CENTRAL FLORIDA HEALTH ALLIANCE, INC. AND AFFILIATES

Consolidated Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

CENTRAL FLORIDA HEALTH ALLIANCE, INC. AND AFFILIATES

Table of Contents

KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602

Independent Auditors' Report

The Board of Directors
Central Florida Health Alliance, Inc.:

We have audited the accompanying consolidated financial statements of Central Florida Health Alliance, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations and changes net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Central Florida Health Alliance, Inc. and its subsidiaries as of June 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidated information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United Stated of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Certified Public Accountants
Tampa, Florida
October 7, 2013

CENTRAL FLORIDA HEALTH ALLIANCE, INC. AND AFFILIATES

Consolidated Balance Sheets

June 30, 2013 and 2012

(Dollars in thousands)

Assets	**2013**	**2012**
Current assets:		
Cash and cash equivalents	$ 53,812	87,634
Cash and investments held by bond trustee	10,019	7,869
Accounts receivable, less allowance for uncollectible patient accounts of approximately $37,420 and $47,400 in 2013 and 2012, respectively	47,287	43,087
Supplies	10,108	11,035
Prepaid and other current assets	6,372	7,181
Total current assets	127,598	156,806
Assets limited as to use:		
Cash and investments held by bond trustee, less current portion	6,635	8,525
Other	6,007	5,875
Total assets limited as to use	12,642	14,400
Property and equipment, net	179,454	177,825
Other assets:		
Investments	144,111	98,638
Investments in unconsolidated affiliates	26,632	26,775
Deferred loan costs, net	729	790
Other	15,464	16,546
Total other assets	186,936	142,749
Total assets	$ 506,630	491,780

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CENTRAL FLORIDA HEALTH ALLIANCE, INC. AND AFFILIATES

Consolidated Balance Sheets

June 30, 2013 and 2012

(Dollars in thousands)

Liabilities and Net Assets	**2013**	**2012**
Current liabilities:		
Accounts payable	$ 19,751	17,703
Accrued expenses:		
Employee compensation and benefits	14,904	14,426
Interest	2,581	2,851
Other	7,178	10,918
Estimated third-party settlements	5,812	4,749
Current portion of long-term debt	7,062	6,338
Total current liabilities	57,288	56,985
Interest rate swaps	8,844	13,736
Other	22,439	24,862
Long-term debt, less current portion	158,713	164,611
Total liabilities	247,284	260,194
Net assets:		
Unrestricted	254,027	224,687
Temporarily restricted	320	1,965
Permanently restricted	1,183	1,076
Total net assets attributable to Central Florida Health Alliance, Inc.	255,530	227,728
Noncontrolling interest	3,816	3,858
Total net assets	259,346	231,586
Commitments and contingencies		
Total liabilities and net assets	$ 506,630	491,780

See accompanying notes to consolidated financial statements.

CENTRAL FLORIDA HEALTH ALLIANCE, INC. AND AFFILIATES

Consolidated Statements of Operations and
Changes in Net Assets

Years ended June 30, 2013 and 2012

(Dollars in thousands)

