 93,670	$ 384,398	$ 48,598	$ 41,662
From other districts (Central Fl Behavioral Health)	-	-	-	-	-	-	-	-
Total state funding	105,803	343,298	176,389	212,858	93,670	384,398	48,598	41,662
Other government funding:								
Other state agency funding	-	-	-	-	-	-	-	-
Medicaid	496,001	78,709	-	-	-	835,591	275,532	-
Local government	-	-	-	-	-	-	-	-
Federal grants and contracts	-	-	-	-	-	-	-	-
In-kind from local government only	-	-	-	-	-	-	-	-
Total other government funding	496,001	78,709	-	-	-	835,591	275,532	-
All other revenues:								
First- and second-party payments	5,338	-	-	-	-	34,142	3,394	-
Third-party payments (except Medicare)	4,689	-	-	-	-	35,255	11,842	-
Medicare	7,800	-	-	-	-	78,144	10,352	-
Contributions and donations	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
In-kind	-	-	-	-	-	-	-	-
Total all other revenues	17,827	-	-	-	-	147,541	25,588	-
Total actual funding	$ 619,631	$ 422,007	$ 176,389	$ 212,858	$ 93,670	$ 1,367,530	$ 349,718	$ 41,662

(Continued)

Prevention/ Intervention	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
$ 61,707	$ 20	$ 48	$ 20,370	$ 21,344	$ 1,510,165	$ 1,510,165	$ -	$ 1,510,165	$ 1,510,165
-	-	-	-	-	-	-	-	-	-
61,707	20	48	20,370	21,344	1,510,165	1,510,165	-	1,510,165	1,510,165
-	-	-	-	-	-	-	1,052,369	1,052,369	1,052,369
91,987	-	318	-	-	1,778,138	1,778,138	-	1,778,138	1,778,138
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
91,987	-	318	-	-	1,778,138	1,778,138	1,052,369	2,830,507	2,830,507
-	-	-	-	-	42,874	42,874	114,516	157,390	157,390
29	-	-	-	-	51,815	51,815	243,964	295,779	295,779
-	-	-	-	-	96,296	96,296	68,125	164,421	164,421
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	1,208,977	1,208,977	1,208,977
-	-	-	-	-	-	-	156,496	156,496	156,496
29	-	-	-	-	190,985	190,985	1,792,078	1,983,063	1,983,063
$ 153,723	$ 20	$ 366	$ 20,370	$ 21,344	$ 3,479,288	$ 3,479,288	$ 2,844,447	$ 6,323,735	$ 6,323,735

