CITRUS MEMORIAL HEALTH FOUNDATION, INC.

Audited Financial Statements

Years Ended September 30, 2012 and 2011

PYA

Certified Public Accountants

CITRUS MEMORIAL HEALTH FOUNDATION, INC.

Audited Financial Statements

Years Ended September 30, 2012 and 2011

PERSHING YOAKLEY & ASSOCIATES, P.C.
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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Citrus
Memorial Health Foundation, Inc.

We have audited the accompanying balance sheets of Citrus Memorial Health Foundation, Inc. (the Foundation), as of September 30, 2012 and 2011, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of the Foundation. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Citrus Memorial Health Foundation, Inc. as of September 30, 2012 and 2011, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note K to the financial statements, the Foundation is involved in litigation with the Citrus County Hospital Board (CCHB) related to governance. The ultimate outcome of the litigation is uncertain and could have a significant impact on the structure of the Foundation. Any potential financial statement impact as a result of this litigation cannot yet be determined. Further, as discussed in Note H, certain funds received in 2012 from the CCHB, restricted to debt service, have been included by management in their determination of debt covenant compliance, based on their interpretation of the Master Trust Indenture.

Pershing Yoakley & Associates PC

Knoxville, Tennessee
January 25, 2013

CITRUS MEMORIAL HEALTH FOUNDATION, INC.

Balance Sheets

	September 30, 2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 25,699,170**	$ 21,483,661
Current portion of assets limited as to use	**1,245,715**	1,339,036
Patient accounts receivable, net of estimated allowance for doubtful accounts of approximately $16,100,000 and $20,300,000, in 2012 and 2011, respectively	**20,017,400**	16,499,513
Supplies inventory	**3,469,244**	3,793,534
Other current assets	**4,325,056**	4,168,047
TOTAL CURRENT ASSETS	**54,756,585**	47,283,791
ASSETS LIMITED AS TO USE		
Internally designated for capital acquisition and specific projects	**4,337,057**	16,198,936
Under malpractice funding arrangements	**2,103,004**	2,155,941
Under indenture agreement	**4,093,378**	4,125,127
TOTAL ASSETS LIMITED AS TO USE	**10,533,439**	22,480,004
Amount available to meet current obligations	**(1,245,715)**	(1,339,036)
ASSETS LIMITED AS TO USE	**9,287,724**	21,140,968
PROPERTY, PLANT AND EQUIPMENT, net	**65,861,712**	66,153,498
OTHER ASSETS		
Deferred bond costs, net of accumulated amortization of $216,134 and $189,624 in 2012 and 2011, respectively	**468,767**	495,277
Investments in joint ventures	**567,216**	575,604
Goodwill	**4,901,000**	4,901,000
Other long-term assets	**911,764**	748,921
TOTAL OTHER ASSETS	**6,848,747**	6,720,802
TOTAL ASSETS	**$ 136,754,768**	$ 141,299,059

	September 30, 2012	September 30, 2011
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Acconts payable and accrued expenses	$ **12,942,082**	$ 11,753,650
Accrued salaries and benefits	**8,884,458**	8,137,220
Other current liabilities	**3,446,962**	4,307,059
Current portion of long-term debt	**5,054,411**	2,002,303
CURRENT LIABILITIES	**30,327,913**	26,200,232
LONG-TERM DEBT, net of current portion	**51,658,501**	55,324,529
PROFESSIONAL LIABILITY, net of current portion	**2,007,976**	2,600,449
OTHER LONG-TERM LIABILITIES	**691,320**	514,309
LIABILITY FOR PENSION BENEFITS	**30,563,783**	23,228,950
TOTAL LIABILITIES	**115,249,493**	107,868,469
COMMITMENTS AND CONTINGENCIES - Note K		
NET ASSETS		
Unrestricted	**17,184,050**	31,721,478
Temporarily restricted	**4,321,225**	1,709,112
TOTAL NET ASSETS	**21,505,275**	33,430,590
TOTAL LIABILITIES AND NET ASSETS	$ **136,754,768**	$ 141,299,059

See notes to financial statements.

CITRUS MEMORIAL HEALTH FOUNDATION, INC.

Statements of Operations and Changes in Net Assets

	Year Ended September 30, 2012	2011
CHANGES IN UNRESTRICTED NET ASSETS:		
Revenue, gains, and other support:		
Patient service revenue, net of contractual adjustments and discounts	**$ 170,527,655**	$ 174,157,496
Provision for bad debts	**(23,700,946)**	(23,640,105)
Net patient service revenue	**146,826,709**	150,517,391
Agreement for hospital care - Note K	**1,700,000**	834,000
Other revenue	**2,091,791**	2,396,097
Net assets released from restrictions used for operations	**43,062**	47,376
TOTAL REVENUE, GAINS AND OTHER SUPPORT	**150,661,562**	153,794,864
Operating expenses:		
Healthcare services	**132,308,723**	130,874,334
General and administrative	**14,757,900**	16,627,363
Depreciation and amortization	**7,757,356**	7,146,925
Interest	**2,732,532**	2,830,516
TOTAL OPERATING EXPENSES	**157,556,511**	157,479,138
OPERATING LOSS	**(6,894,949)**	(3,684,274)
Nonoperating gains and losses:		
Investment income	**223,965**	444,204
Pension plan curtailment gain	**-**	3,986,684
Other	**61,909**	(844,089)
NET NONOPERATING GAINS	**285,874**	3,586,799
DEFICIT OF REVENUE, GAINS AND OTHER SUPPORT OVER EXPENSES AND LOSSES	**(6,609,075)**	(97,475)
Change in net unrealized gains and losses on other than trading securities	**736**	(16,258)
Net assets released for capital	**389,104**	-
Pension plan adjustments	**(8,318,193)**	(15,793,414)
DECREASE IN UNRESTRICTED NET ASSETS	**(14,537,428)**	(15,907,147)

	Year Ended September 30,	
	2012	***2011***
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	**3,044,279**	242,499
Net assets released from restrictions	**(432,166)**	(47,376)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	**2,612,113**	195,123
DECREASE IN NET ASSETS	**(11,925,315)**	(15,712,024)
NET ASSETS, BEGINNING OF YEAR	**33,430,590**	49,142,614
NET ASSETS, END OF YEAR	**$ 21,505,275**	$ 33,430,590

CITRUS MEMORIAL HEALTH FOUNDATION, INC.