	2013	2012
Unrestricted revenues:		
Net patient service revenue	$ 382,273	386,037
Less provision for bad debt	(13,709)	(15,488)
Net patient service revenue	368,564	370,549
Other revenues	11,240	9,651
Net assets released from restriction	814	—
Other revenues	12,054	9,651
Total revenues	380,618	380,200
Expenses:		
Salaries, wages, and benefits	171,940	162,573
Supplies and other costs	129,986	127,942
Physician and other professional fees	35,467	35,664
Depreciation and amortization	24,595	26,330
Interest	5,285	6,644
Total expenses	367,273	359,153
Income from operations	13,345	21,047
Nonoperating gains (losses):		
Investment income, net	7,836	2,093
Change in unrealized gains and losses on investments	(2,450)	649
Equity in earnings of unconsolidated affiliates	3,276	4,203
Change in fair value of interest rate swaps	4,892	(7,165)
Gain on sale of property and equipment	20	345
Other	347	(966)
Nonoperating gains (losses), net	13,921	(841)
Excess of revenue and gains over expenses (losses), before noncontrolling interest	27,266	20,206
Noncontrolling interest	(120)	(255)
Excess of revenue and gains over expenses and losses	27,146	19,951
Other changes in unrestricted net assets:		
Net assets released from restriction for capital	1,586	—
Transfer of net assets from TVRH Foundation	608	—
Change in unrestricted net assets	29,340	19,951
Temporarily restricted net assets:		
Contributions	755	272
Items released to unrestricted assets	(2,400)	—
Change in temporarily restricted net assets	(1,645)	272
Permanently restricted net assets:		
Investment gain	107	—
Change in permanently restricted net assets	107	—
Noncontrolling interest:		
Acquisition of controlling interest	—	3,993
Excess of revenue and gains over expenses attributable to noncontrolling interest	120	255
Distributions	(162)	(390)
Change in noncontrolling interest	(42)	3,858
Change in net assets	27,760	24,081
Net assets, beginning of year	231,586	207,505
Net assets, end of year	$ 259,346	231,586

See accompanying notes to consolidated financial statements.

CENTRAL FLORIDA HEALTH ALLIANCE, INC. AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2013 and 2012

(Dollars in thousands)

		2013	2012
Cash flows from operating activities and nonoperating gains:			
Change in net assets	$	27,760	24,081
Adjustments to reconcile change in net assets to net cash provided by operating activities and nonoperating gains:			
Depreciation and amortization		24,595	26,330
Provision for bad debts		13,709	15,488
Acquisition of noncontrolling interest		—	(3,993)
Distributions to noncontrolling interest		162	390
Change in fair value of interest rate swaps		(4,892)	7,165
Realized gains on investments		(5,241)	—
Investment gain of permanently restricted investments		(107)	—
Change in unrealized losses (gains) on investments		2,450	(10)
Equity in earnings of unconsolidated affiliates		(3,276)	(4,203)
Gain on sale of property and equipment		(20)	(345)
Loss on extinguishment of debt		—	936
Amortization of CSF Membership		143	—
Amortization of bond premiums and discounts, net		(187)	(187)
Amortization of bond issue costs		61	—
Temporarily restricted contribution received		(755)	—
Transfer of assets from TVRH Foundation		(608)	—
Changes in operating assets and liabilities:			
Accounts receivable		(17,909)	(11,495)
Supplies		927	682
Estimated third-party receivables/payables		1,063	(1,478)
Prepaid expenses and other current assets		809	42
Other noncurrent assets		1,082	(7,192)
Accounts payable		2,048	(8,688)
Accrued expenses		(3,532)	(2,933)
Other noncurrent liabilities		(2,423)	8,355
Net cash provided by operating activities and nonoperating gains		35,859	42,945
Cash flows from investing activities:			
Transfer of assets from TVRH Foundation		608	—
Purchase of investments		(146,662)	(62,022)
Sales of investments		103,980	59,471
Purchase of property and equipment		(24,931)	(23,183)
Proceeds from sale of property and equipment		81	437
Purchase of Surgery Center of Mount Dora		—	(4,156)
Distributions – equity method investees		3,276	2,705
Net change in assets limited as to use		(392)	(3,329)
Net cash used in investing activities		(64,040)	(30,077)
Cash flows from financing activities:			
Repayment of long-term debt		(6,341)	(69,157)
Proceeds from issuance of long-term debt		—	63,340
Payment of loan costs		—	(143)
Acquisition of noncontrolling interest		—	3,993
Distributions to noncontrolling interest		(162)	(390)
Temporarily restricted contribution received		755	—
Investment gain of permanently restricted investment		107	—
Net cash used in financing activities		(5,641)	(2,357)
Change in cash and cash equivalents		(33,822)	10,511
Cash and cash equivalents, beginning of year		87,634	77,123
Cash and cash equivalents, end of year	$	53,812	87,634
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	6,108	5,850
Supplemental noncash disclosures:			
Equipment loan for capital acquisition	$	1,354	—

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

Central Florida Health Care Development Corporation (CFHCDC) was established in 1986 to manage or control various entities engaged in the delivery of healthcare services. On January 11, 2008, Central Florida Health Alliance, Inc. (The Alliance) was formed and CFHCDC was merged into The Alliance on that date.

