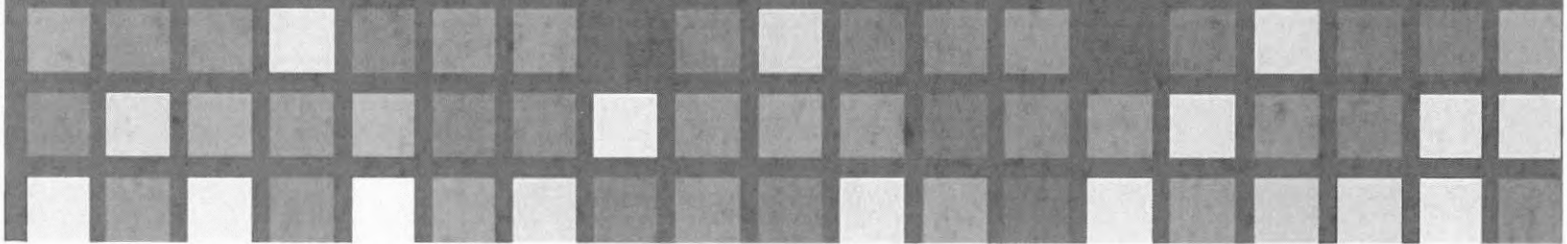


Winter Haven Hospital, Inc.

Financial and Compliance Report

August 29, 2013



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Independent Auditor's Report

To the Board of Trustees
Winter Haven Hospital, Inc
Winter Haven, Florida

Report on the Financial Statements

We have audited the accompanying consolidated balance sheet of Winter Haven Hospital, Inc. (the Hospital) as of August 29, 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for the period October 1, 2012 through August 29, 2013, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Winter Haven Hospital, Inc. as of August 29, 2013 and the results of its operations and its cash flows for the period October 1, 2012 through August 29, 2013 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 18 to the consolidated financial statements, the Hospital was party to an affiliation transaction effective August 30, 2013 whereby BayCare Health System, Inc. became the Hospital's sole member. Our opinion is not modified with respect to this matter.

Other Matters

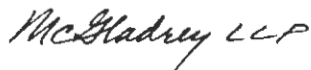
Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by the U.S. Office of Management and 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 is 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 audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2013 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.



Fort Lauderdale, Florida
November 27, 2013

Winter Haven Hospital, Inc.

**Consolidated Balance Sheet
August 29, 2013**

Assets

Current Assets	
Cash and cash equivalents	\$ 18,992,920
Investments (Notes 6 and 7)	8,957,116
Assets limited as to use that are available for current liabilities (Notes 6 and 7)	2,670,225
Patient accounts receivable, less allowance for doubtful accounts of \$20,933,000 in 2013 (Note 4)	44,125,845
Other receivables	1,316,066
Pledges receivable, net	22,000
Inventories	7,311,516
Prepaid expenses and other assets	6,814,607
Total current assets	90,210,295
Assets Limited as to Use, net of current portion (Notes 6 and 7)	
By Board:	
For self-insured liability	3,646,816
For funded depreciation	32,373,994
For nursing research	59,889
For capital improvements	6,937,407
Under bond indenture agreement:	
Swap collateral (Note 13)	2,500,000
For donor stipulations for specific purposes	1,714,030
Funds held in trust	253,990
Land	1,700,000
Total assets limited as to use	49,186,126
Pledges Receivable, net	88,835
Property and Equipment, net (Note 8)	128,100,795
Deferred Loan Origination Costs, net	690,307
Estimated Insurance Recoveries	3,919,512
Other Long-Term Assets, net (Note 9)	7,409,973
Total assets	\$ 279,605,843

See Notes to Consolidated Financial Statements.

Liabilities and Net Assets

Current Liabilities	
Current portion of long-term debt (Note 12)	\$ 5,306,229
Accounts payable and accrued expenses	17,179,638
Accrued employee compensation and benefits	15,670,599
Current portion of self-insured liability	3,220,337
Estimated third-party payers settlements, net	<u>1,466,442</u>
Total current liabilities	42,843,245
Long-Term Debt, less current portion (Note 12)	78,187,275
Self-Insured Liability, less current portion (Note 11)	10,290,977
Accrued Pension Liability (Note 14)	7,339,220
Deferred Revenue	1,714,560
Other Long-Term Liabilities (Note 10)	<u>15,948,493</u>
Total liabilities	<u>156,323,770</u>
Commitments and Contingencies (Notes 8, 11, 13, 14 and 18)	
Net Assets	
Unrestricted	121,198,944
Temporarily restricted (Note 16)	1,116,730
Permanently restricted (Note 16)	<u>966,399</u>
Total net assets	<u>123,282,073</u>
Total liabilities and net assets	<u>\$ 279,605,843</u>

Winter Haven Hospital, Inc.

Consolidated Statement of Operations
For the Period October 1, 2012 through August 29, 2013

Revenues:	
Patient service revenue (net of contractual allowances and discounts)	\$ 257,113,440
Provision for bad debts	(34,541,586)
Net patient service revenue less provision for bad debts	<u>222,571,854</u>
Other revenue	13,111,644
Contributions	1,310,560
Satisfaction of donor restrictions	19,221
Total revenues	<u>237,013,279</u>
Expenses:	
Salaries, benefits and contract labor	128,709,618
Supplies	47,891,443
Professional services	5,344,047
Other direct expenses (Note 5)	26,883,413
Utilities	4,478,057
Insurance	9,039,158
Interest	2,483,161
Depreciation and amortization	13,903,856
Total expenses	<u>238,732,753</u>
Loss from operations	(1,719,474)
Other income (expense):	
Investment income	3,351,806
Change in swap liability (Note 13)	6,054,245
Change in net unrealized gains (losses) on trading securities	(233,379)
Loss on disposal of assets	(34,499)
Excess of revenues over expenses	<u>\$ 7,418,699</u>

See Notes to Consolidated Financial Statements.

Winter Haven Hospital, Inc.

**Consolidated Statement of Changes in Net Assets
For the Period October 1, 2012 through August 29, 2013**

Unrestricted net assets:	
Excess of revenues over expenses	\$ 7,418,699
Net asset transfer to affiliates, net (Note 18)	<u>(12,627,297)</u>
Decrease in unrestricted net assets	<u>(5,208,598)</u>
Temporarily restricted net assets:	
Proceeds from fundraising events	32,541
All other contributions	33,084
Investment income	21,153
Change in net unrealized gains (losses)	(5,546)
Net assets released from restrictions	<u>(19,221)</u>
Increase in temporarily restricted net assets	<u>62,011</u>
Decrease in net assets	(5,146,587)
Net assets:	
Beginning of year	128,428,660
End of year	<u><u>\$ 123,282,073</u></u>

See Notes to Consolidated Financial Statements.

Winter Haven Hospital, Inc.