Statements of Cash Flows

	Year Ended September 30, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ **(11,925,315)**	$ (15,712,024)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	**7,757,356**	7,146,925
Loss on sale of assets	**47,200**	174,497
Amortized bond discount	**25,209**	25,209
Change in net unrealized gains and losses	**(736)**	16,258
Curtailment gain	**-**	(3,986,684)
Restricted contributions	**(3,044,279)**	(242,499)
Increase (decrease) in cash due to changes in:		
Patient accounts receivable	**(3,517,887)**	(2,204,240)
Supplies inventory	**324,290**	(337,654)
Other assets	**(311,464)**	(103,318)
Accounts payable and accrued expenses	**1,035,432**	2,954,978
Accrued salaries and benefits	**747,238**	1,716,018
Other liabilities	**(1,275,559)**	(43,710)
Liability for pension benefits	**8,134,833**	16,545,566
Total adjustments	**9,921,633**	21,661,346
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**(2,003,682)**	5,949,322
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	**(7,349,338)**	(7,932,442)
Proceeds from sale of assets	**16,078**	16,350
Cash from assets limited as to use	**11,947,301**	1,684,564
Proceeds from sale of short-term investments	**-**	5,226,344
Goodwill acquired	**-**	(3,201,000)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**4,614,041**	(4,206,184)

	Year Ended September 30,	
	2012	***2011***
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from restricted contributions	**3,044,279**	242,499
Fund additional pension benefits	**(800,000)**	(1,600,000)
Proceeds from note payable	**1,440,000**	-
Payments on long-term debt	**(1,959,977)**	(1,718,866)
Payment on capital lease obligation	**(119,152)**	(158,868)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**1,605,150**	(3,235,235)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**4,215,509**	(1,492,097)
CASH AND CASH EQUIVALENTS, beginning of year	**21,483,661**	22,975,758
CASH AND CASH EQUIVALENTS, end of year	**$ 25,699,170**	$ 21,483,661
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	**$ 2,737,506**	$ 2,835,204

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Citrus Memorial Health Foundation, Inc. (the Foundation) was organized on March 27, 1987, as a nonprofit corporation exempt from income taxes pursuant to Internal Revenue Code (IRC) Section 501(c)(3). The Foundation operates Citrus Memorial Health System (the Health System) under a lease agreement with the Citrus County Hospital Board (the Hospital Board), an independent special district located in Citrus County, Florida. The Health System consists of an acute care hospital and various outpatient facilities providing inpatient, outpatient, emergency and home health care services to residents of West Central Florida.

On March 1, 1990, the Foundation entered into a lease agreement with the Hospital Board whereby the Foundation leases substantially all the land, buildings, improvements, equipment, furniture, and fixtures of the Health System. Under the lease, as amended, the Foundation agrees to make rental payments equal to the principal, interest and any premium on bonds issued by the Hospital Board for the Health System. The initial term of the lease was 40 years and later amended to expire on June 15, 2033, unless sooner terminated in accordance with the provisions of the lease. The Foundation has the right to unconditionally renew the lease for an additional forty-five year term, if the Foundation is not in default under the terms of the lease. In the event the lease is terminated, the Hospital Board will operate the hospital facilities.

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

Cash and Cash Equivalents: The Foundation classifies as cash and cash equivalents amounts on deposit in financial institutions and cash invested temporarily in various instruments with maturities of three months or less at the time of purchase, and does not include assets limited as to use. Amounts on deposit at September 30, 2012 exceed the Federal Deposit Insurance Corporation (FDIC) insured limits. Management believes the risk related to these deposits is minimal as they are held by financial institutions that are members of the Florida Public Deposit Program and amounts have been pledged as collateral for these deposits.

Patient Accounts Receivable: The Foundation reports patient accounts receivable for services rendered at net realizable amounts from third party payors, patients and others. The Foundation provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and any unusual circumstances. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the patient or third party payer. The Foundation's policy does not require collateral or other security for patient accounts

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

receivable and the Foundation routinely accepts assignment of, or is otherwise entitled to receive patient benefits payable under health insurance programs, plans, or policies.

Net Patient Service Revenue: The Foundation has agreements with third party payors that provide for payments to the Foundation at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed cost, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The Foundation's revenue recognition policies related to self-pay and other types of payors emphasize revenue recognition only when collections are reasonably assured.

In July 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2011-07, *Healthcare Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and Allowance for Doubtful Accounts for Certain Healthcare Entities*, which requires certain healthcare entities to reclassify the provision for bad debts associated with providing patient care from an operating expense to a deduction from net patient service revenue in the statement of operations and changes in net assets. Additionally, ASU 2011-07 requires enhanced disclosures about an entity's policies for recognizing revenue and assessing bad debts and qualitative and quantitative information about changes in the allowance for doubtful accounts. The Foundation retroactively adopted ASU 2011-07 in fiscal year 2012. The adoption did not have a material impact on the financial statements (Note B).

Charity Care: The Foundation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Foundation does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue (see Note D).

Inventory: Inventory, which consists primarily of medical and other supplies, is stated at the lower of cost (first-in, first-out basis) or market.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the deficit of revenue, gains and other support 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 deficit of revenue, gains and other support over expenses and losses unless the investments are trading

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

securities or to the extent any such realized losses are determined to be "other-than-temporary" declines in value.

The Foundation accounts for its investments in joint ventures under the equity method. These joint ventures relate primarily to real estate and have no debt guaranteed by the Foundation.

Assets Limited as to Use: Assets limited as to use primarily include assets held by trustees under indenture agreements, under a revocable malpractice funding arrangement, and investments designated by the Board for future capital improvements or other purposes, over which the Board retains control and at its discretion may subsequently use for other purposes. Amounts required to meet current liabilities of the Foundation have been reclassified in the balance sheets at September 30, 2012 and 2011.

Property, Plant and Equipment: Property, plant and equipment acquisitions are stated at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Maintenance and repairs are expensed as incurred. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from excess of revenues over expenses.

