Consolidated Financial Statements and Supplementary Information (unaudited)

Health First, Inc. and Subsidiaries

June 30, 2014

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Consolidated Financial Statements
and Supplementary Information (Unaudited)

Contents

Health First, Inc. and Subsidiaries

Consolidated Balance Sheets (Unaudited)

	June 30, 2014	September 30, 2013
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 133,379**	$ 139,876
Investments	**422,567**	315,323
Current portion of assets limited as to use	**4,262**	13,993
Accounts receivable, less allowances for uncollectible accounts of $87,328 and $57,313	**110,012**	98,798
Inventories	**23,516**	22,576
Prepaid expenses and other current assets	**31,049**	35,041
Total current assets	**724,785**	625,607
Assets limited as to use, less current portion	**35,749**	38,597
Property and equipment, net	**712,231**	735,524
Goodwill	**17,162**	17,162
Other assets	**24,628**	27,805
Total assets	**$ 1,514,555**	$ 1,444,695
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 137,364**	$ 128,499
Current portion of long-term debt and capital lease obligation	**18,061**	14,298
Total current liabilities	**155,425**	142,797
Long-term debt and capital lease obligation, less current portion	**608,162**	622,786
Other noncurrent liabilities	**36,450**	43,089
Total liabilities	**800,037**	808,672
Net assets:		
Unrestricted:		
Controlling interest	**706,019**	627,836
Noncontrolling interests in subsidiary	**1,218**	1,141
	707,237	628,977
Temporarily restricted - controlling interest	**7,281**	7,046
Total net assets	**714,518**	636,023
Total liabilities and net assets	**$ 1,514,555**	$ 1,444,695

See accompanying notes.

Health First, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (Unaudited)

	Three Months Ended June 30		Nine Months Ended June 30	
	2014	**2013**	**2014**	**2013**
	(In Thousands)		*(In Thousands)*	
Unrestricted revenues and other support:				
Patient service revenue	**$ 192,616**	$ 185,275	**$ 564,502**	$ 508,963
Provision for bad debts	**(14,012)**	(9,380)	**(33,176)**	(24,989)
Net patient service revenue	**178,604**	175,895	**531,326**	483,974
Premium revenue	**97,164**	89,587	**281,692**	268,028
Income from joint ventures	**777**	768	**1,534**	1,618
Other revenue	**8,033**	9,469	**23,125**	26,859
Net assets released from restrictions for operations	**489**	153	**825**	720
Total unrestricted revenues and other support	**285,067**	275,872	**838,502**	781,199
Expenses:				
Salaries and benefits	**117,278**	120,096	**352,519**	333,680
Supplies and other expenses	**88,311**	85,717	**256,439**	237,632
Medical service expenses	**42,524**	41,323	**117,384**	135,936
Depreciation and amortization	**15,692**	16,259	**47,174**	46,362
Interest	**6,627**	6,849	**20,025**	18,034
Total operating expenses before restructuring charges	**270,432**	270,244	**793,541**	771,644
Income from operations before restructuring charges	**14,635**	5,628	**44,961**	9,555
Restructuring charges	**(322)**	(1,361)	**(1,863)**	(3,492)
Income from operations	**14,313**	4,267	**43,098**	6,063
Nonoperating gains (losses):				
Investment income	**2,495**	3,066	**6,700**	5,745
Change in value of interest rate swaps	**(1,176)**	2,259	**(1,658)**	1,797
Change in value of equity-linked notes	**–**	(2,484)	**–**	(562)
Loss on extinguishment of debt	**–**	–	**–**	(2,468)
Other	**(24)**	(20)	**(155)**	(82)
Total nonoperating gains	**1,295**	2,821	**4,887**	4,430
Excess of revenues, other support, and gains over expenses and losses	**15,608**	7,088	**47,985**	10,493
Less: Excess of revenues, other support, and gains over expenses and losses attributable to noncontrolling interests	**47**	–	**122**	–
Excess of revenues, other support, and gains over expenses and losses attributable to controlling interest	**15,561**	7,088	**47,863**	10,493

Health First, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (Unaudited) (continued)

	Three Months Ended June 30		Nine Months Ended June 30	
	2014	**2013**	**2014**	**2013**
	(In Thousands)		*(In Thousands)*	
Unrestricted net assets:				
Excess of revenues, other support, and gains over expenses and losses attributable to controlling interest	**$ 15,561**	$ 7,088	**$ 47,863**	$ 10,493
Excess of revenues, other support, and gains over expenses and losses attributable to noncontrolling interests	**47**	–	**122**	–
Net unrealized gains on other-than-trading securities	**11,044**	797	**30,446**	9,156
Other changes in unrestricted net assets	**(49)**	(190)	**(171)**	(242)
Increase in unrestricted net assets	**26,603**	7,695	**78,260**	19,407
Temporarily restricted net assets:				
Contributions	**605**	76	**1,059**	752
Net assets released from restrictions for operations	**(489)**	(153)	**(825)**	(720)
Other changes in temporarily restricted net assets	**–**	(23)	**1**	(22)
Increase in temporarily restricted net assets	**116**	(100)	**235**	10
Increase in net assets	**26,719**	7,595	**78,495**	19,417
Net assets, beginning of period	**687,799**	596,708	**636,023**	584,886
Net assets, end of period	**$ 714,518**	$ 604,303	**$ 714,518**	$ 604,303

See accompanying notes.