**Consolidated Statement of Cash Flows
For the Period October 1, 2012 through August 29, 2013**

Cash Flows From Operating Activities	
Change in net assets	\$ (5,146,587)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	13,903,856
Loss on disposal of property and equipment	34,499
Change in fair value of interest rate swap	(6,054,245)
Net asset transfer to affiliates, net	12,627,297
Provision for bad debts	34,541,586
(Increase) decrease in assets:	
Patient accounts receivable	(33,731,904)
Trading securities	1,983,980
Other receivables	(1,532,827)
Pledges receivable	29,199
Estimated third-party payers settlements, net	(825,883)
Inventories	(981,247)
Prepaid expenses and other assets	(1,277,152)
Other long-term assets	(169,203)
(Decrease) increase in liabilities:	
Accounts payable and accrued expenses	(147,837)
Accrued employee compensation and benefits	(259,053)
Self-Insured liability	2,805,445
Estimated third-party payers settlements, net	1,692,574
Deferred revenue	(63,010)
Other current and long-term liabilities	(1,774,673)
Net cash provided by operating activities	<u>15,654,815</u>
Cash Flows From Investing Activities	
Decrease in assets limited as to use under bond indenture	7,873,106
Acquisitions of property and equipment	(17,025,663)
Net cash used in investing activities	<u>(9,152,557)</u>
Cash Flows From Financing Activities	
Payments on debt	(2,391,825)
Net cash used in financing activities	<u>(2,391,825)</u>
Net increase in cash and cash equivalents	4,110,433
Cash and Cash Equivalents	
Beginning of year	14,882,487
End of year	<u>\$ 18,992,920</u>

(Continued)

Winter Haven Hospital, Inc.

Consolidated Statement of Cash Flows (Continued)
For the Period October 1, 2012 through August 29, 2013

Supplemental Disclosures of Cash Flow Information	
Cash paid during the year for interest, excluding capitalized interest of \$525,807	<u>\$ 1,943,638</u>
Supplemental Disclosures of Noncash Investing and Financing Activities	
Acquisition of property and equipment through accounts payable	\$ 1,008,012
Acquisition of property and equipment through capital leases	4,872,665
Net assets transferred to affiliated entities	(13,270,336)
Property and equipment transfer from affiliated entities	642,409

See Notes to Consolidated Financial Statements.

Winter Haven Hospital, Inc.

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 was held by Mid-Florida Medical Services, Inc. (Mid-Florida) through August 29, 2013. Mid-Florida was the parent holding company for and sole member of the Hospital through this date.

As described in Note 18, BayCare Health System, Inc. became the sole member of the Hospital effective August 30, 2013.

The operations of the Hospital are carried out through the following divisions:

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. On June 25, 2013 the Foundation amended its bylaws to now longer be controlled by the Hospital effective August 30, 2013 as described in Note 18.

The following organizations is a related party that was controlled by Mid-Florida through August 29, 2013:

Mid-Florida Physician Services, LLC: The purpose of this entity is to provide physician-related activities to meet care delivery needs of the community. Since the entity is controlled by Mid-Florida they are not included in the Hospital's consolidated financial statements.

As described in Note 18, BayCare Health System, Inc. became the sole member of Mid-Florida Physician Services, LLC effective August 30, 2013.

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.

Notes to Consolidated Financial Statements

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 Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the investment return on these assets. Such assets include the Foundation's permanent endowment funds.

Temporarily restricted: Temporarily restricted net assets are net assets whose use by the Foundation is subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation 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 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 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.

Notes to Consolidated Financial Statements

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 estimated third-party payer settlements.

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 was 66 percent of self-pay accounts receivable at August 29, 2013. In addition, the Hospital's self-pay write-offs were approximately \$35,426,000 for the period October 1, 2012 through August 29, 2013. The Hospital has not changed its charity care or uninsured discount policies during the period October 1, 2012 through August 29, 2013.

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

Winter Haven Hospital, Inc.

Notes to Consolidated Financial Statements

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 period from October 1, 2012 through August 29, 2013, was approximately:

Third-party payers	\$ 219,538,000
Self-pay	37,575,000
	<u>\$ 257,113,000</u>

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 claims. 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 13).

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 the period ended August 29, 2013 totaled approximately \$526,000.

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 a 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:

	<u>Years</u>
Land improvements	10–20
Buildings	10–40
Fixed equipment	5–25
Movable equipment	3–20
Capital lease	Lesser of lease term or asset life

Winter Haven Hospital, Inc.

Notes to Consolidated Financial Statements

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 August 29, 2013.

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 approximates the effective-interest method.

Fair value of financial instruments: Cash equivalents, assets limited as to use, investments and interest rate 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 items, 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 statement of operations as satisfaction of donor 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 of revenues over expenses: The consolidated statement of operations include excess of revenues over expenses. Changes in unrestricted net assets that are excluded from excess 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).

Notes to Consolidated Financial Statements

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

Income taxes: The Hospital and Foundation are 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.

For the Period October 1, 2012 through August 29, 2013, 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 August 29, 2013.

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 August 29, 2013.

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 13).

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 17) are determined based on a consideration of direct cost allocations and indirect cost allocation to functions based on the benefit received.

Subsequent events: The Hospital has evaluated subsequent events occurring between the end of the most recent fiscal year and November 27, 2013, the date the consolidated financial statements were issued.

Winter Haven Hospital, Inc.

Notes to Consolidated Financial Statements

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

The components of net patient service revenue for the period October 1, 2012 through August 29, 2013, are summarized as follows:

Patient service revenue (net of charity care)	\$ 1,158,814,707
Contractual adjustments	(886,846,450)
Domestic employee claims reclassification	<u>(14,854,817)</u>
Patient service revenue (net of contractual allowances and discounts)	257,113,440
Provision for bad debts	<u>(34,541,586)</u>
Net patient service revenue less provision for bad debts	<u><u>\$ 222,571,854</u></u>

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.

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, 2009. 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, 2008. 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.

Winter Haven Hospital, Inc.

Notes to Consolidated Financial Statements

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, before provision for bad debts, from patients and third-party payers for the period October 1, 2012 through August 29, 2013 are in the following percentages:

Medicare (including Medicare HMO and Medicare PPO)	30%
Medicaid (including Medicaid HMO)	13%
Other third-party payers	43%
Patients without third-party coverage	14%
	<u>100%</u>

Contractual adjustment expense for the period October 1, 2012 through August 29, 2013, 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 \$867,000 for the period October 1, 2012 through August 29, 2013.

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 \$1,185,525 during the period October 1, 2012 through August 29, 2013, 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 2012, updated by the tentative settlement. A summary of charity care provided is as follows:

Charges forgone	<u>\$ 54,658,000</u>
Cost of charity care provided	\$ 10,603,652
Receipts from Polk Healthcare Plan	<u>(1,185,525)</u>
Cost in excess of receipts	<u>\$ 9,418,127</u>

Winter Haven Hospital, Inc.

Notes to Consolidated Financial Statements

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. Patient account receivables, net of contractual allowances from patients and third-party payers at August 29, 2013 are in the following percentages:

Medicare (including Medicare HMO and Medicare PPO)	39%
Medicaid (including Medicaid HMO)	6%
Other third-party payers	38%
Patients without third-party coverage	17%
	<u>100%</u>

Note 5. Other Direct Expenses

The components of other direct expenses for the period October 1, 2012 through August 29, 2013, are summarized as follows:

Maintenance and repair	\$ 8,712,567
Outside services	4,650,026
Indigent care fund	2,469,289
Legal, audit and consulting	4,762,046
Advertising	818,949
All other	5,470,536
	<u>\$ 26,883,413</u>

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 \$2,469,000 for the period October 1, 2012 through August 29, 2013.

Note 6. Investments and Assets Limited as to Use

Investments: Investments at August 29, 2013, are summarized as follows:

Equity mutual funds	\$ 7,637,978
Fixed income mutual funds	271,470
Exchange-traded funds	270,675
U.S. equity securities	733,897
International equity securities	26,719
U.S. government obligations	5,658
Corporate securities	3,054
Other	7,665
	<u>\$ 8,957,116</u>

Winter Haven Hospital, Inc.