The Alliance is the sole member of Leesburg Regional Medical Center, Inc. (LRMC), a 316-bed short-term acute care hospital, The Villages Tri-County Medical Center, Inc., d/b/a The Villages Regional Hospital (TVRH), a 223-bed short-term acute care hospital, Leesburg Regional Medical Center Foundation, Inc. (the Foundation), and owns 100% of the outstanding common stock of Venture Health Care Corporation (Venture), a for-profit company. During fiscal year 2010, Alliance Labs, LLC (Alliance Labs) was formed to acquire the operations of a diagnostic pathology practice and a reference lab and to continue to operate those businesses. During fiscal year 2012, LRMC purchased 51% of the stock of the Surgery Center of Mount Dora, LLC (SCMD), a local ambulatory surgical center and treats SCMD as a consolidated entity of LRMC.

The Alliance is the sole member of and controls the Foundation, a not-for-profit corporation, through appointment of its Board of Directors. The Foundation coordinates fund-raising activities for The Alliance, LRMC, TVRH, and their affiliates or subsidiaries.

The Villages Tri-County Medical Center, Inc. is the sole member of and controls The Villages Regional Hospital Auxiliary Foundation, Inc. (TVRH Foundation), a not-for-profit corporation. The TVRH Foundation coordinates fund-raising activities for TVRH and is included in the consolidated financial statements effective July 1, 2012.

The Obligated Group is responsible for the debt service on various bond instruments issued by the City of Leesburg and has pledged revenue, accounts receivable, land and improvements, buildings and improvements, and equipment as collateral on the bonds. Information related to the bonds is detailed in note 5. The legal entities, which make up the Obligated Group, are LRMC and TVRH.

The accompanying consolidated financial statements include the accounts of The Alliance, LRMC, TVRH, the Foundation, Venture, TVRH Foundation, SCMD, and Alliance Labs (collectively referred to hereinafter as The Alliance). All significant intercompany transactions and accounts have been eliminated in consolidation. The Alliance, through its hospitals and postacute services, provides healthcare services to patients in the central Florida area.

(b) Use of Estimates

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

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(c) Cash and Cash Equivalents

The Alliance considers all highly liquid investments with a maturity of three months or less when purchased, excluding investments classified as assets limited as to use, to be cash equivalents.

(d) Investments in Unconsolidated Affiliates

CFHA uses the equity method of accounting for affiliates in which CFHA has significant influence but not control.

(e) Supplies

Supplies consist principally of medical and surgical supplies and drugs and medicines and are valued at lower of cost (first-in, first-out method) or market.

(f) Assets Limited as to Use, Investments, and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investment income (including realized gains and losses on investments, unrealized gains and losses on trading securities, interest, and dividends) is included in excess of revenues and gains over expenses and losses unless such earnings are subject to donor restrictions. Investment income that is restricted by donor stipulations is reported as an increase in temporarily restricted net assets.

Other assets limited as to use includes $4,605,000 and $4,596,000 as of June 30, 2013 and 2012, respectively, which has been designated for the State of Florida workers' compensation and medical malpractice requirements. Additionally, as of June 30, 2013 and 2012, other assets limited as to use includes $1,402,000 and $1,280,000, respectively, of endowment funds, which are permanently restricted primarily for nursing programs.

(g) Allowance for Uncollectible Patient Accounts

Additions to the allowance for uncollectible patient accounts are made by means of the provision for bad debts. Accounts receivable are written off after collection efforts have been followed in accordance with The Alliance's policies. Accounts written off as uncollectible are deducted from the allowance for uncollectible patient accounts, and subsequent recoveries are added.

The amount of the provision for bad debts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in federal and state government healthcare coverage, and other collection indicators.