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, 2012

	State SAMH-Funded Cost Centers								
Expense Categories	Assessment	Case Management	Intervention	Crisis Support	Incidentals	Medical	Out Patient	Outreach	Prevention/ Intervention
Personnel expenses:									
Salaries	$ 245,445	$ 254,430	$ 113,841	$ 138,598	$ -	$ 1,148,022	$ 298,253	$ 86,053	$ 53,356
Fringe benefits	28,160	29,191	13,061	15,901	-	131,712	34,218	9,873	6,121
Total personnel expenses	273,605	283,621	126,902	154,499	-	1,279,734	332,471	95,926	59,477
Other expenses:									
Building occupancy	-	-	-	-	-	-	-	-	-
Professional services	-	-	-	-	-	-	-	-	-
Travel	4,894	13,593	10,036	-	-	4,898	5,088	5,669	-
Equipment	-	-	-	-	-	-	-	-	-
Food services	-	-	-	-	-	-	-	-	-
Medical and pharmacy	-	-	-	-	38,235	53,963	-	-	-
Subcontracted services	-	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-	-
Interest paid	-	-	-	-	-	-	-	-	-
Operating supplies and expenses	4,099	2,049	2,113	2,374	-	15,057	4,972	1,890	139
Other	1,111	21,987	6,623	-	55,435	3,493	675	3,170	635
Donated items	-	-	-	-	-	-	-	-	156,496
Total other expenses	10,104	37,629	18,772	2,374	93,670	77,411	10,735	10,729	157,270
Total personnel and other expenses	283,709	321,250	145,674	156,873	93,670	1,357,145	343,206	106,655	216,747
Distributed indirect costs:									
Other support costs (optional)	134,005	151,736	68,806	74,096	44,243	641,021	162,107	50,376	102,376
Administration	55,987	63,395	28,747	30,957	18,485	267,819	67,729	21,047	42,773
Total distributed indirect costs	189,992	215,131	97,553	105,053	62,728	908,840	229,836	71,423	145,149
Total projected operational expenses	473,701	536,381	243,227	261,926	156,398	2,265,985	573,042	178,078	361,896
Unallowable costs	-	-	-	-	-	-	-	-	-
Total SAMH lines of credit equivalent	-	-	-	-	-	-	-	-	-
Total allowable projected operating expenditures, excluding SAMH credit equivalent	$ 473,701	$ 536,381	$ 243,227	$ 261,926	$ 156,398	$ 2,265,985	$ 573,042	$ 178,078	$ 361,896
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
	$ 7,049	$ 10,416	$ 16,967	$ 11,764	$ 2,384,194	$ 2,384,194	$ 1,613,737	$ 3,997,931	$ -	$ 444,188	$ 4,442,119
	809	1,195	1,947	1,350	273,538	273,538	185,143	458,681	257,347	50,961	766,989
	7,858	11,611	18,914	13,114	2,657,732	2,657,732	1,798,880	4,456,612	257,347	495,149	5,209,108
	-	-	-	-	-	-	-	-	1,408,859	-	1,408,859
	-	-	-	-	-	-	-	-	-	-	-
	220	221	-	448	45,067	45,067	78,012	123,079	-	2,989	126,068
	-	-	-	-	-	-	-	-	11,670	-	11,670
	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	92,198	92,198	-	92,198	-	-	92,198
	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-
	373	576	3,600	218	37,460	37,460	32,131	69,591	1,003,867	172,913	1,246,371
	9	19	-	151	93,308	93,308	15,351	108,659	-	-	108,659
	-	-	-	-	156,496	156,496	-	156,496	-	-	156,496
	602	816	3,600	817	424,529	424,529	125,494	550,023	2,424,396	175,902	3,150,321
	8,460	12,427	22,514	13,931	3,082,261	3,082,261	1,924,374	5,006,635	2,681,743	671,051	8,359,429
	3,996	5,869	10,634	6,580	1,455,845	1,455,845	908,941	2,364,786	(2,681,743)	316,957	-
	1,669	2,452	4,443	2,749	608,252	608,252	379,756	988,008	-	(988,008)	-
	5,665	8,321	15,077	9,329	2,064,097	2,064,097	1,288,697	3,352,794	(2,681,743)	(671,051)	-
	14,125	20,748	37,591	23,260	5,146,358	5,146,358	3,213,071	8,359,429	-	-	8,359,429
	-	-	-	-	-	-	240,807	240,807	-	-	240,807
	-	-	-	-	-	-	-	-	-	-	-
	$ 14,125	$ 20,748	$ 37,591	$ 23,260	$ 5,146,358	$ 5,146,358	$ 2,972,264	$ 8,118,622	$ -	$ -	$ 8,118,622
	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Winter Haven Hospital, Inc.
Center for Behavioral Health

Supplemental Schedule 2
Schedule of Related-Party Transaction Adjustments (Unaudited)
Year Ended June 30, 2012

		Allocation of Related-Party Transactions Adjustment				
	Related Party	1	2	3	……	Total
Revenues from grantee:						
Rent	$ -	$ -	$ -	$ -	$ -	$ -
Services	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total revenues 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, 2012

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, 2012

1	Total Expenditures	$ 8,359,429
2	Less Other State and Federal Funds	(2,830,507)
3	Less Non-Match SAMH Funds	(1,107,909)
4	Less Unallowable Costs per 65E-14, F.A.C.	(240,807)
5	Total Allowable Expenditures (Sum of lines 1, 2, 3 and 4)	4,180,206
6	Maximum Available Earnings (Line 5 times 75%)	3,135,154
7	Amount of State Funds Requiring Match	402,256
8	Amount Due to Department (Subtract line 7 from line 6)	$ 2,732,898

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, 2012. 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.