Notes to Consolidated Financial Statements

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

Assets limited as to use by Board:

For self-insured liability: Board-designated funds at August 29, 2013, are summarized as follows:

Cash equivalents	\$	770,072
Equity mutual funds		547,181
Fixed income mutual funds		1,799,167
Exchange-traded funds		394,860
U.S. equity securities		1,699,325
International equity securities		488,504
Hedge funds and funds of funds		617,932
		<u>6,317,041</u>
Less amounts available for current liabilities		(2,670,225)
	\$	<u>3,646,816</u>

For funded depreciation: Board-designated funds at August 29, 2013, are summarized as follows:

Cash equivalents	\$	3,730,380
Equity mutual funds		2,651,328
Fixed income mutual funds		8,561,976
Exchange-traded funds		644,226
U.S. government obligations		605,926
Corporate securities		331,830
U.S. equity securities		10,358,056
International equity securities		3,032,475
Hedge funds and funds of funds		2,457,797
	\$	<u>32,373,994</u>

For nursing research and capital improvements: Board-designated funds at August 29, 2013, are summarized as follows:

Cash equivalents	\$	1,432,902
Equity mutual funds		366,246
Fixed income mutual funds		2,279,844
Exchange-traded funds		1,196,264
U.S. equity securities		1,472,840
International equity securities		205,518
U.S. government obligations		28,368
Corporate securities		15,314
	\$	<u>6,997,296</u>

Swap collateral funds are held in cash and money market funds at August 29, 2013.

Winter Haven Hospital, Inc.

Notes to Consolidated Financial Statements

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

Assets limited as to use by Board for donor-specific purposes: Assets limited as to use by the Board for donor-specific purposes at August 29, 2013, are summarized as follows:

Cash equivalents	\$	260,009
Equity mutual funds		56,169
Fixed income mutual funds		541,927
Exchange-traded funds		299,844
U.S. equity securities		418,370
International equity securities		37,400
U.S. government obligations		65,145
Corporate securities		35,166
	\$	<u>1,714,030</u>

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). In October of 2013 the donor and the Foundation amended the agreement to extend the time period to commence the development and construction of the medical clinic to October 1, 2014. The donor maintains architectural control over the proposed medical facility. The Foundation 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 Foundation 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.

Investment gain, including net realized gains of \$1,962,406 for the period October 1, 2012 through August 29, 2013, are as follows:

Income (loss):		
Investment income:		
Unrestricted	\$	3,351,806
Temporarily restricted		21,153
Net unrealized losses on trading securities:		
Unrestricted		(233,379)
Temporarily restricted		(5,546)
Total investment gain	\$	<u>3,134,034</u>

Notes to Consolidated Financial Statements

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.

For the period October 1, 2012 through August 29, 2013 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 and funds of funds) is \$3,075,729 at August 29, 2013, 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, fund of 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.

Winter Haven Hospital, Inc.

Notes to Consolidated Financial Statements

Note 7. Fair Value Measurements (Continued)

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 August 29, 2013:

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance at August 29, 2013
Assets:				
U.S. equity securities	\$ 14,682,488	\$ -	\$ -	\$ 14,682,488
Corporate securities	-	385,364	-	385,364
International equity securities	3,790,616	-	-	3,790,616
Fixed income mutual funds	13,454,384	-	-	13,454,384
Equity mutual funds	11,258,902	-	-	11,258,902
Exchange-traded funds	2,805,869	-	-	2,805,869
U.S. government obligations	-	705,097	-	705,097
Hedge funds and funds of funds	-	-	3,075,729	3,075,729
Cash and cash equivalents	8,701,028	-	-	8,701,028
Funds held in trust	-	-	253,990	253,990
Total assets	\$ 54,693,287	\$ 1,090,461	\$ 3,329,719	\$ 59,113,467
Liabilities:				
Interest rate swap instruments	\$ -	\$ 8,666,221	\$ -	\$ 8,666,221

Note 7. Fair Value Measurements (Continued)

At August 29, 2013, alternative investments recorded at net asset value consisted of the following:

Major Category	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Multistrategy hedge funds (a)	\$ 3,075,729	\$ -	Quarterly	60–95 days

- (a) The multistrategy hedge funds objectives focus on investing in portfolios of diverse and substantially uncorrelated strategies while maintaining a tight risk management framework, significant liquidity and a high Sharpe ratio. Investment holdings allocate capital across a diverse set of strategies and asset classes seeking the optimal mix or return and risk with the aim of achieving absolute returns with minimal risk rather than outperform a given benchmark or asset class.

Winter Haven Hospital, Inc.

Notes to Consolidated Financial Statements

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, 2012	\$ 4,736,433	\$ 250,096
Total gains or losses (realized or unrealized) included in excess of revenues over expenses	342,396	-
Settlements	(2,003,100)	-
Change in estimate of beneficial interest in trust	-	3,894
Balance at August 29, 2013	<u>\$ 3,075,729</u>	<u>\$ 253,990</u>

Note 8. Property and Equipment

Property and equipment at August 29, 2013, is summarized as follows:

Land and land improvements	\$ 8,686,532
Buildings	94,827,295
Fixed equipment	54,770,885
Movable equipment	124,870,924
Capital leases, principally equipment	18,933,916
	<u>302,089,552</u>
Less accumulated depreciation	(195,417,470)
	<u>106,672,082</u>
Construction in progress	21,428,713
	<u>\$ 128,100,795</u>

Depreciation expense approximated \$13,874,000 for the period from October 1, 2012 through August 29, 2013.

Construction in progress at August 29, 2013, consists primarily of the McKesson I.T. Project, Swann Building (mainly Lab), IR/Dialysis, Health Center and various other projects. Estimated costs to complete these projects amount to approximately \$5,472,000 at August 29, 2013.

Rent expense approximated \$1,495,000 for the period October 1, 2012 through August 29, 2013, which includes contingent rent expense based on usage of medical equipment of approximately \$528,000 for the period October 1, 2012 through August 29, 2013.

Winter Haven Hospital, Inc.

Notes to Consolidated Financial Statements

Note 9. Other Long-Term Assets

Other long-term assets at August 29, 2013, are as follows:

Deferred compensation contracts	\$	3,820,530
Land held for resale		3,000,019
Other		589,424
	\$	<u>7,409,973</u>

Note 10. Other Long-Term Liabilities

The Hospital's other long-term liabilities at August 29, 2013, are as follows:

Deferred compensation contracts	\$	3,820,530
Interest rate swaps (Note 13)		8,666,221
Conditional asset retirement obligation		1,600,035
Other		1,861,707
	\$	<u>15,948,493</u>

The Hospital recognized conditional asset retirement obligations related to asbestos contamination in its buildings. The discount rate used in valuing the estimated liability was 3.54 percent for the period ended August 29, 2013.

Mid-Florida established a deferred compensation plan intended to be an eligible deferred compensation plan under section 457 of the Internal Revenue Code of 1986, as amended. The primary purpose of this plan is to attract and retain qualified personnel by permitting them to provide for benefits in the event of retirement or death. In the current year the plan assets and liability were transferred to the Hospital from the affiliate in anticipation of the transaction with BayCare Health System, Inc. as described in Note 18.

Note 11. 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 \$30,000,000 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 August 29, 2013, were discounted at a rate of 3 percent. The undiscounted reserve for professional liability claims, including incurred but not reported claims, was approximately \$12,441,000 at August 29, 2013. The discount on the reserve for professional liability claims was approximately \$1,109,000 at August 29, 2013. Total expenses under this program, including premiums for excess coverage, amounted to approximately \$3,189,000 for the period October 1, 2012 through August 29, 2013. 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. The Hospital has also recorded approximately \$2,894,000 of estimated insurance recoveries which is included in estimated insurance recoveries on the accompanying consolidated balance sheet.