(h) Property and Equipment

Property and equipment are stated on the basis of historical cost, except for donated items, which are recorded at fair value at the date of the donation. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Interest costs incurred and interest income earned as part of related construction projects are capitalized as a component of the cost of the assets during the period of construction.

Depreciation and amortization are computed and charged to operations utilizing the straight-line method at rates estimated by management to amortize the cost of the various assets within the periods of expected use. Assets recorded under capital leases are amortized using the straight-line method over the lesser of the period of the lease term or the estimated useful life of the asset and are included in depreciation and amortization expense and accumulated depreciation. Depreciation and amortization have been provided using the following general ranges of useful lives:

Assets	Estimated life
Land improvements	3 – 25 years
Buildings and improvements	5 – 40 years
Equipment	3 – 20 years

(i) Deferred Loan Costs and Original Issue Premiums and Discounts

Deferred loan costs, net of accumulated amortization, are being amortized over the life of the financing using the straight-line method, which approximates the effective-interest method. Amortization of deferred loan costs is included in interest expense in the consolidated statements of operations and changes in net assets.

Original issue premiums and discounts (note 5) are being amortized over the life of the financing using the straight-line method, which approximates the effective-interest method. Amortization of original issue premiums and discounts is included in interest expense in the consolidated statements of operations and changes in net assets.

(j) Interest Rate Swaps

The Alliance uses interest rate swaps to manage net exposure to interest rate changes related to its borrowings and to lower its overall borrowing costs. The Alliance recognizes all interest rate swaps as either assets or liabilities in the consolidated balance sheets and measures those instruments at fair value. The changes in fair value of the derivatives are recognized as nonoperating gains (losses).

(k) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by The Alliance has been limited by the donors to a specified time period or purpose.

Permanently restricted net assets are those whose use by The Alliance has been restricted by donor intent to be maintained by The Alliance in perpetuity to provide a source of investment income to support nursing scholarships and training.

(l) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to The Alliance 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 temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a

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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 released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

(m) Endowments

As adopted by the State of Florida, on July 1, 2012, donor-restricted endowment funds are subject to the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Among UPMIFA's most significant changes is the elimination of UPMIFA's important concept of historic dollar value threshold, the amount below which an organization could not spend from the funds in favor of a more robust set of guidelines about what constitutes prudent spending. Effective July 1, 2012, the State of Florida enacted UPMIFA, the provisions of which apply to funds existing on or established after that date.

In August 2008, Financial Accounting Standard Board (FASB) Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds* (FSP 117-1), was issued, and its guidance is effective for fiscal years ending after December 15, 2008. A key component of that FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. The Alliance has implemented FSP 117-1 and is reflected in the attached financial statements.

Pursuant to FSP 117-1, the Alliance has interpreted UPMIFA, as adopted in Florida, as requiring the preservation of the fair value of a donor-restricted endowment gift as of the gift date, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Alliance classifies as permanently restricted net assets (a) the original value of gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

(n) Goodwill

Goodwill is included in other assets in the consolidated balance sheets and represents the excess of the amount paid over the fair value of tangible assets and liabilities of acquired healthcare businesses. During fiscal year 2012, approximately $4,156,000 was paid to acquire 51% of the SCMD of which approximately $193,000 was paid for tangible assets and approximately $7,771,000 was recorded for goodwill. The Alliance reviews goodwill for impairment at least annually, or if changes or circumstances indicate that the carrying amount of goodwill may not be recoverable in accordance with the provisions of the FASB Accounting Standards Codification (ASC) Topic 350, *Intangibles – Goodwill and Other*, which was adopted on July 1, 2010. In September 2011 FASB issued Accounting Standards Update (ASU) 2011-08, *Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, which allows companies to qualitatively assess whether the fair value of a reporting unit is less than its carrying amount. The Alliance completed the

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qualitative impairment testing for the year ended June 30, 2013. The annual impairment test was completed for the years ended June 30, 2013 and 2012 and it was determined that no impairment existed.