Health First, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended June 30		Nine Months Ended June 30	
	2014	2013	2014	2013
	(In Thousands)		*(In Thousands)*	
Operating activities				
Increase in net assets	**$ 26,719**	$ 7,595	**$ 78,495**	$ 19,417
Adjustments to reconcile change in net assets				
to net cash provided by operating activities:				
Net unrealized (gains) losses on trading and other-than-trading securities	**(11,817)**	754	**(31,376)**	(7,190)
Realized (gains) losses on sales of securities	**(15)**	(3,247)	**170**	(3,145)
Loss on disposal of property and equipment	**157**	79	**198**	82
Change in value of equity-linked notes	**–**	2,485	**–**	562
Change in value of interest rate swaps	**1,176**	(2,259)	**1,658**	(1,797)
Restricted contributions	**(605)**	(76)	**(1,059)**	(752)
Loss on extinguishment of debt	**–**	–	**–**	2,468
Income from joint ventures	**(777)**	(768)	**(1,534)**	(1,618)
Distributions from joint ventures	**612**	629	**1,731**	1,800
Depreciation and amortization	**15,574**	16,285	**46,828**	46,458
Provision for bad debts	**14,012**	9,380	**33,176**	24,989
Changes in operating assets and liabilities:				
Accounts receivable	**(23,162)**	(17,069)	**(44,390)**	(69,359)
Inventories	**335**	(1,641)	**(940)**	(2,438)
Other operating assets	**15,071**	7,964	**6,972**	19,003
Accounts payable and accrued liabilities	**(5,991)**	10,430	**6,054**	2,913
Other noncurrent liabilities	**(1,255)**	(457)	**(8,297)**	(888)
Net cash provided by operating activities	**30,034**	30,084	**87,686**	30,505
Investing activities				
Proceeds from the sale or maturity of investments	**21,232**	112,350	**60,557**	124,486
Purchases of investments	**(66,165)**	(109,473)	**(136,891)**	(254,535)
Decrease in assets limited as to use	**9,843**	10,803	**12,875**	7,813
Purchases of property and equipment	**(8,438)**	(3,551)	**(21,268)**	(157,412)
Payment for acquisition of MIMA, net of cash acquired	**–**	–	**–**	(37,959)
Net cash (used in) provided by investing activities	**(43,528)**	10,129	**(84,727)**	(317,607)
Financing activities				
Payment of deferring financing costs	**–**	–	**–**	(3,163)
Proceeds from issuance of long-term debt	**–**	–	**–**	265,287
Repayments of long-term debt and capital lease obligation	**(4,354)**	(11,870)	**(10,515)**	(91,520)
Restricted contributions	**605**	76	**1,059**	752
Net cash (used in) provided by financing activities	**(3,749)**	(11,794)	**(9,456)**	171,356
(Decrease) increase in cash and cash equivalents	**(17,243)**	28,419	**(6,497)**	(115,746)
Cash and cash equivalents, beginning of period	**150,622**	99,105	**139,876**	243,270
Cash and cash equivalents, end of period	**$ 133,379**	$ 127,524	**$ 133,379**	$ 127,524
Supplemental schedule of noncash investing and financing activities				
Equipment/software acquired through the incurrence of capital lease obligation	**$ –**	$ 139	**$ –**	$ 2,157

See accompanying notes.

1. Reporting Entity

Health First, Inc. (the Parent) is a not-for-profit parent holding company located in Brevard County, Florida, whose primary purpose is to direct the affairs of a multi-entity health care system, which includes the following affiliates:

- Holmes Regional Medical Center, Inc. (HRMC) – a tax-exempt, 514-bed acute care hospital.
- Palm Bay Hospital (PBH) – a tax-exempt, 152-bed acute care hospital that is a division of HRMC.
- Pro Health Fitness Center (PH) – a tax-exempt division of HRMC with four state-of-the-art health and fitness centers.
- Cape Canaveral Hospital, Inc. (CCH) – a tax-exempt, 150-bed acute care hospital and home health agency.
- Viera Hospital (VH) – a tax-exempt, 84-bed acute care hospital.
- Health First Health Plans, Inc. (HFHP) – a taxable entity providing various health care insurance services to employees of the Parent, other employers, and Medicare Advantage Plans.
- Health First Medical Group, LLC (HFMG), Health First Physicians, Inc. (HFPI) and Health First Medical Management, Inc. (HFMM) – taxable entities providing a system of primary care centers, specialty and ancillary services, as well as physician practice management services.
- Hospice of Health First, Inc. (HHF) – a tax-exempt entity that provides care for terminally ill individuals.
- Health First Foundation, Inc. (HFF) – a tax-exempt entity that performs philanthropic activities.

1. Reporting Entity (continued)

- Other affiliated organizations include Cape Health Properties, Inc. (CHP), a subsidiary of CCH; Health First Holding Corp. (HFHC); Holmes Regional Enterprises, Inc. (HRE); Viera Medical Plaza at Viera Health Park (VMOB); Health First Insurance, Inc. (HFII); Health First Family Pharmacy (HFFP), a division of HRMC; Doctor's GI Partnership, LTD. (DGP), a majority-owned partnership of HRMC; and taxable entities that manage health care-related and/or other businesses and professional services.

The Parent is the sole member or owner of each of the above entities except CHP and DGP, and controls the multi-entity structure through appointment by the Board of Trustees (Board) and approval of all major transactions.

2. Significant Accounting Policies

The accompanying consolidated financial statements include the accounts of the Parent and its controlled affiliates (referred to herein collectively as the Corporation). All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles (GAAP) in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Financial Statement Presentation

The Corporation conforms to the requirements of the *Presentation of the Financial Statements – Not-for-Profit Entities* Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), which establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories (unrestricted, temporarily restricted, and permanently restricted) according to externally (donor) imposed restrictions.

Cash and Cash Equivalents

The Corporation classifies all highly liquid investments with an original maturity of 90 days or less when purchased as cash and cash equivalents, excluding amounts limited as to use by Board designation or other arrangements under trust agreements. Cash deposits are federally insured in limited amounts.

2. Significant Accounting Policies (continued)

Investments and Investment Income

The Corporation conforms to the requirements of the *Investments – Not-for-Profit Entities* Topic of the FASB ASC. In accordance with those requirements, investments in equity securities with readily determinable fair values and all investments in debt securities are stated at fair value in the consolidated balance sheets. Investment income or loss, including realized gains and losses on investments and interest and dividends, is included in the excess of revenues, other support and gains over expenses and losses unless the income or loss is restricted by donor or law.

Unrealized gains and losses on investments are excluded from the excess of revenues, other support, and gains over expenses and losses, unless the investments are trading securities. Other-than-temporary impairment of investments represents losses on debt and equity securities for which the decline in the fair value below the cost basis was determined to be other than temporary.

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under bond indenture agreements and designated assets set aside by the Board for malpractice and other obligations, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of the Corporation are reported as current assets (see Note 4).

Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out) or market value.

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair value at the date of the gift. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized, as are interest costs during the period of construction for such expenditures. Depreciation is computed utilizing the straight-line method at rates estimated by management to amortize the cost of the various assets within the periods of expected use. Amortization of assets recorded under capital leases is included in depreciation and amortization expense and accumulated depreciation and amortization.