Notes to Consolidated Financial Statements

Note 11. Commitments and Contingencies (Continued)

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 the period October 1, 2012 through August 29, 2013. Total gross expenses under this program amounted to approximately \$18,093,000 for the period October 1, 2012 through August 29, 2013. Group health insurance claims payable, including an estimate for incurred but not reported claims, were approximately \$3,267,000 at August 29, 2013. 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 \$14,855,000 for the period October 1, 2012 through August 29, 2013.

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 \$815,000 for the period October 1, 2012 through August 29, 2013. The actuarially determined liability for workers' compensation claims included in the consolidated financial statements at August 29, 2013, was discounted at a rate of 1 percent. The undiscounted reserve for workers' compensation claims was approximately \$2,240,000 at August 29, 2013. The discount on the reserve for workers' compensation claims was approximately \$60,000 at August 29, 2013. 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, 2014. The Hospital has also recorded \$1,026,000 of estimated insurance recoveries which is included in estimated insurance recoveries on the accompanying consolidated balance sheet

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.

Note 11. Commitments and Contingencies (Continued)

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 other than described below.

On August 29, 2013, the Hospital submitted a Voluntary Self-Referral Disclosure (“Disclosure”) to the Centers for Medicare and Medicaid Services (“CMS”) pursuant to CMS’ Voluntary Self-Referral Disclosure Protocol (the “Protocol”). The Disclosure was for matters related to: a) emergency department call coverage compensation paid to certain interventional cardiologists and orthopedic physicians and b) compensation to a physician-owned electrocardiogram company for administrative billing support services, (collectively, the “Arrangements”) that may have violated the Stark self-referral law (“Stark”). Stark provides that any financial arrangement between a hospital and a physician for designated health services to a Medicare patient must be represented by a written agreement that meets certain criteria or be subject to an exception. The Hospital has concluded that certain elements of the Arrangements potentially fail requirements of the exceptions permitted under Stark. The Protocol provides a mechanism whereby hospital providers can voluntarily disclose to CMS potential Stark violations and avoid a false claim action. To qualify for participation in the Protocol, any arrangement must not involve a kickback to a physician and management believes that none of the Arrangements involved any form of kickback. Under Stark, hospitals are not permitted to submit claims or receive any payment from CMS for services rendered to Medicare patients referred by the physician involved in a noncompliant arrangement; any such payment is considered an overpayment (“Overpayments”).

The Hospital has disclosed to CMS potential Overpayments in the amount of \$30,197,085 and remuneration to physicians under the Arrangements of \$264,504. Based upon preliminary assessment of the range of potential exposure, the Hospital has accrued an estimate for potential liability in this matter; however, the ultimate outcome of this matter cannot be determined. This amount is included in other long-term liabilities on the accompanying consolidated balance sheet based on an anticipated settlement date beyond August 29, 2014.

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 period October 1, 2012 through August 29, 2013, were approximately \$928,000.

Notes to Consolidated Financial Statements

Note 11. 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 met all of the eligibility requirements for stage I meaningful use during the October 1, 2012 through August 29, 2013 and received approximately \$4,264,000 of meaningful use incentive payments which are included in other revenue in the consolidated statement of operations and are subject to audit upon submission of the annual cost report.

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 12. Long-Term Debt

Long-term debt at August 29, 2013, is summarized as follows:

Industrial Development Revenue Bonds, 2009 variable-rate debt, minimum interest rate 1.85%, with monthly payments through 2034	\$ 17,692,318
Industrial Development Revenue Bonds, 2010 variable-rate debt, interest rate 1.00% to 10.00%, with annual payments through 2036	59,400,000
Total bonds payable	<u>77,092,318</u>
Capital lease obligations at 4.85% to 5.50% due in varying monthly installments through 2018	6,401,186
Less bonds payable and capital leases due within one year	(5,306,229)
	<u>\$ 78,187,275</u>

Winter Haven Hospital, Inc.

Notes to Consolidated Financial Statements

Note 12. 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.

As a result of the Affiliation Agreement with BayCare Health System, Inc., as described in Note 18, the 2009 and 2010 Industrial Development Revenue Bonds were paid in full on August 30, 2013.

Capital leases: The Hospital leases medical equipment under capital leases. As of August 29, 2013, the gross cost of the assets and related accumulated amortization were as follows:

Medical equipment	\$ 18,933,916
Less accumulated amortization	(15,194,980)
Property and equipment under capital leases, net	<u>\$ 3,738,936</u>

Winter Haven Hospital, Inc.

Notes to Consolidated Financial Statements

Note 12. Long-Term Debt (Continued)

Amortization of assets under capital leases is included in depreciation expense. The following is a schedule, by years, of future minimum lease payments under capital leases, together with the present value of the minimum lease payments as of August 29, 2013:

Period Ending August 29,

2014	\$ 2,279,709
2015	2,046,695
2016	1,080,418
2017	844,562
2018	480,197
Total minimum lease payments	<u>6,731,581</u>
Less amount representing interest (effective rates from 4.85% to 5.50%)	<u>(330,395)</u>
Present value of the net minimum lease payments	<u>\$ 6,401,186</u>

Note 13. Derivative Instruments

As of August 29, 2013, the Hospital has four outstanding floating-to-fixed interest rate swaps. The Hospital uses floating-to-fixed rate swaps to synthetically convert variable-rate debt to a fixed rate. Under these swaps, the Hospital receives a percentage of LIBOR and pays a fixed rate. Counterparties to these swaps are Morgan Stanley and Goldman Sachs for \$40 million and \$35 million, respectively, of the original notional amounts outstanding. The Hospital's derivative accounting policy is discussed in Note 1.

Each of the swap agreements contains threshold amounts to the underlying rating of the Obligated Group. The Obligated Group maintains an underlying rating of BBB from both Fitch and Standard & Poor's ratings agencies as of April 2013. 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 August 29, 2013:

	Maturity Date of Derivatives	Fixed Rate	Collateral Posting Threshold	Notional Amount Outstanding	Fair Value of Swap 2013	Collateral Posted
Derivatives:						
Interest rate swaps:						
Series 2010 A	2034	5.076%	\$ 5,000,000	\$ 22,550,148	\$ 2,993,268	\$ -
Series 2010 B	2034	3.476%		7,515,852	997,811	-
Series 2010 B	2034	3.457%	2,000,000	15,034,000	1,940,117	1,250,000
Series 2010 C	2036	3.841%		14,300,000	2,735,025	1,250,000
Total				<u>\$ 59,400,000</u>	<u>\$ 8,666,221</u>	<u>\$ 2,500,000</u>

The change in fair value for all swaps for August 29, 2013, is approximately \$6,054,000, recorded within other income in the consolidated statements of operations.

Winter Haven Hospital, Inc.

Notes to Consolidated Financial Statements

Note 14. 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. In October 2010, Mid-Florida's board of trustees amended the Plan to prohibit any new enrollees for employees hired after January 1, 2011. As per the terms of the Affiliation and Membership Interest Transfer Agreement with Health System, Inc the Plan was transferred from Mid-Florida to the Hospital on August 29, 2013.