Deferred Bond Costs: Deferred bond costs are amortized on a straight-line basis over the term of the related bond issue.

Goodwill: Goodwill represents the difference between the purchase price of assets acquired and the estimated fair value of tangible and separately identifiable intangible assets at the date of purchase. Goodwill is evaluated annually for impairment.

In September 2011, the FASB issued ASU 2011-08 which allows entities to use a qualitative approach to determine whether goodwill is more likely than not impaired. The Foundation will adopt the provisions of this ASU during the year ending September 30, 2013, and management does not believe the adoption will have a material impact on the financial statements.

Estimated Malpractice Costs: The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and for losses that will result from unreported incidents which are probable of having occurred before the end of the fiscal year. Such estimates have not been discounted.

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Temporarily Restricted Net Assets: Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose.

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

Deficit of Revenue, Gains and Other Support Over Expenses and Losses: The statements of operations and changes in net assets include the caption Deficit of Revenue, Gains and Other Support over Expenses and Losses. Changes in unrestricted net assets which are excluded from this caption, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets), and the change in the pension plan's funded status.

Income Taxes: The Foundation is exempt from income taxes under Section 501(c)(3) of the IRC. Accordingly, the financial statements do not reflect a provision for income taxes. At September 30, 2012, the Foundation does not have any uncertain tax positions that would require recognition or disclosure in the financial statements. The Foundation is no longer subject to federal or state income tax examinations by tax authorities for the years before 2008.

Date of Management's Review: The Foundation has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through January 25, 2013, the date the financial statements were available to be issued. During this period management did not identify any significant recognizable events subsequent to year end, other than the item disclosed in Note K.

New Accounting Pronouncements: In August 2010, the FASB issued Accounting Standard Update (ASU) 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries,* which provides amendments that clarify that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

consideration of insurance recoveries. Prior to ASU 2010-24, health care entities were permitted to net insurance recoveries against the accrual of malpractice claims or similar liabilities. ASU 2010-24 was adopted by the Foundation during 2012; however, there was no material impact on the accompanying financial statements upon adoption (Note I).

In August 2010, the FASB issued ASU 2010-23, *Health Care Entities – Measuring Charity Care for Disclosure*. ASU 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU 2010-23 requires the cost, identified as the direct and indirect costs of providing the charity care, be used as the measurement basis for disclosure purposes. ASU 2010-23 also requires disclosure of the method used to identify or determine such costs. The Foundation adopted ASU 2010-23 in 2012. The adoption of ASU 2010-23 did not have a material impact on the financial statements.

NOTE B--NET PATIENT SERVICE REVENUE

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue as presented in the accompanying statements of operations and changes in net assets is as follows for the years ended September 30, 2012 and 2011:

	2012	*2011*
Inpatient service charges	$ 388,225,577	$ 367,187,145
Outpatient service charges	295,579,679	326,037,778
Gross patient service charges	683,805,256	693,224,923
Less:		
Estimated contractual adjustments and discounts	500,938,820	505,430,580
Charity care	12,338,781	13,636,847
Provision for bad debts	23,700,946	23,640,105
	536,978,547	542,707,532
Net patient service revenue	$ 146,826,709	$ 150,517,391

Net patient service revenue by major payor source for the years ended September 30, 2012 and 2011, net of contractual allowances and self-pay discounts (before the provision for bad debt), is as follows:

NOTE B--NET PATIENT SERVICE REVENUE - Continued

	2012	2011
Third-party payors	$ 168,575,957	$ 172,282,384
Self-pay	1,951,698	1,875,112
Patient service revenue	$ 170,527,655	$ 174,157,496

Deductibles and copayments under third-party payment programs, which are included within the third-party payor amount above, are the patient's responsibility and the Foundation considers these amounts in its determination of the provision for bad debts based on prior collection experience. Accounts receivable are also reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Foundation analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. The Foundation classifies amounts due from patients or secondary insurance as self-pay accounts receivables, after the primary insurance has paid. In determining the amount to reserve for these patient accounts, the Foundation considers only payments received from uninsured patients. 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 Foundation 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 Foundation's allowance for doubtful accounts totaled $16,121,972 and $20,289,590 at September 30, 2012 and 2011, respectively. The allowance for doubtful accounts decreased from 55% of patient accounts receivable, net of contractual allowances, at September 30, 2011 to 45% of patient accounts receivable, net of contractual allowances, as of September 30, 2012, primarily due to a decline in self-pay patient accounts receivable of approximately $4,000,000. Bad debt write-offs, net of recoveries, for the years ending September 30, 2012 and 2011 were approximately $27,869,000 and $20,465,000, respectively, and relate primarily to self-pay patients. Write-offs of third-party accounts were not significant in the years ending September 30, 2012 and 2011. The Foundation has not experienced significant changes in write-off trends and has not changed its charity care policy for the year ended September 30, 2012. The provision for bad debts associated with the Foundation's ancillary service lines is not significant.

NOTE C--THIRD PARTY REIMBURSEMENT

The Foundation has agreements with third party payers that provide for payments to the Foundation at amounts different from its established rates. The difference is recorded as a contractual adjustment which is a reduction of gross patient charges. The final determination of allowable reimbursement under certain of these contractual arrangements is based on the program's

NOTE C--THIRD PARTY REIMBURSEMENT - Continued

intermediaries' examination of the annual cost report. Management believes adequate provisions have been made for any such settlements. Settlement of prior year amounts did not have a significant impact on the financial statements for the years ended September 30, 2012 and 2011. The Foundation's Medicare cost reports have been final settled through fiscal year 2006.

A summary of the payment arrangements with major third party payors follows:

Medicare: Inpatient and outpatient services rendered to the Medicare program beneficiaries are paid at a predetermined amount per discharge. These rates vary according to a patient classification system that is based on the clinical diagnosis, procedures performed, and other factors. At September 30, 2012 and 2011, approximately 54% and 53%, respectively, of the Foundation's net patient accounts receivable are due from the Medicare program.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 created the Revenue Audit Contractors (RAC) program to detect and correct improper payments under the Medicare program. Management believes that any settlements under the RAC program will not have a significant impact on the financial statements. However, due to the uncertainties involved, management's estimate could change in the future.