2. Significant Accounting Policies (continued)

Impairment of Long-Lived Assets

The Corporation reviews long-lived assets to be held and used for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Such evaluation relies on a number of factors, including operating results, future anticipated cash flows, business plans, and certain economic projections. In addition, the Corporation's evaluation considers nonfinancial data, such as changes in operating environment and business relationships. If the sum of the undiscounted expected future cash flows is less than the carrying amount of the asset, the Corporation recognizes an impairment loss. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. When fair values are not available, the Corporation estimates fair value using the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset.

Goodwill

Goodwill represents the excess of the purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of the businesses acquired. These amounts are evaluated annually for impairment or when there is an indicator of impairment. In accordance with ASC Topic 350, in performing the annual assessment, the Corporation chose to complete a qualitative assessment to determine whether it is more likely than not that the fair value of its reporting unit is less than the carrying amount. Management has determined that it is not more likely than not that the fair value of the Corporation's reporting unit is less than the carrying amount. Therefore, the two-step impairment test under ASC Topic 350 was not required.

2. Significant Accounting Policies (continued)

Contributions

The Corporation records contributions in accordance with the *Revenue Recognition – Not-for-Profit Entities* Topic of the FASB ASC, which establishes accounting standards for contributions for donees (and donors) and generally requires unconditional promises to give cash and other assets (including multiyear promises) to be recognized at fair value as revenue and expenses in the period made.

Noncash contributions are valued at fair value on the date of the gift. Contributions are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets are released from restrictions.

Donor-restricted contributions whose restrictions are met within the same year as the contributions received are reflected as unrestricted contributions in the accompanying consolidated financial statements. Temporarily restricted net assets are primarily available for property and equipment purchases and support of specific programs administered by HRMC, CCH, PBH, VH, and HHF.

Excess of Revenues, Other Support, and Gains Over Expenses and Losses

The consolidated statements of operations and changes in net assets include excess of revenues, other support, and gains over expenses and losses. Changes in unrestricted net assets that are excluded from excess of revenues, other support, and gains over expenses and losses include changes in unrealized gains and losses on other-than-trading securities, distributions to noncontrolling interests and contributions of long-lived assets, including assets acquired using contributions that, by donor restriction, were to be used for the purpose of acquiring such assets.

Net Patient Service Revenue, Accounts Receivable, and Allowance for Uncollectible Accounts

Patient service revenue and accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. The Corporation recognizes patient service revenue associated with patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, revenue is recognized on the basis of discounted rates in accordance with the Corporation's policy.

2. Significant Accounting Policies (continued)

Patient service revenue is reduced by the provision for bad debts and accounts receivable are reduced by an allowance for uncollectible accounts. The provision for bad debts and allowance for uncollectible accounts are based upon management's assessment of historical and expected net collections and historical write-off experience by payor and aging category, trends in health care coverage, and other collection indicators. Management regularly reviews collections data by major payor sources in evaluating the sufficiency of the allowance for uncollectible accounts. On the basis of historical experience, a significant portion of the amounts owed by the Corporation's self-pay patients for services rendered will not be paid. As such, the Corporation records a significant provision for bad debts in the period services are rendered related to self-pay patients. The Corporation's allowance for uncollectible accounts for self-pay patients was 93% and 91% of self-pay accounts receivable as of June 30, 2014 and September 30, 2013, respectively. For receivables associated with patients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if deemed necessary. Accounts receivable are written off after collection efforts have been followed in accordance with the Corporation's policies. Accounts written off as uncollectible are deducted from the allowance and subsequent recoveries are added.

The Corporation has determined, based on an assessment at the reporting entity level, that patient service revenue is primarily recorded prior to assessing the patient's ability to pay and as such, the entire provision for bad debts is recorded as a deduction from patient service revenue in the accompanying consolidated statements of operations and changes in net assets. The Corporation has not experienced significant changes in write-off trends and has not materially changed its charity care policy.

Patient service revenue is not recognized for those patients that qualify for charity under the Corporation's policies. For all other patients, patient service revenue, net of contractual allowances and self-pay discounts and before the provision for bad debts, recognized from major payor sources is as follows:

	Three Months Ended June 30		**Nine Months Ended June 30**	
	2014	**2013**	**2014**	**2013**
Third-party payors, net of contractual allowances	**$ 157,047**	$ 167,404	**$ 482,257**	$ 445,138
Self-pay patients, net of discounts	**35,569**	17,871	**82,245**	63,825
	$ 192,616	$ 185,275	**$ 564,502**	$ 508,963

2. Significant Accounting Policies (continued)

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. Significant concentrations of patient accounts receivable due from third-party payors at June 30, 2014 and September 30, 2013, respectively, include 12% and 15% from the Medicare program and 54% and 59% from contracts with other third parties.

Revenue from the Medicare program represented approximately 28% and 27% of net patient service revenue for the three months ended June 30, 2014 and 2013, respectively. Revenue from the Medicare program represented approximately 26% and 32% of net patient service revenue for the nine months ended June 30, 2014 and 2013, respectively. The Corporation is subject to retroactive revenue adjustments due to audits, reviews, and investigations. Included in prepaid expenses and other current assets is $6,217 and $15,354 in estimated third-party settlements at June 30, 2014 and September 30, 2013, respectively. Included in other assets is $996 in estimated third-party settlements at June 30, 2014 and September 30, 2013. Included in accounts payable and accrued liabilities is $18,966 and $15,926 in estimated third-party settlements as of June 30, 2014 and September 30, 2013, respectively.

Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. There were no adjustments to revenue related to prior periods as a result of settled cost reports and changes in estimates for the three and nine months ended June 30, 2014 and 2013.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. However, management is not aware of any matters that could have a material effect on recorded estimates.

Charity Care

The Corporation provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, these amounts are not included in patient service revenue. The Corporation estimates the direct and indirect costs of providing charity care by applying a cost to gross charges ratio to the gross uncompensated charges associated with providing charity care to patients. Funding received to offset or subsidize charity services provided was de minimis for the three and nine months ending June 30, 2014 and 2013. The cost of providing charity care was $7,425 and $10,904 for the three months ended

2. Significant Accounting Policies (continued)

June 30, 2014 and 2013, respectively. The cost of providing charity care was $25,188 and $29,978 for the nine months ended June 30, 2014 and 2013, respectively.

EHR Incentive Payments

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology. Providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional Medicaid incentive payments.