(o) Impairment of Long-Lived Assets

Management regularly evaluates whether events or changes in circumstances have occurred that could indicate impairment in the value of long-lived assets. If there is an indication that the carrying amount of an asset is not recoverable, The Alliance estimates the projected undiscounted cash flows from the use and eventual disposition of the asset, excluding interest, to determine if an impairment loss should be recognized. The amount of impairment loss, if any, is determined by comparing the carrying value of the asset to its estimated fair value. There were no such impairment losses recorded during the year ended June 30, 2013 or 2012.

In addition to consideration of impairment upon the events or changes in circumstances described above, management regularly evaluates the remaining lives of its long-lived assets. If estimates are revised, the carrying value of affected assets is depreciated or amortized over the remaining lives.

(p) Nonoperating Gains and Losses and Excess of Revenue and Gains Over Expenses

Transactions deemed by The Alliance to be ongoing, major, or central to the provision of healthcare services are reported as unrestricted revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

The consolidated statements of operations and changes in net assets include excess of revenue and gains over expenses and losses. Changes in unrestricted net assets that are excluded from excess of revenue and gains over expenses and losses, consistent with industry practice, consist of unrealized gains and losses on other than trading securities, contributions of long-lived assets (including assets acquired using contributions, which, by donor restriction, were to be used for the purposes of acquiring such assets), and acquisitions of controlling interests.

(q) Net Patient Service Revenue

Gross patient service charges are recorded on the accrual basis in the period in which services are provided at The Alliance's established rates, excluding charges related to charity care. Contractual adjustments and other deductions are subtracted from gross patient service charges to determine net patient service revenue. Contractual adjustments under third-party reimbursement programs and agreements represent the difference between The Alliance's established rates for services and amounts reimbursed by third-party payors. Payment arrangements under third-party reimbursement programs and agreements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Other deductions from revenue include discounts provided to self-pay patients.

Net patient service revenue is reported at the net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors due to future audits, reviews, and investigations. 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 or as years are no longer subject to such audits, reviews, and investigations.

(r) Medicare and Medicaid Programs

The Medicare program pays LRMC and TVRH for services rendered on a prospective basis. Payments for inpatient services are based on each patient's diagnosis-related group (DRG) assignment. Payments for outpatient services are based on the Ambulatory Payment Group (APC) assignment. DRGs and APCs are based on each patient's clinical diagnosis and medical procedures. The Medicare program also reimburses LRMC and TVRH for capital costs on a prospective basis. LRMC and TVRH are reimbursed for cost reimbursable items at a tentative rate with final settlement determined after audit by the fiscal intermediary. Medicaid reimbursement rates are paid to participating hospitals for services provided on a fee-for-service basis to Medicaid recipients. On legislative directions provided in the General Appropriations Act, certain hospitals may be exempted from rate reimbursement ceilings. During the fiscal years ended June 30, 2013 and 2012, LRMC participated in this program with funds provided by the North Lake Tax District. Under a resolution of the North Lake County Hospital District (the District) and confirmed by the State Legislature, tax proceeds generated from the District's northwest territory are collected to provide for care to indigents who are qualified District residents. The District remits amounts as an intergovernmental transfer (IGT) to the State of Florida to be matched with federal matching dollars and provide enhanced Medicaid reimbursement rates. The estimated overall benefit was $5,176,000 and $4,359,000.

Effective July 1, 2013, the Florida Agency for Health Care Administration implemented a new hospital inpatient payment method utilizing Diagnosis-Related Groups (DRG) for Florida Medicaid. This methodology continues to provide a self-funded, add-on payment through the use of IGT funds transferred on behalf of LRMC through the North Lake Tax District. Final determination of amounts earned pursuant to the Medicare and Medicaid programs is subject to review by appropriate governmental authorities or their agents. In the opinion of management, adequate provision has been made for any adjustments that may result from such reviews.