Medicaid: Inpatient services rendered to the Medicaid program beneficiaries are reimbursed on a per diem basis. Outpatient services are reimbursed based on a specific amount per line item billed. At September 30, 2012 and 2011, approximately 19% and 10%, respectively, of the Foundation's net patient accounts receivable are due from the Medicaid program.

Other Third Party Payors: The Foundation also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, preferred provider organizations and employer groups. The basis for payments to the Foundation under these agreements includes prospectively determined rates per discharge, prospectively determined rates per day and discounts from established charges.

NOTE D--CHARITY CARE

The Foundation maintains records to identify and monitor the level of charity and indigent care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. Charges forgone as a result of providing charity and indigent care services totaled approximately $12,339,000 and $13,637,000 for the years ended September 30, 2012 and 2011, respectively. The estimated cost of providing these services (before consideration of any indigent care payments) totaled approximately $2,843,000 and $3,098,000 in 2012 and 2011, respectively.

NOTE D--CHARITY CARE - Continued

In addition to charity and indigent care services, the Foundation provides a number of other services for which little or no payment is received. Medicare, Medicaid and certain other programs do not always cover the full cost of providing care to beneficiaries of those programs.

NOTE E--INVESTMENTS AND ASSETS LIMITED AS TO USE

Assets Limited as to Use: The composition of assets limited as to use at September 30, 2012 and 2011 is set forth in the following table:

	2012	2011
Internally designated for capital acquisitions and specific projects:		
Cash and cash equivalents	$ 4,337,057	$ 16,198,936
Under malpractice funding arrangement:		
Cash and cash equivalents	31,174	5,849
Fixed income fund	2,071,830	2,150,092
	2,103,004	2,155,941
Under indenture agreement:		
Cash and short-term investments	767,535	716,918
Corporate debt	681,949	964,825
U.S. governmental debt securities	1,390,799	1,326,799
Municipal obligations	1,231,401	1,092,620
Interest receivable	21,694	23,965
	4,093,378	4,125,127
Total Assets Limited as to Use	$ 10,533,439	$ 22,480,004

Investment income and gains (losses) related to assets limited as to use, cash equivalents and other investments are comprised of the following at September 30:

	2012	2011
Investment Income:		
Interest income	$ 232,353	$ 449,029
Equity interest in joint ventures	(8,388)	(4,825)
	$ 223,965	$ 444,204
Other changes in unresticted net assets:		
Net change in unrealized gains and losses on investments	$ 736	$ (16,258)

NOTE F--PROPERTY, PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment as of September 30:

	2012	*2011*
Land and land improvements	$ 11,055,914	$ 10,888,126
Buildings	87,064,005	84,595,014
Fixed equipment	1,585,331	1,519,682
Movable equipment	63,849,979	63,335,748
	163,555,229	160,338,570
Less: Accumulated depreciation	(99,543,133)	(95,011,637)
	64,012,096	65,326,933
Construction-in-progress	1,849,616	826,565
	$ 65,861,712	$ 66,153,498

The Foundation was a lessee of certain movable equipment under capital leases that expired in 2012. The assets and liabilities under capital leases were recorded at inception at the lower of the present value of the minimum lease payment or the fair value of the asset. The assets were amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for the years ended September 30, 2012 and 2011. Property included in movable equipment above held under capital leases had a cost of $836,080 at September 30, 2011 and a net book value of $125,412. Interest cost capitalized on construction projects was not significant during the years ended September 30, 2012 and 2011.

NOTE G--GOODWILL

During 2011, the Foundation purchased an orthopedic rehabilitation center under the terms of an Asset Purchase Agreement to enhance its rehabilitation services. The purchase price of $3,230,000 included the acquisition of substantially all assets and rights of the center. Intangible assets (primarily goodwill) totaling $3,201,000 have been recognized as of September 30, 2012 and 2011 as a result of the purchase. Operating results of the orthopedic rehabilitation center are included in the Foundation's financial statements since acquisition and include net patient service revenue of approximately $1,950,000 and $1,600,000 and net operating income of approximately $880,000 and $690,000 during the years ended September 30, 2012 and 2011, respectively.

Also during 2011, the Foundation acquired a diagnostic center for $900,000 to enhance services in the service area. The acquisition resulted in the recognition of goodwill totaling $711,000. The diagnostic center was subsequently closed and the Foundation reported an impairment loss for the

NOTE G--GOODWILL - Continued

total goodwill amount that is included in other nonoperation gains and losses in the accompanying 2011 financial statements.

NOTE H--LONG-TERM DEBT

A summary of long-term debt at September 30 follows:

	2012	*2011*
Hospital Revenue and Revenue Refunding Bonds, Series 2002, interest rates ranging from 6.25% to 6.375%	$ 38,475,000	$ 39,430,000
Hospital Revenue Bonds, Series 2006, variable interest, 0.95% at September 30, 2012	8,980,000	9,200,000
Hospital Revenue Note, Series 2008, variable interest, 1.21% at September 30, 2012	8,440,023	8,820,140
Promissory note, monthly principal and interest payment of $32,390 maturing through May 2016, secured by a building and land with a net book value of $1,688,305 at September 30, 2012, bearing interest at 3.75%	1,328,369	-
Installment Purchase Contract, 7.0%, matured in 2012	-	293,229
Capital lease, variable interest rate, secured by a lien on certain movable equipment	-	119,152
	57,223,392	57,862,521
Less: unamortized discount	(510,480)	(535,689)
Less: current portion	(5,054,411)	(2,002,303)
	$ 51,658,501	$ 55,324,529

Hospital Revenue and Revenue Refunding Bonds, Series 2002: The Citrus County Hospital Board issued Hospital Revenue and Revenue Refunding Bonds, Series 2002 (the Series 2002 Bonds) dated December 1, 2002, totaling $45,000,000. The Series 2002 Bonds were issued to pay a portion of the costs to acquire, construct, and equip new medical facilities at the Health System and refund the Hospital Revenue and Revenue Refunding Bonds, Series 1992A (the Series 1992A Bonds). A portion of the bond proceeds were deposited into an irrevocable escrow fund in amounts sufficient to pay all applicable principal amounts outstanding on the Series 1992A Bonds and therefore, those obligations were derecognized in the accompanying financial statements. The final principal payment on the Series 1992A Bonds was due on August 15, 2012 and totaled $1,750,000.