The Corporation accounts for HITECH incentive payments as a gain contingency. Income from Medicare incentive payments is recognized as revenue after the Corporation has demonstrated that it complied with the meaningful use criteria over the entire applicable compliance period and the cost report period beginning during the payment year has been completed. The Corporation recognized revenue from Medicaid incentive payments after it adopted certified EHR technology. Incentive payments in the amount of $1,210 and $1,977 for the three months ending June 30, 2014 and 2013, respectively, are included in other revenue in the accompanying consolidated statements of operations and changes in net assets. Incentive payments in the amount of $3,631 and $5,931 for the nine months ending June 30, 2014 and 2013, respectively, are included in other revenue in the accompanying consolidated statements of operations and changes in net assets. Included in prepaid expenses and other current assets in the accompanying consolidated balance sheets is $3,853 and $7,190 in incentive payments earned but not received at June 30, 2014 and September 30, 2013, respectively. Income from incentive payments is subject to retrospective adjustments as the incentive payments are calculated using Medicare’s cost report that is subject to audit. Additionally, the Corporation’s compliance with the meaningful use criteria is subject to audit by the federal government.

2. Significant Accounting Policies (continued)

Premium Revenue

Commercial membership contracts are written to groups on a yearly basis subject to cancellation by the employer group or HFHP according to the termination provision of the contract. Medicare membership contracts are written to individuals and may be terminated by the member at any time. Premiums are due monthly and are recognized as revenue during the period in which the Corporation is obligated to provide services to members. Approximately 71% and 74% of total premium revenue was received under the Medicare program for the three months ended June 30, 2014 and 2013, respectively, and 29% and 26% was received from contracts with other employer groups, respectively. Approximately 71% and 73% of total premium revenue was received under the Medicare program for the nine months ended June 30, 2014 and 2013, respectively, and 29% and 27% was received from contracts with other employer groups, respectively.

Functional Expenses

The Corporation does not present expense information by functional classification because its resources and activities are primarily related to providing health care services. Further, since the Corporation receives substantially all of its resources from providing health care services in a manner similar to a business enterprise, other indicators contained in the consolidated financial statements are considered important in evaluating how well management has discharged its stewardship responsibilities.

Claims Payable

Claims payable are recorded in accounts payable and accrued liabilities in the consolidated balance sheets and represent the amount of payments to be made on individual claims that have been reported to HFHP, as well as estimates of claims incurred that have not yet been reported as of the consolidated balance sheet date. Claims payable are estimated using various statistical methods that use both historical financial and operating data. Although considerable variability is inherent in such estimates, management believes that the reserves for unpaid claims are reasonable. Adjustments to claims payable to reflect actual experience, if any, are reflected in the consolidated statements of operations and changes in net assets in the period in which such adjustments become known to management. Due to uncertainties inherent in the claims estimation process, it is at least reasonably possible that the claims paid in the near term could differ materially from the accrued amounts. Management believes that the recorded reserves are adequate.

2. Significant Accounting Policies (continued)

The following table provides a reconciliation of the beginning and ending balances of unpaid claims liabilities included in accounts payable and accrued liabilities, net of reinsurance recoverables:

	Nine Months Ended June 30, 2014	Year Ended September 30, 2013
Unpaid claim liabilities, at beginning of period	**$ 23,062**	$ 20,418
Incurred losses:		
Current period	**101,448**	142,267
Prior periods	**(3,569)**	(3,000)
Payments for claims, net of reinsurance:		
Current period	**(86,096)**	(121,511)
Prior periods	**(15,125)**	(15,112)
Unpaid claim liabilities, at end of period	**$ 19,720**	$ 23,062

Medical Services Expense

HFHP contracts with various health care providers for the provision of certain medical care services to its members. Medical services consist partially of inpatient and outpatient hospital services and pharmacy. Hospital services are paid on a fee-for-service, capitation, and fixed-rate basis. The provision for medical services includes estimates of payments to be made on health care services reported as of the consolidated balance sheet date and estimates of health care services rendered but not reported to HFHP as of the consolidated balance sheet date. Medical services reserves are reviewed and adjusted periodically. As adjustments are made, differences are included in current operations.

Estimated Malpractice Costs

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Income Taxes

The Parent and its tax-exempt affiliates are generally exempt from federal and state income taxes applicable under Section 501(a), as organizations described in Section 501(c)(3), of the Internal Revenue Code and Section 220.13 of the Florida Statutes, respectively. The taxable affiliates, except CHP, file a consolidated income tax return for both federal and state income tax purposes. The provision for income taxes and income taxes paid included in these consolidated financial statements is not significant. The consolidated income tax returns for the tax years ended September 30, 2011 through 2013 are still subject to federal and state income tax examination.

ASC Topic 740, *Income Taxes*, prescribes the accounting for uncertainty in income tax positions recognized in financial statements. ASC Topic 740 provides guidance for recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

Reclassifications

Certain reclassifications were made to the three and nine months ended June 30, 2013 consolidated financial statements to conform to the respective 2014 presentation. These reclassifications had no effect on the consolidated change in net assets previously reported.

Recent Accounting Pronouncements

On January 1, 2014, the Corporation adopted FASB ASU 2011-06, *Other Expenses*, that addresses how health insurers should recognize and classify in their statements of operations fees mandated by the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (the Affordable Care Act). The Affordable Care Act imposes an annual fee on health insurers for each calendar year beginning on or after January 1, 2014. The amendments specify that the liability for the fee should be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense ratably over the calendar year during which it is payable. The estimated liability for the mandated fees and the corresponding deferred cost is approximately $4,681 and is included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets. During the three and nine months ended June 30, 2014, the Corporation recorded $284 and $2,341, respectively, of amortization expense related to these deferred costs in supplies and other expenses in the consolidated statements of operations and changes in net assets. These are estimated amounts and may be adjusted once the assessment is received from the federal government.