For the Plan, a qualified employee is one who is over the age of 21, has received credit for at least 1,000 hours of service in a 12-month period, and was not over the age of 60 when hired. The Hospital's funding policy is to fund at least the minimum required ERISA contribution. At August 29, 2013, the Plan has cumulative contributions in excess of net periodic benefit costs of approximately \$4,006,000. The Plan's funded status is a deficit of approximately \$7,339,000 as of August 29, 2013. Contributions to the Plan were \$3,063,000 for the period October 1, 2012 through August 29, 2013.

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 8½ months after the fiscal year-end measurement date, and contributions made then may be eligible in its calculations. At September 30, 2012, the Plan's AFTAP was approximately 80 percent. The Hospital does not expect its AFTAP to fall below 80 percent at August 29, 2013.

Winter Haven Hospital, Inc.

Notes to Consolidated Financial Statements

Note 14. Retirement Plans (Continued)

The Plan was measured on August 29, 2013. Information about the Plan follows:

Accumulated benefit obligation	<u>\$ 51,142,619</u>
Change in projected benefit obligation:	
Projected benefit obligation, beginning of year	\$ 58,209,804
Service cost	2,404,536
Interest cost	2,139,518
Actuarial loss (gain)	(6,300,546)
Benefits paid	<u>(3,181,388)</u>
Projected benefit obligation, end of year	<u>53,271,924</u>
Change in plan assets:	
Plan assets at fair value, beginning of year	42,045,958
Employer contributions	3,063,000
Actual return on plan assets	4,005,154
Benefits paid	<u>(3,181,388)</u>
Plan assets at fair value, end of year	<u>45,932,724</u>
Funded status	<u>\$ (7,339,200)</u>
Prior service credit	\$ 2,293,771
Accumulated loss	(13,638,925)
Cumulative employer contributions in excess of net periodic benefit cost	<u>4,005,954</u>
Accrued pension cost	<u>\$ (7,339,200)</u>
Weighted-average assumptions for benefit obligations at September 30:	
Discount rate	5.16%
Rate of increase in future compensation levels	3.00%
Weighted-average assumptions for net periodic benefit costs at September 30:	
Discount rate	4.12%
Expected return on plan assets	7.75%
Rate of compensation increase	3.00%
Components of net periodic pension cost:	
Service cost	\$ 2,404,536
Interest cost	2,139,518
Expected return on plan assets	(2,959,243)
Amortization of prior service cost	(505,033)
Amortization of loss	1,986,964
Net periodic pension cost	<u>\$ 3,066,742</u>

Winter Haven Hospital, Inc.

Notes to Consolidated Financial Statements

Note 14. Retirement Plans (Continued)

Estimated future benefits payments are as follows:

Period Ending December 31,

2013	\$ 1,060,000
2014	2,916,000
2015	3,051,000
2016	3,684,000
2017	4,260,000
Thereafter	21,457,000
	<u>\$ 36,428,000</u>

The plan assets are administered by a trustee and are invested in the following percentages in various instruments at August 29, 2013:

Equity securities	71%
Debt securities	24%
Other	5%
	<u>100%</u>

The fair values of the pension plan assets at August 29, 2013, by asset category are as follows:

	Fair Value Measurements at August 29, 2013, 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 August 29, 2013
Assets:				
U.S. equity securities	\$ 2,748,336	\$ -	\$ -	\$ 2,748,336
Equity mutual funds	24,538,376	5,653,473	-	30,191,849
Fixed income mutual funds	7,276,780	3,805,271	-	11,082,051
Cash and cash equivalents	1,633,338	-	-	1,633,338
Total assets	<u>\$ 36,196,830</u>	<u>\$ 9,458,744</u>	<u>\$ -</u>	<u>\$ 45,655,574</u>

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.

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 period from October 1, 2012 through August 29, 2013, was approximately \$1,198,000.

Winter Haven Hospital, Inc.

Notes to Consolidated Financial Statements

Note 15. Related-Party Transactions

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.

Note 16. 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 August 29, 2013, are as follows:

	Purpose	2013
Fuller Fund	Life insurance	\$ 50,000
Findon Trust	Funds held in trust	134,856
Soevig Trust	Funds held in trust	119,135
Rynerson Fund	Scholarships	33,871
Auxiliary Fund	Scholarships	11,117
Acker Fund	Scholarships	20,234
Nursing—Florida Southern College	Scholarships	9,075
Fund for Women and Children	Women and children	29,235
Polk State College	Scholarships	98,140
Regency Medical Center	Regency Medical Center	74,520
Stroke Center	Stroke Center	171,783
Cassidy Cancer Center	Cassidy Cancer Center	73,207
Indigency Fund	Indigent care	140,150
Bostick Heart Center	Bostick Heart Center	19,281
Center for Urology	Center for Urology	100,350
Emergency Room	Emergency room	24,263
Other	Other	7,513
		<u>\$ 1,116,730</u>

Permanently restricted net assets consist of four donor-restricted funds. The balances at August 29, 2013, are summarized as follows:

	Purpose	2013
Sweet Fund	Capital improvement	\$ 723,399
Rynerson Fund	Scholarships	88,000
Acker Fund	Scholarships	35,000
Auxiliary Fund	Scholarships	120,000
		<u>\$ 966,399</u>

Notes to Consolidated Financial Statements

Note 16. Temporarily and Permanently Restricted Net Assets (Continued)

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.

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.

Winter Haven Hospital, Inc.

Notes to Consolidated Financial Statements

Note 16. Temporarily and Permanently Restricted Net Assets (Continued)

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.

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 August 29, 2013. 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 August 29, 2013:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds: 2013	\$ 583,582	\$ 966,399	\$ 1,549,981

Winter Haven Hospital, Inc.

Notes to Consolidated Financial Statements

Note 16. Temporarily and Permanently Restricted Net Assets (Continued)

Changes in endowment net assets for the period from October 1, 2012 through August 29, 2013, consisted of the following:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 533,068	\$ 966,399	\$ 1,499,467
Investment return:			
Investment income	29,629	53,678	83,307
Change in net unrealized gain (loss)	(9,667)	(17,454)	(27,121)
	19,962	36,224	56,186
Transfer of earnings	36,224	(36,224)	-
Contributions:			
Rynerson Fund	1,600	-	1,600
Appropriation of endowment funds for expenditure:			
Rynerson Fund	-	-	-
Sweet Fund	-	-	-
Auxiliary Fund	(6,000)	-	(6,000)
Acker Fund	(1,272)	-	(1,272)
	(7,272)	-	(7,272)
Endowment net assets, end of year	\$ 583,582	\$ 966,399	\$ 1,549,981

Winter Haven Hospital, Inc.

Notes to Consolidated Financial Statements

Note 17. Functional Expenses

The expenses reported in the consolidated statements of operations for the period October 1, 2012 through August 29, 2013, were incurred for the following:

Patient care services	\$ 154,761,085
General and administrative	83,498,803
Fundraising	472,865
	<u>\$ 238,732,753</u>

Note 18. Subsequent Events

In May of 2013 the Hospital entered into an Affiliation and Membership Interest Transfer Agreement (the Affiliation Agreement) with BayCare Health System, Inc ("BayCare"), a Florida non-for-profit corporation. The Affiliation Agreement was effective on August 30, 2013. The Articles of Incorporation were amended and restated, making BayCare the sole member of the Hospital. The Hospital's Bylaws were also amended and restated to require a 14-person governing board consisting of 8 trustees appointed by BayCare and 6 community trustee appointed by the Foundation designee representative. No consideration was exchanged between BayCare and the Hospital relative to this transaction. The purpose of the Affiliation Agreement is to support and enhance access to high quality healthcare in Polk County, Florida area. Under the terms of the Affiliation Agreement, all related party balances will be forgiven unless specifically addressed in the Affiliation Agreement; the Hospital and the Foundation will enter into lease agreements where the Hospital will lease the Foundation office space at the Hospital's facility and provide the Foundation the services of such number of employees as shall be agreed upon from time to time between BayCare and the Foundation.