The Series 2002 Bonds consist of a $21,925,000 term bond due August 15, 2023 and a $23,075,000 term bond due August 15, 2032. The term bonds are subject to mandatory redemption prior to

NOTE H--LONG-TERM DEBT - Continued

maturity and are payable annually in varying amounts, with interest payable semiannually. The Foundation remits amounts monthly to a sinking fund, controlled by an independent trustee for debt service requirements.

Hospital Revenue Bonds, Series 2006: The Citrus County Hospital Board issued Hospital Revenue Bonds, Series 2006 (the Series 2006 Bonds), in the amount of $10,000,000 on September 26, 2006 to provide financing or refinancing of the acquisition, construction and equipping of the Health System or improvements thereto. The bonds are payable annually in varying amounts with a final payment of $8,025,000 due October 1, 2016 (prior to early payment subsequent to September 30, 2012 discussed in Note K). Interest accrues at a variable rate equal to 67% of the one month London Interbank Offered Rate (LIBOR) plus .8% and is payable monthly. After September 30, 2010, the bonds are eligible for mandatory tender by the issuing bank subject to a 366 day tender notice period. As of the date the financial statements were available to be issued, the Foundation has not received such a tender notice.

Hospital Revenue Note, Series 2008: The Citrus County Hospital Board issued Hospital Revenue Note, Series 2008 (the Series 2008 Note), in the amount of $10,000,000 on September 23, 2008 to provide for financing or refinancing of the acquisition, construction and equipping of the Health System or improvements thereto. The note is payable monthly in varying amounts with a final payment of $5,667,367 due October 1, 2018. Interest accrues at a variable rate equal to 65% of LIBOR plus 1.07% and is payable monthly.

All of the bonds are special obligations of the Citrus County Hospital Board payable solely from, and secured by payments to be made by the Foundation under a financing agreement between the Board and the Foundation and gross revenues of the Foundation.

Under the terms of the Master Trust Indenture (MTI), the Foundation is subject to various covenants, which among other things require the Foundation to maintain certain financial ratios, maintain certain minimum levels of unrestricted cash and investments and maintain a debt service reserve fund. As of the date of this report, management believes that the Foundation is in compliance with all bond covenants. The Foundation's debt service coverage ratio requires a minimum level of income available for debt service over the maximum debt service requirement as defined in the Master Trust Indenture. Management's interpretation of the MTI results in the inclusion in its calculation of income available for debt service a $2,000,000 contribution from the Hospital Board restricted for use as debt service, as further discussed in Note K. Other interpretations of the MTI which might exclude inclusion of the $2,000,000 in income available for debt service would impact compliance with this covenant.

The aggregate annual maturities of the Foundation's long-term debt (including amounts to be repaid in October 2012 with funds received from the Hospital Board - see Note K) is as follows:

NOTE H--LONG-TERM DEBT - Continued

Year Ending September 30,	*Principal*
2013	$ 5,054,411
2014	2,110,274
2015	2,211,024
2016	2,186,439
2017	6,794,549
Thereafter	38,866,695
	$ 57,223,392

NOTE I--INSURANCE LIABILITIES

Medical Malpractice Liability: The Foundation is self-insured with respect to medical malpractice. The Foundation purchases claims made insurance policy to cover losses above the self-insured retention levels in excess of $1,500,000 per occurrence and an annual aggregate of $16,000,000. Estimated losses from malpractice claims, totaling approximately $2,460,000 and $3,280,000 at September 30, 2012 and 2011, respectively, are accrued based on estimates that incorporate the Foundation's past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. The accrued malpractice claims amount includes an estimate for losses on asserted claims as well as possible losses attributable to incidents that may have occurred, but have not been reported (IBNR). The Foundation's estimate for IBNR only covers hospital related claims and does not include general liability and physician related claims. Management estimates that none of the asserted claims will ultimately settle above the self-insurance retention levels, and accordingly, has not recognized any insurance recovery receivables at September 30, 2012. As discussed further in Note K, this estimate could be further impacted by governance issues with the Hospital Board and the Foundation's status related to Sovereign Immunity. It is at least reasonably possible that estimates related to these claims will change in the near future.

The Foundation has established a revocable trust fund to cover the cost of malpractice claims.

Workers' Compensation Liability: The Foundation maintains insurance coverage for workers' compensation claims with a self-insured retention of $500,000. The Foundation has recorded an estimated liability for reported workers' compensation claims of approximately $1,080,000 and $1,079,000 at September 30, 2012 and 2011, respectively, that is included in accounts payable and accrued expenses in the accompanying financial statements. Management has not identified any significant workers' compensation claims outstanding as of September 30, 2012, and accordingly, has not recognized any insurance recovery receivables. The Foundation is required by the Florida workers' compensation law to maintain a Letter of Credit as collateral for claims which totaled $1,533,449 at September 30, 2012.

NOTE I--INSURANCE LIABILITIES - Continued

Employee Health Insurance: The Foundation provides health care coverage for all eligible employees and covered dependents through a self-funded healthcare plan and maintains stop-loss insurance coverage for claims in excess of $175,000 per covered employee on an annual basis. Estimated obligations under this plan were $1,040,000 and $1,470,000 as of September 30, 2012 and 2011, respectively, and are included in accrued salaries and benefits in the accompanying financial statements.

NOTE J--RETIREMENT PLANS

Defined Benefit Retirement Plan: The Foundation sponsors a defined benefit pension plan (the Pension Plan) covering all employees who became eligible for participation in the Pension Plan prior to October 1, 2004, who have not elected to transfer to the Foundation's defined contribution 403(b) plan. The Foundation's funding policy is to make the minimum annual contribution required by applicable regulations.

Effective January 1, 2008, the plan froze accrued benefits for all participants, but provides continued accruals for all participants using the same accrual multiplier rate and the same features among all plan participants, effectively separating the benefits into two distinct benefits: benefits accrued as of December 31, 2009, and those accruing after January 1, 2010. On October 15, 2010, the plan was amended to cease benefit accruals under the plan effective December 31, 2010. Active employees under the plan will no longer continue to accrue benefits, but will become participants under the 403(b) Plan. The Foundation has recognized a curtailment gain totaling $3,986,684 for the year ended September 30, 2011 as a result of this amendment.