3. Investments

The composition of investments and assets limited as to use is presented below:

	June 30, 2014	September 30, 2013
Cash and cash equivalents	**$ 7,690**	$ 17,197
Equity securities	**301,009**	241,358
U.S. Treasury and agency obligations	**78,556**	59,703
U.S. corporate bonds	**61,334**	49,164
Asset-backed securities	**10,124**	–
Government asset-backed securities	**2,085**	–
Municipal bonds	**1,780**	491
	$ 462,578	$ 367,913

Unrestricted investment income is comprised of the following:

	Three Months Ended June 30		Nine Months Ended June 30	
	2014	2013	2014	2013
Interest income	**$ 1,707**	$ 1,370	**$ 5,940**	$ 4,566
Realized (loss) gain on sales of securities	**15**	3,247	**(170)**	3,145
Unrealized gain (loss) on trading securities	**773**	(1,551)	**930**	(1,966)
	$ 2,495	$ 3,066	**$ 6,700**	$ 5,745

4. Assets Limited as to Use

Assets limited as to use are composed of the following:

	June 30, 2014	September 30, 2013
Board designated for malpractice and other obligations	**$ 23,839**	$ 26,923
Cash and investments held by trustee under bond indenture agreements – debt service and project funds	**8,558**	17,488
Board designated for the Foundation	**7,414**	7,179
Other	**200**	1,000
	40,011	52,590
Less amounts required to meet current obligations	**4,262**	13,993
	$ 35,749	$ 38,597

5. Other Assets

The composition of other assets is as follows:

	June 30, 2014	September 30, 2013
Investment in joint ventures	**$ 15,836**	$ 15,700
Deferred financing cost	**4,387**	4,654
Other	**4,405**	7,451
	$ 24,628	$ 27,805

The Corporation accounts for its investments in joint ventures in accordance with the *Investments – Equity Method and Joint Ventures* Topic of the FASB ASC. Accordingly, the Corporation records an investment in the net assets of the joint venture at cost and adjusts the carrying amount of the investment to recognize the Corporation's share of the income or losses of the joint venture after the date of acquisition. The Corporation's share of income from joint ventures for the three months ended June 30, 2014 and 2013 was $777 and $768, respectively. The Corporation's share of income from joint ventures for the nine months ended June 30, 2014 and 2013 was $1,534 and $1,618, respectively.

5. Other Assets (continued)

HealthSouth of Sea Pines Limited Partnership (HSSP), in which the Corporation has a 25% interest, is the Corporation's significant unconsolidated subsidiary that is accounted for using the equity method of accounting. Summarized financial information for the Corporation's investment in HSSP, assuming 100% ownership interest, is as follows:

	June 30, 2014	September 30, 2013
Balance sheets		
Current assets	**$ 7,125**	$ 6,390
Noncurrent assets	**10,931**	10,591
Total assets	**$ 18,056**	$ 16,981
Current liabilities	**$ 3,546**	$ 3,239
Partners' capital	**14,510**	13,742
Total liabilities and partners' capital	**$ 18,056**	$ 16,981

	Three Months Ended June 30		Nine Months Ended June 30	
	2014	2013	2014	2013
Statements of operations				
Net operating revenues	**$ 6,937**	$ 6,579	**$ 20,108**	$ 18,702
Operating expenses	**5,619**	5,522	**16,619**	16,286
Income from continuing operations	**1,318**	1,057	**3,489**	2,416
Other	**1**	–	**4**	–
Net income	**$ 1,319**	$ 1,057	**$ 3,493**	$ 2,416

6. Property and Equipment

A summary of property and equipment is as follows:

	June 30, 2014	September 30, 2013
Land and improvements	**$ 87,404**	$ 87,138
Buildings and improvements	**783,301**	778,760
Fixed equipment and major movable equipment	**630,183**	618,627
	1,500,888	1,484,525
Less allowances for depreciation and amortization	**795,357**	750,812
	705,531	733,713
Construction-in-progress	**6,700**	1,811
	$ 712,231	$ 735,524

Construction-in-progress at June 30, 2014, represents costs incurred to date related to construction and renovation projects expected to be completed over the next five years. At June 30, 2014, the estimated cost to complete construction and renovation projects in progress is approximately $29,335, which will be funded principally from operations.

The Cape Canaveral Hospital District (District) was created under the laws of the state of Florida on August 18, 1959, and includes a special tax district in Brevard County, Florida. The District was re-created by Chapter 2003-337, Laws of Florida, which codified all special acts related to the District. The District leases the hospital facility and operating assets to CCH. CCH makes payments to the District sufficient to pay the principal and interest on the District’s outstanding obligations. The assets and liabilities of CCH revert to the District upon completion of the lease term in 2039. The District may levy taxes upon all real and personal taxable property in the District, not to exceed 2.25 mills annually. The District did not levy taxes for either of the three or nine months ended June 30, 2014 or 2013.

The future minimum lease payments at June 30, 2014, under the capital lease obligation with the District are de minimis.

6. Property and Equipment (continued)

A summary of assets under the capital lease with the District included in property and equipment is as follows:

	June 30, 2014	September 30, 2013
Land and improvements	**$ 2,591**	$ 2,591
Buildings and improvements	**91,950**	91,501
Fixed equipment and major movable equipment	**78,482**	77,891
	173,023	171,983
Less allowance for amortization	**123,671**	119,862
	49,352	52,121
Construction-in-progress	**774**	72
	$ 50,126	$ 52,193

7. Goodwill

The changes in the carrying amount of goodwill were as follows:

	Nine Months Ended June 30, 2014	Year Ended September 30, 2013
Goodwill, at beginning of period	$ 17,162	$ –
Acquisitions	–	17,162
Impairments	–	–
Goodwill, at end of period	$ 17,162	$ 17,162

8. Long-Term Debt

Long-term debt is as follows:

	June 30, 2014	September 30, 2013
Term loan with two lenders, secured by certain assets of the Corporation, interest payable monthly at a fixed rate of 4.49%, due March 2038	**$ 140,679**	$ 143,141
Term loan with a financial institution, collateralized by revenues of the borrowers, interest payable monthly at a variable rate (1.41% at June 30, 2014), due February 2023	**35,673**	36,000
Term loan with a financial institution, collateralized by revenues of the borrowers, interest payable monthly at a variable rate (1.76% at June 30, 2014), due September 2017	**10,566**	10,880
Term loan with a financial institution, collateralized by the revenues of the borrowers, interest payable monthly at a variable rate (1.41% at June 30, 2014), due November 2020	**8,271**	9,238
Term loan with a financial institution, collateralized by revenues of the borrowers, interest payable monthly at a variable rate (1.41% at June 30, 2014), due November 2020	**11,744**	13,116
Health Facilities Revenue Bonds, Series 2013A, including a premium of $7,623 and $8,047, respectively	**71,523**	72,977
Health Facilities Revenue Bonds, Series 2012A	**19,697**	20,131
Health Facilities Revenue Bonds, Series 2009A	**57,750**	60,375
Health Facilities Revenue Bonds, Series 2009B, recorded net of a discount of $849 and $875, respectively	**85,001**	84,975
Health Facilities Revenue Bonds, Series 2005, recorded net of a discount of $1,484 and $1,536, respectively	**173,516**	173,464
Other	**11,803**	12,787
Total long-term debt	**626,223**	637,084
Less current maturities	**(18,061)**	(14,298)
	$ 608,162	$ 622,786