Final settlements have been determined and received for all Medicare cost reports through the year ended June 30, 2009. Provisions have been made through the years ended June 30, 2013. Adjustments to revenue are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as changes in estimated provisions and final settlements are determined. Adjustments to revenue for Medicare and Medicaid related to prior periods increased net patient service revenue by approximately $142,000 and $6,330,000 for the years ended June 30, 2013 and 2012, respectively. Approximately $6,000,000 of adjustments to revenue related to prior periods increasing net patient revenue for the year ended June 30, 2012 is attributable to a settlement reached with the Centers of Medicare and Medicaid Services (CMS) in a class action lawsuit that arose when the class was underpaid by CMS for inpatient services since 2006 due to an error in the inpatient payout rate calculation.

Approximately 70% of net patient service revenue was derived from the Medicare program for the year ended June 30, 2013, compared to 67% of net patient revenue for the year ended June 30, 2012. Approximately 7% of net patient service revenue was derived from the Medicaid program for the year ended June 30, 2013, compared to 5% of net patient revenue for the year ended June 30, 2012. 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.

(s) Other Third Party Payors

The Alliance has agreements with third-party payors that provide for payments to The Alliance at amounts different from its established rates. Net patient service revenue is reported at estimated net realizable amounts due from patients and third-party payors, and includes estimated retroactive revenue adjustments due to future audits and reviews. The Alliance derived 10% of its net revenue from Blue Cross for the years ended June 30, 2013, and 2012. The Alliance derived 10% of its net revenue from other commercial payors for the years ended June 30, 2013, and 2012.

(t) Charity Care/Uncompensated Care

The Alliance provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. A patient is classified as a charity patient based upon policy guidelines. Because the Alliance does not pursue collection of amounts determined to qualify as charity care; they are not reported as revenue.

ASU No. 2010-23, *Measuring Charity Care for Disclosure*, requires healthcare entities to identify costs for providing care as direct or indirect, and disclose the method used to make this distinction. The Alliance estimates its cost by calculating a ratio of cost to charges, and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients. Total costs to provide charity care for the years ended June 30, 2013 and 2012 were approximately $16,959,000 and $16,564,000, respectively.

The Alliance provides uncompensated care to patients that do not have health insurance or that do not meet the established criteria for charity care. The Alliance pursues collection of these amounts net of any discounts; however, certain amounts are eventually determined to be uncollectible. These amounts are classified as provision for bad debts in the accompanying consolidated statements of operations and changes in net assets and totaled approximately $13,709,000 and $15,488,000 for the years ended June 30, 2013 and 2012, respectively.

In July 2011, the FASB issued ASU No. 2011-07, *Health Care Entities: Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. This ASU changed the Organization’s presentation of provision for bad debts in the combined statements of operations and changes in net assets from operating expenses to a deduction from patient service revenue. It also expands disclosures regarding policies for recognizing revenue and activity in the allowance for uncollectible accounts. The Alliance adopted the provisions of this standard as of June 30, 2013, and retrospectively applied the provisions to all periods presented.

(u) Community Benefit

The Alliance community benefits at cost for the years ended June 30, 2013 and 2012 are as follows (in thousands):

		2013	2012
Charity care:			
Financial assistance at cost	$	16,959	16,564
Unreimbursed Medicaid		8,752	5,553
Net unreimbursed financial assistance		25,711	22,117
Other community benefits:			
Medicare shortfall		13,422	1,878
Bad debt cost		3,151	3,486
Capital improvements		19,119	24,029
Chaplaincy		92	184
Donations		153	378
Indigent Clinic		224	298
Total community benefit	$	61,872	52,370

(v) Functional Expenses

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

(w) Income Taxes

The Alliance and its affiliates, with the exception of Venture and the Surgery Center of Mount Dora, are not-for-profit organizations as described under Section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code and Chapter 220.13 of the Florida Statutes, respectively. Management believes that the unrelated business income generated by The Alliance and its affiliates is not material to the consolidated financial statements.

Accounting principles generally accepted in the United States of America require The Alliance's management to evaluate tax positions taken by The Alliance and recognize a tax liability (or asset) if The Alliance has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Alliance has analyzed the tax positions and has concluded that as of June 30, 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. The Alliance is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Alliance believes it is no longer subject to income tax examinations for years prior to 2009.