The following table sets forth further information about the Pension Plan as of and for the years ended September 30:

	2012	*2011*
Change in projected benefit obligation		
Benefit obligation, beginning of year	$ 99,986,516	$ 88,989,287
Service cost	-	420
Interest cost	4,491,131	4,348,592
Plan curtailment	-	(1,458,588)
Actuarial (gain)/loss	15,751,228	11,072,708
Benefit paid	(3,349,213)	(2,965,903)
Benefit obligation, end of year	$ 116,879,662	$ 99,986,516

NOTE J--RETIREMENT PLANS - Continued

	2012	2011
Change in plan assets		
Fair value of plan assets, beginning of year	$ 76,757,566	$ 76,719,219
Actual net return on Plan assets	12,107,526	1,394,250
Employer contributions	800,000	1,610,000
Benefit paid	(3,349,213)	(2,965,903)
Fair value of plan assets, end of year	$ 86,315,879	$ 76,757,566
Funded status (underfunded)	$ (30,563,783)	$ (23,228,950)

Amounts recognized in the balance sheets at September 30 consist of:

	2012	2011
Noncurrent liability for pension benefits	$ (30,563,783)	$ (23,228,950)

The net periodic benefit costs, which are recognized in the statement of operations and changes in net assets, for the years ended September 30, included the following components:

	2012	2011
Service cost	$ -	$ 420
Interest cost	4,491,131	4,348,592
Expected return on Plan assets	(6,001,120)	(6,112,013)
Amortization of prior service cost	-	(211,159)
Amortization of actuarial (gain)/loss	1,326,629	2,736,135
Net periodic benefit cost	$ (183,360)	$ 761,975

Other changes in Plan asset and benefit obligations previously recognized in changes in unrestricted net assets:

	2012	2011
Net actuarial loss and amounts previously recognized in unrestricted net assets, not yet recognized as periodic pension cost	$ 51,477,212	$ 43,159,019

NOTE J--RETIREMENT PLANS - Continued

As a result of the amendment to freeze benefit accruals as of December 31, 2010, combined with closing the plan to new participants as of September 30, 2004, the population of participants not yet fully vested has significantly declined. As a result of this decline, almost all of the plan participants are deemed inactive and consequently, gains and losses subject to amortization are amortized over the average remaining life expectancy of the inactive participants rather than the average remaining service period of active participants. The estimated net loss that will be amortized from unrestricted net assets into net periodic benefit cost in 2013 is $1,326,629.

The accumulated benefit obligation for the Plan was $116,879,662 and $99,986,516 as of September 30, 2012 and 2011, respectively.

The following assumptions were used in accounting for the Pension Plan:

	2012	*2011*
Weighted-average discount rate (benefit obligation)	3.55%	4.55%
Weighted-average discount rate (net-periodic benefit cost)	4.55%	5.04%
Rate of increase in future compensation	Not applicable	Varies by service
Expected long-term rate of return	8.00%	8.00%

The rate of increase in future compensation assumption is not applicable for 2012 due to the Plan amendment freezing benefits accruals after December 31, 2010. The Foundation's expected rate of return on Pension Plan assets is determined by the Pension Plan assets' historical long-term investments performance, current asset allocation, and estimates of future long-term returns by asset class. The Pension Plan's asset allocations at September 30, are as follows:

	2012	*2011*
Asset category		
Equity securities	49.5%	46.2%
Debt securities	47.9%	48.9%
Cash	2.6%	4.9%
Total	100.0%	100.0%

The Foundation's investment policy for Plan assets is to manage the portfolio to preserve principal and liquidity while maximizing the return on the investment portfolio through the full investment of available funds. The portfolio is diversified by investing in multiple types of investment-grade securities. The investment policy requires assets of the Plan to be primarily invested in a mix of short-term and long-term securities with at least an investment grade rating to minimize interest rate

NOTE J--RETIREMENT PLANS - Continued

and credit risk as well as to provide a portion as an immediate source of funds. Target allocation percentages for each major category of plan assets are 50% equity securities and 50% debt securities.

The Foundation attempts to mitigate investment risk by rebalancing between equity and debt asset classes as the Foundation's contributions and monthly benefit payments are made. Although changes in interest rates may affect the fair value of the investment portfolio and cause unrealized gains and losses, such gains or losses would not be realized unless the investments are sold.

The fair values of the Pension Plan assets at September 30, by asset class and level in the fair value hierarchy (see Note N) are as follows:

	Quoted Prices in Active Market (Level 1)	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*	*Total*
September 30, 2012				
Cash and cash equivalents	$ 2,243,113	$ -	$ -	$ 2,243,113
Debt securities:				
U.S. government securities	22,172,540	-	-	22,172,540
U.S. agency securities	4,934,346	-	-	4,934,346
Mortgage backed securities	-	2,749,088	-	2,749,088
Corporate bonds	-	9,975,141	-	9,975,141
International fixed income bond	-	1,524,013	-	1,524,013
Equity securities:				
Domestic - technology	8,187,299	-	-	8,187,299
Domestic - energy	4,379,844	-	-	4,379,844
Domestic - materials	1,546,972	-	-	1,546,972
Domestic - consumer staples	3,134,122	-	-	3,134,122
Domestic - industrials	4,022,231	-	-	4,022,231
Domestic - consumer discretion	4,616,542	-	-	4,616,542
Domestic - health care	4,294,432	-	-	4,294,432
Domestic - financials	3,687,193	-	-	3,687,193
Domestic - telecommunications	676,414	-	-	676,414
Domestic - utilities	920,783	-	-	920,783
International	1,461,885	-	-	1,461,885
Other	2,965,176	-	-	2,965,176