8. Long-Term Debt (continued)

Maturities of long-term debt, excluding capital leases, consist of the following at June 30, 2014:

Due within one year	$ 16,672
Due between one and two years	17,984
Due between two and three years	19,541
Due between three and four years	28,843
Due between four and five years	20,265
Due beyond five years	514,679

Future minimum lease payments under the capital leases, together with the present value of net minimum lease payments, consist of the following at June 30, 2014:

Due within one year	$ 1,512
Due between one and two years	1,145
Due between two and three years	428
Due between three and four years	38
	3,123
Less amount representing interest	174
Present value of net minimum lease payments	2,949
Less current portion	1,389
Long-term capital lease obligation	$ 1,560

A Master Trust Indenture, dated May 15, 2001, and modified in February 2013, covers all bonds issued and outstanding by the Parent, HRMC, CCH, and VH (collectively, the Obligated Group) at June 30, 2014. Under the Master Trust Indenture, all members of the Obligated Group are jointly and severally liable for the obligation covered by the Master Trust Indenture. HRMC has executed a mortgage on a portion of HRMC's property in favor of the Master Trustee to secure the Obligated Group's repayment obligation under the Master Trust Indenture. The mortgaged property has a carrying value of $227,945 at June 30, 2014. In addition, all revenues of HRMC, PBH, CCH, and VH are pledged as security for the payment of the obligations outstanding under the Master Trust Indenture. At June 30, 2014, total debt outstanding related to the Master Trust Indenture is approximately $457,885.

8. Long-Term Debt (continued)

The Master Trust Indenture provides for specific restrictive covenants, including a debt service coverage requirement. The Corporation was in compliance with all such restrictive covenants at June 30, 2014.

In February 2013, the Corporation issued $65,910 of Health Facilities Revenue Bonds, Series 2013A. The proceeds were used to refinance the Health Facilities Revenue Bonds, Series 2001, and Health Facilities Revenue Bonds, Series 2010. The loss on extinguishment of debt related to the refinancing of $2,468 is included in nonoperating gains (losses) in the accompanying consolidated statements of operations and changes in net assets.

In February 2013, the Corporation executed a $36,000 term loan with a bank. The loan proceeds were used by the Corporation to purchase certain assets of Melbourne Internal Medicine Associates, PA (MIMA) (see Note 9).

In February 2013, the Corporation entered into a credit and security agreement with two lenders. The credit and security agreement provided a term loan in the amount of $145,000. The loan proceeds were used by the Corporation to acquire certain assets of MIMA.

Interest expense approximates interest paid.

9. Business Combinations

On February 15, 2013, HFPI acquired certain assets and assumed certain liabilities of MIMA. The acquisition will enable the Corporation to combine MIMA physicians with its expanding multi-specialty physician group in order to improve the health and well-being in Brevard County. Additionally, the acquisition will allow the Corporation to enhance its Integrated Value Based Delivery Network, reducing costs to those served. MIMA is a multi-specialty physician group providing services in Brevard County, Florida. The acquisition of MIMA resulted in goodwill of $12,819, which was derived primarily from intangible assets that do not qualify for separate recognition.

9. Business Combinations (continued)

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition:

Current assets, net of cash received	$ 5,715
Property, plant and equipment	16,341
Goodwill	12,819
Other noncurrent assets	6,227
Total assets acquired, net of acquired cash received	41,102
Current portion of capital lease	1,711
Long-term portion of capital lease	1,432
Total liabilities assumed	3,143
Net assets acquired	$ 37,959

Goodwill recognized as part of the transaction described above is expected to be deductible for tax purposes.

10. Employee Benefit Plans

Retirement Plan

The Corporation, excluding HFMG, has a defined contribution plan covering substantially all employees. Under the plan, the Corporation contributes 1% of the eligible employees' gross wages. Eligible employees are allowed to contribute up to 100% of the eligible employees' gross wages not to exceed the maximum permissible standard deferral amount. This is in addition to any catch-up deferral amount for qualifying individuals. In addition to the Corporation's contribution previously noted, the Corporation will match up to 8% of the employees' contribution at a 30% rate. As a result, a maximum 3.4% contribution may be made by the Corporation. Retirement plan expense was $1,337 and $1,041 for the three months ended June 30, 2014 and 2013, respectively. Retirement plan expense was $3,673 and $4,066 for the nine months ended June 30, 2014 and 2013, respectively.

Employee Health Plan

The Corporation is self-funded for health benefits for substantially all employees. The self-funded benefits are administered by HFHP. Employee health benefits expense was $2,711 and $3,819 for the three months ended June 30, 2014 and 2013, respectively. Employee health benefits expense was $10,262 and $10,594 for the nine months ended June 30, 2014 and 2013, respectively.

11. Malpractice Insurance Plan

The Corporation maintained insurance for malpractice coverage under claims-made policies at June 30, 2014 and 2013. A claims-made policy covers only malpractice claims reported to the insurance carrier during the policy term. Management has recorded a liability for estimated losses from reported and unreported claims of $23,135 and $21,242 at June 30, 2014 and September 30, 2013, respectively, of which $5,940 and $4,047 and $17,195 and $17,195 is included in accounts payable and accrued liabilities and other noncurrent liabilities as of June 30, 2014 and September 30, 2013, respectively, in the accompanying consolidated balance sheets. Management, with the assistance of consulting actuaries, estimates claims liabilities at the present value of future claims payments using a discount rate of 3.5% at June 30, 2014 and September 30, 2013. Medical malpractice expense of $2,399 and $2,318 for the three months ended June 30, 2014 and 2013, respectively, is included in supplies and other expenses in the accompanying consolidated statements of operations and changes in net assets. Medical malpractice expense of $7,056 and $6,696 for the nine months ended June 30, 2014 and 2013, respectively, is included in supplies and other expenses in the accompanying consolidated statements of operations and changes in net assets.