In connection with the Affiliation Agreement all outstanding principal and interest due related to the 2009 and 2010 Industrial Development Revenue Bonds was paid in full on August 30, 2013 by BayCare. In addition, the interest rate swap agreements were transferred to BayCare on August 30, 2013.

During the period ended August 29, 2013 in anticipation of the transaction with BayCare, the balances due to and from Mid-Florida and the LLC entities were settled and recorded as net assets transfers of approximately \$5,430,000 from the Hospital. In addition, Mid-Florida transferred to the Hospital property and equipment with a net book value of \$642,409, the net liability of the pension plan of \$7,839,200 (see Note 14) and the assets and liability of the deferred compensation contracts (see Notes 9 and 10). The net change to the Hospital's net assets from these transfers was \$12,627,297. As of August 29, 2013 there were no outstanding balances due to or from Mid-Florida or the LLC's.

Winter Haven Hospital, Inc.

Consolidating Balance Sheet
August 29, 2013

Assets	Winter Haven Hospital, Inc.	Mid-Florida Medical Services Foundation, Inc.	Eliminating Entries	Consolidated Winter Haven Hospital, Inc.
Current Assets				
Cash and cash equivalents	\$ 17,851,985	\$ 1,140,935	\$ -	\$ 18,992,920
Investments	8,335,768	621,348	-	8,957,116
Assets limited as to use that are available for current liabilities	2,670,225	-	-	2,670,225
Patient accounts receivable, net	44,125,845	-	-	44,125,845
Other receivables	1,316,066	-	-	1,316,066
Pledges receivable, net	-	22,000	-	22,000
Inventories	7,311,516	-	-	7,311,516
Prepaid expenses and other assets	6,776,367	38,240	-	6,814,607
Total current assets	88,387,772	1,822,523	-	90,210,295
Assets Limited as to Use, net of current portion				
By Board:				
For self-insured liability	3,646,816	-	-	3,646,816
For funded depreciation	32,373,994	-	-	32,373,994
For nursing research	-	59,889	-	59,889
For capital improvements	-	6,937,407	-	6,937,407
Under bond indenture agreement:				
Project funds	-	-	-	-
Swap collateral	2,500,000	-	-	2,500,000
For donor stipulations for specific purposes	-	1,714,030	-	1,714,030
Funds held in trust	-	253,990	-	253,990
Land	-	1,700,000	-	1,700,000
Total assets limited as to use	38,520,810	10,665,316	-	49,186,126
Pledges Receivable, net	-	88,835	-	88,835
Property and Equipment, net	128,026,126	74,669	-	128,100,795
Deferred Loan Origination Costs, net	690,307	-	-	690,307
Due From Affiliate, net	265,777	-	(265,777)	-
Estimated Insurance Recoveries	3,919,512	-	-	3,919,512
Other Long-Term Assets, net	4,409,954	5,700,019	(2,700,000)	7,409,973
Investment in Subsidiary	16,370,787	-	(16,370,787)	-
Total assets	\$ 280,591,045	\$ 18,351,362	\$ (19,336,564)	\$ 279,605,843

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	\$ 5,306,229	\$ -	\$ -	\$ 5,306,229
Accounts payable and accrued expenses	17,174,840	4,798	-	17,179,638
Accrued employee compensation and benefits	15,670,599	-	-	15,670,599
Current portion of self-insured liability	3,220,337	-	-	3,220,337
Estimated third-party payers settlements, net	1,466,442	-	-	1,466,442
Due to affiliates, net	-	265,777	(265,777)	-
Total current liabilities	<u>42,838,447</u>	<u>270,575</u>	<u>(265,777)</u>	<u>42,843,245</u>
Long-Term Debt, less current portion	80,887,275	-	(2,700,000)	78,187,275
Self-Insured Liability, less current portion	10,290,977	-	-	10,290,977
Accrued Pension Liability	7,339,220	-	-	7,339,220
Deferred Revenue	4,560	1,710,000	-	1,714,560
Other Long-Term Liabilities	15,948,493	-	-	15,948,493
Total liabilities	<u>157,308,972</u>	<u>1,980,575</u>	<u>(2,965,777)</u>	<u>156,323,770</u>
Net Assets				
Unrestricted	106,911,286	14,287,658	-	121,198,944
Temporarily restricted	-	1,116,730	-	1,116,730
Permanently restricted	-	966,399	-	966,399
Equity in subsidiary	16,370,787	-	(16,370,787)	-
Total net assets	<u>123,282,073</u>	<u>16,370,787</u>	<u>(16,370,787)</u>	<u>123,282,073</u>
Total liabilities and net assets	<u>\$ 280,591,045</u>	<u>\$ 18,351,362</u>	<u>\$ (19,336,564)</u>	<u>\$ 279,605,843</u>

Winter Haven Hospital, Inc.

**Consolidating Statement of Operations
For the Period October 1, 2012 through August 29, 2013**

	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)	\$ 257,113,440	\$ -	\$ -	\$ 257,113,440
Provision for bad debts	(34,536,586)	-	(5,000)	(34,541,586)
Net patient service revenue less provision for bad debts	222,576,854	-	(5,000)	222,571,854
Other revenue	13,250,559	-	(138,915)	13,111,644
Contributions	-	1,310,560	-	1,310,560
Satisfaction of donor restrictions	-	19,221	-	19,221
Equity in subsidiary	1,314,127	-	(1,314,127)	-
Total revenues	237,141,540	1,329,781	(1,458,042)	237,013,279
Expenses:				
Salaries, benefits and contract labor	128,556,481	153,137	-	128,709,618
Supplies	47,891,443	-	-	47,891,443
Professional services	5,344,047	-	-	5,344,047
Other direct expenses	26,569,475	313,938	-	26,883,413
Utilities	4,478,057	-	-	4,478,057
Insurance	9,039,158	-	-	9,039,158
Interest	2,569,539	-	(86,378)	2,483,161
Depreciation and amortization	13,898,066	5,790	-	13,903,856
Provision for bad debts	-	5,000	(5,000)	-
Contribution expense	-	138,915	(138,915)	-
Total expenses	238,346,266	616,780	(230,293)	238,732,753
Income (loss) from operations	(1,204,726)	713,001	(1,227,749)	(1,719,474)
Other income (expense):				
Investment income	3,045,718	392,466	(86,378)	3,351,806
Change in swap liability	6,054,245	-	-	6,054,245
Change in net unrealized loss on trading securities	(148,468)	(84,911)	-	(233,379)
Loss on disposal of assets	(34,499)	-	-	(34,499)
Excess of revenues over expenses	\$ 7,712,270	\$ 1,020,556	\$ (1,314,127)	\$ 7,418,699

Winter Haven Hospital, Inc.