NOTE J--RETIREMENT PLANS - Continued

	Quoted Prices in Active Market (Level 1)	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*	*Total*
Real estate investment trusts		296,223	-	296,223
Equity mutual funds	2,528,522	-	-	2,528,522
Total assets	$ 71,771,414	$ 14,544,465	$ -	$ 86,315,879
September 30, 2011				
Cash and cash equivalents	$ 3,754,831	$ -	$ -	$ 3,754,831
Debt securities:				
U.S. government securities	18,209,350	-	-	18,209,350
U.S. agency securities	7,549,111	-	-	7,549,111
Mortgage backed securities	-	747,563	-	747,563
Corporate bonds	-	9,191,515	-	9,191,515
International fixed income bond	-	1,859,125	-	1,859,125
Equity securities:				
Domestic - technology	7,071,315	-	-	7,071,315
Domestic - consumer goods	6,438,236	-	-	6,438,236
Domestic - other	15,043,896	-	-	15,043,896
International	1,155,165	-	-	1,155,165
Real estate investment trusts	-	332,924	-	332,924
Equity mutual funds	5,404,535	-	-	5,404,535
Total assets	$ 64,626,439	$ 12,131,127	$ -	$ 76,757,566

The Foundation's expected contribution to its Pension Plan in 2013 has not yet been determined. The following benefit payments are expected to be paid:

Year Ending September 30,	*Amount*
2013	$ 3,853,648
2014	4,188,541
2015	4,462,527
2016	4,794,913
2017	5,099,689
2018-2022	29,095,590

NOTE J--RETIREMENT PLANS - Continued

Defined Contribution Retirement Plan-403(b): The Citrus Memorial Health Foundation, Inc. Code Section 403(b) Plan (the 403(b) Plan) became effective October 1, 2004. The Foundation's contributions to the 403(b) Plan are equal to 3 % of the compensation of each eligible employee and the Foundation also provides a 50% match on elective deferrals made by eligible employees not in excess of 6% of compensation. Contributions totaling approximately $1,700,000 and $1,720,000 for the years ended September 30, 2012 and 2011 respectively, were made by the Foundation. Effective January 1, 2012, the 403(b) Plan was amended to change the Foundation's contribution to equal 2 % of the compensation of each eligible employee and the 50% match on elective deferrals will not be in excess of 4% of compensation. Effective January 1, 2013, the 403(b) Plan was amended to cease all contributions by the Foundation, however, the Foundation retains the right to reinstate contributions at a later date should financial performance improve.

Defined Contribution Retirement Plan-457(b) "Top Hat": The Citrus Memorial Health Foundation, Inc. Code Section 457(b) Plan (the 457(b) Plan) became effective June 28, 2005. The 457(b) Plan is maintained for the purpose of providing deferred compensation for a select group of highly compensated employees. Only employee elective deferrals were contributed to this plan for the years ended September 30, 2012 and 2011.

Supplemental Executive Retirement Plan: The Citrus Memorial Health Foundation, Inc. Supplemental Executive Retirement Plan, a Code Section 457(f) Plan (the 457(f) Plan) became effective January 1, 2007. The 457(f) Plan is maintained for the purpose of providing deferred compensation for a select group of highly compensated employees. Contributions totaling $36,177 for each of the years ended September 30, 2012 and 2011 were made by the Foundation to this plan.

NOTE K--COMMITMENTS AND CONTINGENCIES

Operating Leases: The future minimum rental payments required under operating leases for buildings and medical and office equipment that have initial or remaining no cancelable lease terms in excess of one year as of September 30, 2012, are as follows by fiscal year:

Year Ending September 30,	***Rental Payment***
2013	$ 636,501
2014	636,501
2015	636,501
2016	339,011
2017	113,282
Thereafter	209,251
Total	$ 2,571,047

NOTE K--COMMITMENTS AND CONTINGENCIES - Continued

Rent expense under operating leases totaled approximately $2,226,000 and $2,070,000 for the years ended September 30, 2012 and 2011, respectively.

Construction Projects: The Foundation has entered into agreements for renovation projects and equipment. As of September 30, 2012, the estimated cost to complete these projects totaled approximately $3,008,000.

Litigation: The Foundation is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Foundation's future financial position or results of operations.

Governance Issues: Governance issues initiated by the Hospital Board against the Foundation in fiscal year 2008 escalated in fiscal year 2011. As further discussed in Note A, the assets of the Foundation are leased from the Hospital Board, which is composed of five Governor appointed trustees. The Hospital Board is a political subdivision of the State of Florida, whose responsibilities include setting the property tax millage and distributing the tax receipts to the Foundation under the Agreement for Hospital Care. Under the Agreement, the Hospital Board agreed to assist the Foundation with funding for operations and acquisition, expansion, and maintenance of proposed and existing hospital and health facilities. The Hospital Board levied and collected approximately $2,300,000 in ad valorem taxes in fiscal year 2011. The Hospital Board budgeted $2,000,000 in funds to be released to the Foundation; however, only $250,000 was received by the Foundation in fiscal year 2011. The Foundation recognized an estimated amount to be collected of approximately $580,000 for the year ended September 30, 2011 as revenue in the accompanying 2011 financial statements. Such amounts were subsequently collected.

The Hospital Board levied and collected approximately $2,200,000 in ad valorem taxes in fiscal year 2012. The Hospital Board budgeted $2,000,000 in funds to be released to the Foundation; however, only $800,000 was received by the Foundation in fiscal year 2012. The Foundation has recognized an estimated amount to be collected for the year ended September 30, 2012 as revenue in the accompanying financial statements of approximately $1,700,000 which represents collections through January 25, 2013.

In addition, there is approximately $8,900,000 in tax revenue for fiscal years dating back to 2009 that has not been released to the Foundation or recognized in the financial statements. As a result of the actions of the Hospital Board, the Foundation has instituted legal action to secure the ad-valorem taxes pledged to it.

During 2012, the Hospital Board also paid the Foundation $2,000,000 restricting the use of such funds for the payment of outstanding long-term indebtedness with the requirement that the

NOTE K--COMMITMENTS AND CONTINGENCIES - Continued

Foundation will fund an additional $1,000,000 to reduce such outstanding long-term indebtedness by a total of $3,000,000. The $2,000,000 is included as temporarily restricted net assets at September 30, 2012. Subsequent to year end, the Foundation paid $3,000,000 to reduce obligations related to the Series 2006 Bonds and an additional $3,000,000 of the 2006 Bonds are included in the balance sheet as a current liability at September 30, 2012. No significant gain or loss was recognized as a result of this early extinguishment of debt. Additionally, the Hospital Board provided $389,104 to the Foundation as reimbursement of costs used for the purchase of capital equipment.