12. Commitments and Contingencies

Litigation

The Corporation is involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management believes that these matters will be resolved without material adverse effect on the Corporation’s future consolidated financial position or results of operations.

On May 23, 2007, Wuesthoff Health System, Inc. (Wuesthoff) filed a lawsuit (the Wuesthoff Complaint) in the Circuit Court for the Eighteenth Judicial Circuit in and for Brevard County, Florida (the Court), alleging seven counts of various antitrust violations by the Parent, HRMC, CCH, HFPI, and HFHP, hereinafter collectively referred to as the Health First Group. Wuesthoff alleges, among other things, that the Health First Group has “impermissibly obtained market power in the general acute care in-patient hospital market, and managed care markets” in the central and south portion of Brevard County as a result of the merger between HRMC and CCH in 1995 in violation of Section 7 of the Clayton Antitrust Act.

12. Commitments and Contingencies (continued)

In November 2012, the Wuesthoff Complaint was settled. The settlement had several components, certain of which will be paid in future years. Amounts relating to the settlement to be paid in future years are included in accounts payable and accrued liabilities and other noncurrent liabilities in the accompanying consolidated balance sheets as of June 30, 2014 and September 30, 2013. The specific terms of the settlement may not be disclosed due to a confidentiality provision in the settlement agreement.

On May 15, 2007, a local physician and Brevard Orthopaedic, Spine & Pain Clinic, Inc. filed a lawsuit (the Brevard Complaint) in the Court, alleging 12 counts of various antitrust and other violations by Health First Group. The Brevard Complaint alleges almost identical acts as the Wuesthoff Complaint.

On February 21, 2008, the Health First Group filed its Answer and Affirmative Defenses with the Court and will continue to vigorously contest the allegations contained in the Brevard Complaint. While the case has been set for trial twice in the last year, the Court has continued the case on the motion of Plaintiffs and has recently re-opened and expanded the time period for discovery. Although it is premature to assess the likely course or outcome of the Brevard Complaint, if the outcome of the litigation is adverse to the Health First Group, the Health First Group could incur material liabilities for damages or other adverse financial consequences.

On September 27, 2013, a physician group, OMNI Healthcare (OMNI), and ten other physician and physician assistant plaintiffs filed an antitrust lawsuit (the OMNI Complaint) in the United States District Court, Middle District against the Health First Group, alleging certain violations of the federal antitrust laws based primarily upon the merger of HRMC and CCH in 1995 and subsequent alleged exclusionary conduct in the market for inpatient acute care hospital services in south Brevard County and through the 2013 acquisition by HFPI of MIMA. On December 6, 2013, an amended complaint was filed in this action adding three additional entity plaintiffs, and making essentially the same allegations as the OMNI Complaint. The Court has twice dismissed the OMNI Complaint, and the plaintiffs have filed a third amended complaint. The Health First Group has responded with another motion to dismiss on behalf of each of the Health First Group defendants, which remains pending. The Health First Group intends to vigorously defend against the allegations. Although it is premature to assess the likely course or outcome of the OMNI Complaint, if the outcome of the litigation is adverse to the Health First Group, then the Health First Group could incur material liabilities for damages or other adverse financial consequences.

12. Commitments and Contingencies (continued)

Guarantees

The Corporation has guaranteed the promissory note payments of a certain limited partnership in which the Corporation is a partner. The guaranteed promissory note had a balance as of June 30, 2014 and September 30, 2013, of $2,303 and $2,403, respectively.

Operating Leases

The Corporation leases certain property and equipment under operating leases. Lease and rental expense was approximately $2,843 and $2,837 for the three months ended June 30, 2014 and 2013, respectively, and approximately $8,809 and $7,244 for the nine months ended June 30, 2014 and 2013, respectively.

Net future minimum lease payments under non-cancelable operating leases as of June 30, 2014, are as follows:

Due within one year	$	6,941
Due between one and two years		5,652
Due between two and three years		3,402
Due between three and four years		2,386
Due between four and five years		2,072

13. Fair Value of Financial Instruments

As defined in ASC Topic 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

The three levels of the fair value hierarchy defined by ASC Topic 820 and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date.

13. Fair Value of Financial Instruments (continued)

Level 2 – Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived or supported from observable data as of the reporting date.

Level 3 – Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. The Corporation has no financial assets or financial liabilities with significant Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following tables present the fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis at June 30, 2014 and September 30, 2013:

	June 30, 2014			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Cash and cash equivalents	$ 133,379	$ 133,379	$ –	$ –
Investments:				
Domestic equity securities	244,967	244,967	–	–
International equity securities	54,879	54,879	–	–
U.S. Treasury and agency obligations	57,302	34,983	22,319	–
U.S. corporate bonds	51,430	–	51,430	–
Government asset-backed securities	2,085	–	2,085	–
Asset-backed securities	10,124	–	10,124	–
Municipal bonds	1,780	–	1,780	–
Total investments	422,567	334,829	87,738	–
Assets limited as to use:				
Cash and cash equivalents	7,690	7,690	–	–
Domestic equity securities	1,163	1,163	–	–
U.S. Treasury and agency obligations	21,254	3,724	17,530	–
U.S. corporate bonds	9,904	–	9,904	–
Total assets limited as to use	40,011	12,577	27,434	–
	$ 595,957	$ 480,785	$ 115,172	$ –
Financial liabilities				
Interest rate swap agreements	$ 4,821	$ –	$ 4,821	$ –

13. Fair Value of Financial Instruments (continued)

	September 30, 2013			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Cash and cash equivalents	$ 139,876	$ 139,876	$ –	$ –
Investments:				
Domestic equity securities	195,861	195,861	–	–
International equity securities	40,957	40,957	–	–
U.S. Treasury and agency obligations	38,722	18,316	20,406	–
U.S. corporate bonds	39,292	–	39,292	–
Municipal bonds	491	–	491	–
Total investments	315,323	255,134	60,189	–
Assets limited as to use:				
Cash and cash equivalents	17,197	17,197	–	–
Domestic equity securities	4,540	4,540	–	–
U.S. Treasury and agency obligations	20,981	3,513	17,468	–
U.S. corporate bonds	9,872	–	9,872	–
Total assets limited as to use	52,590	25,250	27,340	–
	$ 507,789	$ 420,260	$ 87,529	$ –
Financial liabilities				
Interest rate swap agreements	$ 4,716	$ –	$ 4,716	$ –

Interest rate swap liabilities are included in other noncurrent liabilities in the accompanying consolidated balance sheets.