**Consolidating Statement of Changes in Net Assets
For the Period October 1, 2012 through August 29, 2013**

	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	\$ 7,712,270	\$ 1,020,556	\$ (1,314,127)	\$ 7,418,699
Net asset transfer to affiliates, net	(12,627,297)	-	-	(12,627,297)
Net assets transferred (to) from affiliate	(231,560)	231,560	-	-
Increase (decrease) in unrestricted net assets	(5,146,587)	1,252,116	(1,314,127)	(5,208,598)
Temporarily restricted net assets:				
Proceeds from fundraising events	-	32,541	-	32,541
All other contributions	-	33,084	-	33,084
Investment income	-	21,153	-	21,153
Change in net unrealized gains on trading securities	-	(5,546)	-	(5,546)
Net assets released from restrictions	-	(19,221)	-	(19,221)
Increase in temporarily restricted net assets	-	62,011	-	62,011
Increase (decrease) in net assets	(5,146,587)	1,314,127	(1,314,127)	(5,146,587)
Net assets:				
Beginning of year	128,428,660	15,056,660	(15,056,660)	128,428,660
End of year	<u>\$ 123,282,073</u>	<u>\$ 16,370,787</u>	<u>\$ (16,370,787)</u>	<u>\$ 123,282,073</u>

Winter Haven Hospital, Inc.

**Schedule of Expenditures of Federal Awards
For the Period October 1, 2012 through August 29, 2013**

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	V12064	\$ 12,439	\$ 11,402
Total U.S. Department of Justice				<u>11,402</u>
U.S. Department of Health and Human Services:				
Passed through Heartland for Children:				
Promoting Safe & Stable Families	93.556	HWHMS1 (July 12 - June 13)	416,146	312,109
Promoting Safe & Stable Families	93.556	HWHMS1 (July 13 - Dec 13)	211,274	70,425
Child Welfare Services State Grants	93.645	HWHMS1 (July 12 - June 13)	15,050	11,304
Child Abuse and Neglect State Grants	93.669	HWHMS1 (July 12 - June 13)	23,785	17,864
Child Abuse and Neglect State Grants	93.669	HWHMS1 (July 13 - Dec 13)	10,471	3,449
Passed through Central Florida Behavioral Health:				
Temporary Assistance for Needy Families	93.558	CF1053-1215	328,979	261,480
Temporary Assistance for Needy Families	93.558	QA056	332,909	50,113
Social Services Block Grant	93.667	CF1053-1215	7,125	5,543
Children's Health Insurance Program	93.767	CF1053-1215	133,002	97,000
Children's Health Insurance Program	93.767	QA056	256,455	27,000
Block Grants for Community Mental Health Services	93.958	CF1053-1215	101,204	78,729
Block Grants for Community Mental Health Services	93.958	QA056	812,871	96,081
Total U.S. Department of Health and Human Services				<u>1,031,097</u>
Total Expenditures of Federal Awards				<u><u>\$ 1,042,499</u></u>

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 Period October 1, 2012 through August 29, 2013**

Grantor/Pass-Through Grantor/Project Title	CSFA Number	Contract Number	Award Amount	State Expenditures
Florida Department of Children and Families:				
Passed through Central Florida Behavioral Health:				
Baker Act	60.006	CF1053-1215	\$ 77,093	\$ 59,973
Children's Mental Health Community Support Services	60.055	CF1053-1215	32,306	25,132
Passed through Heartland for Children:				
Community Based Care Supports	60.094	HWHMS1 (July 12 - June 13)	629,891	473,095
Community Based Care Supports	60.094	HWHMS1 (July 13 - Dec 13)	333,841	109,955
Total Florida Department of Children and Families				<u>668,155</u>
Florida Department of Health:				
Medical Services for Abused/Neglected Children	64.006	CSAWH	33,750	32,082
Total Florida Department of Health				<u>32,082</u>
Total Expenditures of State Financial Assistance				<u>\$ 700,237</u>

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

Winter Haven Hospital, Inc.

**Notes to Schedules of Expenditures of Federal Awards and State Financial Assistance
For the Period October 1, 2012 through August 29, 2013**

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 period October 1, 2012 to August 29, 2013. 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



**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.
Winter Haven, Florida

We have audited, in accordance with the 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, the consolidated financial statements of Winter Haven Hospital, Inc. (the Hospital) which comprise the consolidated balance sheets as of August 29, 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for the period October 1, 2012 through August 29, 2013, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 27, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist which have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's consolidated financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McGladrey LLP

Fort Lauderdale, Florida
November 27, 2013



**Independent Auditor's Report
on Compliance for Each Major Federal Program and
State Project; Report on Internal Control Over Compliance;
Required by 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.
Winter Haven, Florida

Report on Compliance for Each Major Federal Program and State Project

We have audited Winter Haven Hospital, Inc.'s (the Hospital) compliance with the types of compliance requirements described in the *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 the Hospital's major federal program and major state project for the period October 1, 2012 through August 29, 2013. The Hospital's major federal program and major state project are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs and state projects.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Hospital's major federal program and major state project based on our audit of the types of compliance requirements referred to above. 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 major 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 on compliance for the Hospital's major federal program and major state project. However, our audit does not provide a legal determination of the Hospital's compliance.

Opinion on Each Major Federal Program and State Project

In our opinion, the Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program and major state project for the period October 1, 2012 through August 29, 2013.

Report on Internal Control Over Compliance

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program and major state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state project 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program or state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and Chapter 10.650, *Rules of the Auditor General of the State of Florida*. Accordingly, this report is not suitable for any other purpose.

McGladrey LLP

Fort Lauderdale, Florida
February 20, 2014

Winter Haven Hospital, Inc.

Schedule of Findings and Questioned Costs
For the Period October 1, 2012 to August 29, 2013

I. Summary of Independent Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified
Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X No

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards and State Financial Assistance:

Internal control over major programs or projects:
Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X No

Type of auditor's report issued on compliance for major programs or projects Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 or Chapter 10.650, *Rules of the Auditor General of the State of Florida* _____ Yes X No

Identification of major federal programs and state projects:

<u>CFDA / CSFA Number(s)</u>	<u>Name of Federal Program or Cluster or State Project</u>
93.558	Temporary Assistance for Needy Families
60.094	Community Based Care Supports
Dollar threshold used to distinguish between Federal type A and type B programs	<u>\$300,000</u>
Dollar threshold used to distinguish between State type A and type B projects	<u>\$210,071</u>
Auditee qualified as low risk auditee?	<u> X </u> Yes _____ No

Winter Haven Hospital, Inc.

**Schedule of Findings and Questioned Costs (Continued)
For the Period October 1, 2012 to August 29, 2013**

II. Financial Statement Findings

None reported.

III. Federal Awards Findings and Questioned Costs

None reported.

IV. State Financial Assistance Findings and Questioned Costs

None reported.

V. Management Letter

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

Winter Haven Hospital, Inc.

**Summary of Prior Year Audit Findings
For the Period October 1, 2012 through August 29, 2013**

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, 2013

State SAMH-Funded Cost Centers

Funding Sources and Revenues	Case							Outreach
	Assessment	Management	Intervention	Crisis Support	Incidentals	Medical	Out Patient	
Total state SAMH funding:								
From the district funding this contract	\$ 73,389	\$ 246,001	\$ 159,713	\$ 191,296	\$ 105,948	\$ 289,346	\$ 30,080	\$ 46,138
Credit allocation from the state	-	-	-	-	-	52,842	-	-
Total state funding	73,389	246,001	159,713	191,296	105,948	342,188	30,080	46,138
Other government funding:								
Other state agency funding	-	-	-	-	-	-	-	-
Medicaid	-	-	-	-	-	-	-	-
Local government	-	-	-	-	-	-	-	-
Federal grants and contracts	-	-	-	-	-	-	-	-
In-kind from local government only	-	-	-	-	-	-	-	-
Total other government funding	-	-	-	-	-	-	-	-
All other revenues:								
First- and second-party payments	1,109	-	-	-	-	20,567	2,010	-
Third-party payments (except Medicare)	7,045	-	-	-	-	35,313	20,612	-
Medicare	-	-	-	-	-	-	-	-
Contributions and donations	-	-	-	-	-	-	-	-
Other	-	126	-	-	-	26,608	-	-
In-kind	-	-	-	-	-	-	-	-
Total all other revenues	8,154	126	-	-	-	82,488	22,622	-
Total actual funding	\$ 81,543	\$ 246,127	\$ 159,713	\$ 191,296	\$ 105,948	\$ 424,676	\$ 52,702	\$ 46,138