In 2011, the Florida legislature passed a local bill that, among other things, provided for a change in the structure of the Foundation's Board of Directors. This change in structure would grant control of the Foundation to the Hospital Board. The bill has an effective date of July 1, 2011. The Foundation sought and was immediately granted an injunction blocking the implementation of the local bill on the grounds that it was unconstitutional. A hearing took place and both parties are awaiting the ruling. The impact of the bill, the resulting litigation and the ultimate financial impact upon the Foundation is unclear at this time.

Sovereign Immunity: The Foundation was approved for Sovereign Immunity status as of August 6, 2006, under an opinion of the Attorney General of the State of Florida. Under the opinion, the Foundation met the requirements under Florida Statute Section 768.28(2). The Sovereign Immunity status of the Foundation has been upheld in Court under an order dated March 26, 2008. Under Sovereign Immunity status, the Foundation's exposure is limited under Florida Statutes, primarily concerning exposure related to medical malpractice claims, which are limited to $200,000 per occurrence. The Sovereign Immunity status of the Foundation was included in the development of the liability under medical malpractice claims, which are described in Note I. Medical malpractice plaintiffs have challenged the applicability of Sovereign Immunity to the Foundation. An unfavorable outcome could result in additional exposure for incurred but not reported medical malpractice claims at September 30, 2012 of up to $3,100,000, in addition to the amounts already accrued, as discussed in Note I. Management believes, based in part on the opinion of legal counsel, that the Sovereign Immunity status has been properly applied; however, the ultimate resolution of the matter is unclear and it is at least reasonably possible that management's estimate of the liability may change in the near term.

Healthcare Industry: The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, Medicare fraud and abuse and under provisions of the Health Insurance Portability and Accountability Act of 1996, patient records privacy and security. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers, such as the Medicare

NOTE K--COMMITMENTS AND CONTINGENCIES - Continued

Recovery Audit Contractor program. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. 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.

As part of a national focus on a specific billing issue, the Foundation has submitted documents to an oversight agency for review. The ultimate outcome of this review is uncertain but management does not anticipate a significant impact on the accompanying financial statements. Due to the uncertainties involved, it is at reasonably possible that management's estimates will change in the near term.

Federal, state and local governments have recently proposed numerous changes related to healthcare reform. Management continues to evaluate the impact of new or proposed legislation.

NOTE L--ADDITIONAL STATE PROGRAMS

In 2006, the Florida Medicaid waiver program established the Low Income Pool (LIP) to ensure continued governmental support for the provision of healthcare services to Medicaid, underinsured and uninsured patients. The LIP program utilizes the federal upper-payment limit program whereby the State will receive matching funds from the federal government in order to reimburse hospitals for Medicaid services at a rate up to the level that Medicare would pay. The initial term of the waiver program was five years. On December 15, 2011, CMS approved a three-year waiver extension through June 30, 2014. The following is a summary of the LIP payment amounts included in other revenue in the accompanying financial statements:

	Funds Transferred	***LIP Funds Received***	***Net LIP Proceeds***
2011	$ 6,127,800	$ 7,022,460	$ 894,660
2012	7,984,490	8,663,172	678,682

Additionally, the Foundation receives payments for providing services to a disproportionate share of Medicaid, underinsured and uninsured patients. Payments under this program totaled $717,362 and $707,716 for the years ended September 30, 2012 and 2011, respectively. Future payment under these programs is not guaranteed.

The State of Florida has enacted legislation that requires all hospitals to pay an annual assessment to the Public Medical Trust Fund (PMTF) based on net operating revenue for inpatient and outpatient

NOTE L--ADDITIONAL STATE PROGRAMS - Continued

services. Payments required to be made to the PMTF totaled $1,834,615 and $1,838,694, respectively, for the years ended September 30, 2012 and 2011 and are included in general and administrative expense in the accompanying financial statements.

NOTE M--FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of substantially all financial instruments approximates fair value due to the nature or term of the instruments, except as described below. The following methods and assumptions were used to estimate the fair value of these other financial instruments:

Long-Term Debt: The fair value of long-term debt is estimated based upon quoted prices for certain bonds. For bonds with variable interest rates, the carrying value approximates fair value.

The estimated fair value of the Foundation's significant financial instruments which have carrying values different from fair value at September 30, 2012 and 2011 is as follows:

	2012		*2011*	
	Carrying Value	*Estimated Fair Value*	*Carrying Value*	*Estimated Fair Value*
Series 2002 Bonds	$ 37,964,520	$ 38,620,613	$ 38,894,311	$ 35,717,061

NOTE N--FAIR VALUE MEASUREMENTS

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 - Inputs based on quoted market prices for identical assets or liabilities in active markets at the measurement date.

- Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. The Foundation's Level 2 investments are valued primarily using the market valuation approach.

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

In instances where the determination of fair value hierarchy measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire

NOTE N--FAIR VALUE MEASUREMENTS - Continued

fair value measurement falls is based upon the lowest level input that is significant to the fair value measurement in its entirety. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Financial assets and liabilities using Level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset. Valuation techniques utilized to determine fair value are consistently applied.

The following table presents assets and liabilities reported at fair value as of September 30, 2012 and 2011 and their respective classification under valuation hierarchy:

	Quoted Prices in Active Markets (Level 1)	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*	*Total*
September 30, 2012				
Fixed income funds	$ -	$ 2,071,830	$ -	$ 2,071,830
Corporate debt	-	681,949	-	681,949
U.S. governmental debt securities	1,390,799	-	-	1,390,799
Municipal obligations	1,231,401	-	-	1,231,401
Total assets	$ 2,622,200	$ 2,753,779	$ -	$ 5,375,979
September 30, 2011				
Fixed income funds	$ -	$ 2,150,092	$ -	$ 2,150,092
Corporate debt	-	964,825	-	964,825
U.S. governmental debt securities	1,326,799	-	-	1,326,799
Municipal obligations	1,092,620	-	-	1,092,620
Total assets	$ 2,419,419	$ 3,114,917	$ -	$ 5,534,336