(x) Electronic Health Record (EHR) Incentive Payments

The American Recovery and Reinvestment Act of 2009 provides for an EHR Incentive Program. Hospitals may be eligible for both Medicare and Medicaid financial incentives for the "meaningful use" of certified EHR technology to improve patient care. EHR incentive payments are received when thresholds are met. Medicare EHR incentive programs are staged in three steps with increasing requirements for participation. All providers begin participating by meeting the Stage 1 requirements for a 90-day period in their first year of meaningful use and a full year in their second year of meaningful use. Attestation for meeting Stage 1 meaningful use started on May 1, 2013. The Alliance has recognized $721,000 in other operating revenue for fiscal year ended June 30, 2013, for Medicaid Meaningful Use. On August 2, 2013, both hospitals of The Alliance received notification of accepted status for attestation in demonstration of meaningful use of certified EHR technology for Stage 1.

(y) Reclassifications

Certain reclassifications are reflected in the 2012 consolidated financial statements to conform to the 2013 presentation including a reclassification to correctly present the purchases and sales of investments within the investing activities section of the cash flow statements on a gross basis. These amounts were previously shown on a net basis. The reclassification increases the purchases by approximately $62 million and increases the sales by approximately $59 million. This reclassification did not have any impact on the total investing activities. In addition, the supplemental disclosure for cash paid for interest in 2012 in the amount of $5.8 million is correctly presented as part of the statements of cash flow.

(2) Investments and Assets Limited as to Use

The composition of investments is set forth in the following table (in thousands):

	June 30	
	2013	**2012**
Government securities and AAA-rated corp bonds	$ 21,809	26,588
Fixed income	15,080	19,370
Equity securities	39,308	26,956
Money market funds	56,413	13,951
Mutual funds	11,291	11,530
Accrued interest	210	243
	$ 144,111	98,638

The composition of assets limited as to use is set forth in the following table (in thousands):

		June 30	
		2013	**2012**
Money market funds	$	22,661	22,269
Less amounts classified as current		(10,019)	(7,869)
	$	12,642	14,400

Assets limited as to use held by bond trustee and the interest rate swap counterparty are expected to be utilized as follows (in thousands):

		June 30	
		2013	**2012**
Principal and interest funds	$	9,128	7,869
Debt service reserve funds		6,635	6,578
Collateral for interest rate swaps		891	1,947
		16,654	16,394
Amounts required for current liabilities		(10,019)	(7,869)
	$	6,635	8,525

Investment income (loss), net, from short-term and noncurrent investments, assets limited as to use and cash and cash equivalents amounted to $7,836,000 and $2,093,000 for the years ended June 30, 2013 and 2012, respectively. Investment income comprises interest and dividends of $2,596,000 and $2,732,000 and net realized gains and (losses) of $5,241,000 and $(639,000) for the years ended June 30, 2013 and 2012, respectively. Changes in unrealized gains and losses on investments were $(2,450,000) and $649,000 for the years ended June 30, 2013 and 2012, respectively.

(Continued)

(3) Investment in Unconsolidated Affiliates

The Alliance holds a 49% ownership interest in Lake Medical Imaging and Breast Center at The Villages, L.L.C., a Florida limited liability company d/b/a Lake Medical Imaging and Vascular Institute (LMI). The Alliance's equity in earnings of $4,332,000 and $5,652,000 for the years ended June 30, 2013 and 2012, respectively, was $2,118,000 and $2,769,000, respectively. The carrying value of The Alliance's investment in LMI was approximately $22,277,000 and $22,690,000 as of June 30, 2013 and 2012, respectively. Summarized financial information of LMI is as follows (in thousands):

		2013	2012
Financial position information:			
Total assets	$	5,117	4,013
Total liabilities		3,808	2,686
The Alliance share of equity in net assets		642	650
Statement of operations information:			
Revenues		25,647	25,576
Net income		4,332	5,652

The difference between the Alliance share of equity in net assets as shown in the above table and the investment in nonconsolidated affiliates as shown on the consolidated balance sheets is due to an excess amount paid over the book value of LMI. The excess relates to the amount paid over the fair value of assets (tangible and intangible) acquired and liabilities assumed. The Alliance assessed that the fair value of the tangible assets and liabilities assumed approximated their carrying value. There were no intangible assets identified from the acquisition of the minority interest in LMI.