(Continued)

Prevention/ Intervention	Self Help Center	In-Home and On Site	Behavioral Health	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
\$ 31,137	\$ 27,354	\$ 5,515	\$ 21,961	\$ 1,227,878	\$ 1,227,878	\$ -	\$ 1,227,878	\$ 1,227,878
-	-	-	-	52,842	52,842	-	52,842	52,842
31,137	27,354	5,515	21,961	1,280,720	1,280,720	-	1,280,720	1,280,720
-	-	-	-	-	-	1,159,999	1,159,999	1,159,999
-	-	-	-	-	-	1,607,619	1,607,619	1,607,619
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	2,767,618	2,767,618	2,767,618
-	-	-	-	23,686	23,686	159,835	183,521	183,521
-	-	-	-	62,970	62,970	322,298	385,268	385,268
-	-	-	-	-	-	306,066	306,066	306,066
-	-	-	-	-	-	-	-	-
-	-	-	-	26,734	26,734	1,465,102	1,491,836	1,491,836
132,851	-	-	-	132,851	132,851	-	132,851	132,851
132,851	-	-	-	246,241	246,241	2,253,301	2,499,542	2,499,542
\$ 163,988	\$ 27,354	\$ 5,515	\$ 21,961	\$ 1,526,961	\$ 1,526,961	\$ 5,020,919	\$ 6,547,880	\$ 6,547,880

**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, 2013**

State SAMH-Funded Cost Centers									
Expense Categories	Case								Prevention/ Intervention
	Assessment	Management	Intervention	Crisis Support	Incidentals	Medical	Out Patient	Outreach	
Personnel expenses:									
Salaries	\$ 76,877	\$ 160,945	\$ 126,052	\$ 157,574	\$ -	\$ 171,813	\$ 36,564	\$ 24,632	\$ 28,448
Fringe benefits	8,660	20,384	14,200	17,751	-	19,355	4,119	2,775	3,205
Total personnel expenses	85,537	201,329	140,252	175,325	-	191,168	40,683	27,407	31,653
Other expenses:									
Building occupancy	-	-	-	-	-	-	-	-	-
Professional services	-	-	-	-	-	-	-	-	-
Travel	2,149	12,584	8,340	106	-	682	875	931	-
Equipment	-	-	-	-	-	-	-	-	-
Food services	-	-	-	-	-	-	-	-	-
Medical and pharmacy	-	-	-	-	68,086	79,498	-	-	-
Subcontracted services	-	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-	-
Interest paid	-	-	-	-	-	-	-	-	-
Operating supplies and expenses	1,357	4,009	2,515	3,127	-	7,062	795	356	-
Other	4	-	-	6	37,862	852	3	-	-
Donated items	-	-	-	-	-	-	-	-	132,851
Total other expenses	3,510	16,593	10,855	3,239	105,948	68,094	1,673	1,287	132,851
Total personnel and other expenses	89,047	217,922	151,107	178,564	105,948	279,262	42,356	28,694	164,504
Distributed indirect costs:									
Other support costs (optional)	39,956	97,782	67,802	80,122	47,539	125,306	19,005	12,875	73,814
Administration	14,598	35,725	24,772	29,273	17,369	45,781	6,944	4,704	26,968
Total distributed indirect costs	54,554	133,507	92,574	109,395	64,908	171,087	25,949	17,579	100,782
Total projected operational expenses	143,601	351,429	243,681	287,959	170,856	450,349	68,305	46,273	265,286
Unallowable costs	-	-	-	-	-	-	-	-	-
Total SAMH lines of credit equivalent	-	-	-	-	-	-	-	-	-
Total allowable projected operating expenditures, excluding SAMH credit equivalent	\$ 143,601	\$ 351,429	\$ 243,681	\$ 287,959	\$ 170,856	\$ 450,349	\$ 68,305	\$ 46,273	\$ 265,286
Capital expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

See Notes to Supplemental Schedules.

Self Help Center	In-Home and On Site	Behavioral Health	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
\$ 19,006	\$ 6,308	\$ -	\$ 828,219	\$ 828,219	\$ 3,554,427	\$ 4,382,646	\$ -	\$ 380,595	\$ 4,763,241
2,141	711	-	93,301	93,301	400,418	493,719	224,236	42,875	760,830
21,147	7,019	-	921,520	921,520	3,954,845	4,876,365	224,236	423,470	5,524,071
-	-	-	-	-	-	-	1,422,666	-	1,422,666
-	-	-	-	-	-	-	-	-	-
553	818	-	27,038	27,038	92,659	119,697	-	5,181	124,878
-	-	-	-	-	-	-	21,236	-	21,236
-	-	-	-	-	-	-	-	-	-
-	-	-	147,584	147,584	-	147,584	-	-	147,584
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
318	247	-	19,786	19,786	95,386	115,172	1,052,621	187,760	1,355,553
-	-	-	38,727	38,727	16,810	55,537	-	-	55,537
-	-	-	132,851	132,851	-	132,851	-	-	132,851
871	1,065	-	365,986	365,986	204,855	570,841	2,496,523	192,941	3,260,305
22,018	8,084	-	1,287,506	1,287,506	4,159,700	5,447,206	2,720,759	616,411	8,784,376
9,879	3,627	-	577,707	577,707	1,866,467	2,444,174	(2,720,759)	276,585	-
3,610	1,325	-	211,069	211,069	681,927	892,996	-	(892,996)	-
13,489	4,952	-	788,776	788,776	2,548,394	3,337,170	(2,720,759)	(616,411)	-
35,507	13,036	-	2,076,282	2,076,282	6,708,094	8,784,376	-	-	8,784,376
-	-	-	-	-	231,654	231,654	-	-	231,654
-	-	-	-	-	-	-	-	-	-
\$ 35,507	\$ 13,036	\$ -	\$ 2,076,282	\$ 2,076,282	\$ 6,476,440	\$ 8,552,722	\$ -	\$ -	\$ 8,552,722
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Winter Haven Hospital, Inc.
Center for Behavioral Health

Supplemental Schedule 2
Schedule of Related-Party Transaction Adjustments (Unaudited)
Year Ended June 30, 2013

	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, 2013**

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, 2013**

1	Total Expenditures	\$ 8,784,376
2	Less Other State and Federal Funds	(2,767,618)
3	Less Non-Match SAMH Funds	(626,481)
4	Less Unallowable Costs per 65E-14, F.A.C.	<u>(231,654)</u>
5	Total Allowable Expenditures (Sum of lines 1, 2, 3 and 4)	<u>5,158,623</u>
6	Maximum Available Earnings (Line 5 times 75%)	3,868,967
7	Amount of State Funds Requiring Match	<u>601,397</u>
8	Amount Due to Department (Subtract line 7 from line 6)	<u>\$ 3,267,570</u>

See Notes to Supplemental Schedules.

Winter Haven Hospital, Inc.

Notes to Supplemental Schedules (Unaudited)

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, 2013. 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 period from October 1, 2012 to August 29, 2013. 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.