13. Fair Value of Financial Instruments (continued)

The fair values of the securities included in Level 1 were determined through quoted market prices. The fair values of Level 2 financial assets and financial liabilities were determined as follows:

Interest rate swaps – The fair value of the interest rate swap agreements was determined through the use of widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. The analysis reflects the contractual terms of the interest rate swaps, including the period to maturity, and uses observable market-based inputs, such as interest rate curves. In addition, credit valuation adjustments are included to reflect both the Corporation's nonperformance risk and the respective counterparty's nonperformance risk. The Corporation pays a fixed rate ranging from 2.29% to 4.89% and receives cash flows based on 65% to 100% of one-month LIBOR, plus a fixed spread.

U.S. corporate bonds, U.S. Treasury and agency obligations, municipal bonds, asset-backed securities and government asset-backed securities – These securities were valued through the use of third-party pricing services and use evaluated bid prices adjusted for specific bond characteristics and market sentiment.

The carrying value of accounts receivable and accounts payable and accrued liabilities are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The carrying value of the Corporation's variable rate obligations, consisting of term loans and certain other long-term debt, approximates fair value. The fair value of the Corporation's fixed-rate obligations is estimated using Level 2 inputs based on quoted market prices for the same or similar issues. The carrying value and fair value of long-term debt at June 30, 2014, are $626,223 and $650,538, respectively. The carrying value and fair value of long-term debt at September 30, 2013, are $637,084 and $658,466, respectively.

14. Statutory Compliance

Health First Health Plans, Inc. (HFHP)

HFHP is required by Section 641.225(1) of the Florida Statutes to maintain at all times a minimum surplus in an amount that is the greatest of $1,500, 10% of total liabilities, or 2% of total annualized premium revenue. In addition, Section 641.35(9) of the Florida Statutes stipulates that HFHP must maintain an amount equal to its required minimum surplus in coin or currency of the United States on hand or on deposit in any solvent national or state bank, savings and loan association, trust company, or in eligible securities or obligations. HFHP was in compliance with such requirements at June 30, 2014.

The Florida Department of Financial Services Office of Insurance Regulation (the Department) limits distributions of earnings or equity transfers to no more than 10% of statutory surplus from accumulated earnings in any one year unless prior approval is received from the Department. In addition to this payment, and to the extent accumulated statutory surplus exceeds the required amount, HFHP may make distributions out of its entire preceding fiscal year's net operating profits. At June 30, 2014 and September 30, 2013, HFHP had $0 available for the payment of dividends without regulatory approval.

The State of Florida requires HFHP to maintain a deposit with the Department for uncovered claims relating to nonparticipating providers. HFHP complies with this requirement by maintaining the required deposit of $3,249 and $3,226 as of June 30, 2014 and September 30, 2013, respectively, with the Department, which is included in other assets in the accompanying consolidated balance sheets.

HFHP is required by Title 69O-191.076 of the Florida Administrative Code to ensure that income from operations before federal income taxes is no less than 2% of total revenues on an annual basis. As of June 30, 2014, HFHP was in compliance with this requirement.

15. Subsequent Events

The Corporation evaluated events and transactions occurring subsequent to June 30, 2014 through August 14, 2014, the date the accompanying consolidated financial statements were issued.

Supplementary Information

Health First, Inc. and Subsidiaries

Key Debt Ratios (unaudited)

June 30, 2014

Debt to Capitalization Ratio	46%
Rolling 12-Month Long Term Debt Service Coverage Ratio*	3.49

*Includes 100% of the credit tenant lease (CTL) debt in the maximum annual debt service calculation.

HEALTH FIRST, INC.
SYSTEM HOSPITALS
PERFORMANCE DASHBOARD

	Three Months Ended June 30 2014	Three Months Ended June 30 2013	Nine Months Ended June 30 2014	Nine Months Ended June 30 2013
REVENUE METRICS				
OUTPATIENT % OF GROSS REVENUE				
CCH	51.2%	54.7%	51.4%	56.1%
HRMC	32.8%	34.2%	32.8%	33.4%
PBH	50.8%	47.8%	48.7%	48.0%
VH	53.1%	54.8%	53.2%	54.7%
CONSOLIDATED	40.3%	41.3%	39.9%	41.0%
NET REVENUE PER ADJUSTED DISCHARGE				
CCH	$7,526	$7,047	$7,332	$7,360
HRMC	$10,320	$10,098	$10,293	$10,237
PBH	$6,938	$6,204	$6,886	$6,614
VH	$9,689	$9,908	$9,885	$9,758
CONSOLIDATED	$9,340	$9,067	$9,306	$9,267
EXPENSE METRICS				
EXPENSE PER ADJUSTED DISCHARGE				
CCH	$6,145	$6,338	$6,220	$6,663
HRMC	$8,974	$9,785	$9,108	$9,798
PBH	$6,070	$6,347	$6,285	$6,563
VH	$9,620	$9,862	$9,986	$10,098
CONSOLIDATED	$8,182	$8,773	$8,347	$8,916
EXPENSE PER ADJUSTED OCCUPIED BED				
CCH	$1,541	$1,578	$1,527	$1,603
HRMC	$1,856	$1,874	$1,886	$1,848
PBH	$1,379	$1,333	$1,345	$1,343
VH	$2,643	$2,819	$2,563	$2,535
CONSOLIDATED	$1,802	$1,823	$1,811	$1,798
OVERALL METRICS				
OCCUPANCY RATES				
CCH	54.9%	55.9%	55.4%	56.5%
HRMC	78.6%	81.0%	78.3%	83.6%
PBH	54.1%	58.5%	56.8%	58.2%
VH	50.7%	49.3%	52.8%	56.0%
CONSOLIDATED	67.9%	70.1%	68.5%	72.2%
AVERAGE LENGTH OF STAY (DAYS)				
CCH	4.0	4.0	4.1	4.2
HRMC	4.8	5.2	4.8	5.3
PBH	4.4	4.8	4.7	4.9
VH	3.6	3.5	3.9	4.0
CONSOLIDATED	4.5	4.8	4.6	5.0