The Alliance holds an 11.1% ownership interest in LeeSar, Inc., a Florida not-for-profit corporation. The Alliance's carrying value of the investment in LeeSar, Inc. was approximately $3,973,000 and $3,679,000 as of June 30, 2013 and 2012, respectively.

The Alliance holds a 49% ownership interest in Central Florida Cardiovascular Co-Management Company, LLC (CFCCC), a Florida limited liability company. The Alliance's carrying value of the investment in CFCCC was approximately $288,000 and $323,000 as of June 30, 2013 and 2012, respectively.

The Alliance holds a 55% noncontrolling ownership interest in Central Florida Oncology Co-Management Company, LLC (CFOCC), a Florida limited liability company. The Alliance's carrying value of the investment in CFOCC was approximately $94,000 and $120,000 as of June 30, 2013 and 2012, respectively.

(4) Property and Equipment

A summary of property and equipment is as follows (in thousands):

		June 30	
		2013	2012
Land and improvements	$	23,542	23,520
Buildings and improvements		238,268	230,576
Equipment		210,958	182,837
		472,768	436,933
Less accumulated depreciation and amortization		(301,367)	(276,728)
		171,401	160,205
Construction in progress		8,053	17,620
	$	179,454	177,825

The remaining balance in construction in progress at June 30, 2013 primarily relates to renovations at LRMC, new tower design at TVRH, and information technology projects for meaningful use and energy efficiency projects at both LRMC and TVRH.

(5) Long-Term Debt

Long-term debt consists of the following (in thousands):

		June 30	
		2013	2012
Hospital Revenue Bonds, Series 2002 issued in July 2002 by the City of Leesburg and payable through 2033 by LRMC, Inc. under an agreement with the City of Leesburg, with interest at 4.5% to 5.5% per annum	$	26,780	27,535

		June 30	
		2013	**2012**
Hospital Revenue Refunding Bonds, Series 2003 issued in June 2003 by the City of Leesburg and payable through 2019 by LRMC, Inc. under an agreement with the City of Leesburg, with interest at 4% to 5% per annum	$	23,080	27,135
Hospital Revenue Refunding bonds, Series 2009A issued in December 2009 by the City of Leesburg and payable through 2036 by TVHS under an agreement with the City of Leesburg, variable interest rate (1.68% and 1.71% at June 30, 2013 and 2012, respectively)		30,000	30,000
Hospital Revenue Refunding Bonds, Series 2011 issued in October 2011 by the City of Leesburg and payable through 2036 by CFHA under an agreement with the City of Leesburg, with interest at a variable rate (1.18% and 1.28% at June 30, 2013)		62,650	63,340
Stryker Finance, Loan Payable due November 2015, with interest at 1.32% at LRMC and 1.436% at TVRH		1,354	—
Mount Dora Surgery Center Note Payable, due March 2015, with interest at 3.65%, under an agreement with Regions Bank		190	293
Mount Dora Surgery Center Loan Payable, due September 2016, with interest at 5.75%, through Regions Bank		849	1,078
Mount Dora Surgery Center, Olympus Financial Lease due December 2012, with interest at 6.17%		—	30
Mount Dora Surgery Center, Wells Fargo Loan Payable, due December 2014, with interest at 7.594%		5	11
Obligation Number 13, RBC Commercial Loan issued March, 2011, payable through 2021 with interest at a variable rate (1.77% and 1.82% at June 30, 2013 and 2012, respectively)		20,083	20,557
		164,991	169,979
Current portion		(7,062)	(6,338)
		157,929	163,641
Original issue premiums		992	1,191
Original issue discounts		(208)	(221)
	$	158,713	164,611

All revenue and accounts receivable of The Alliance are pledged as collateral pursuant to the Refunding and Revenue Bonds (collectively, the Bonds). The Alliance's debt agreements contain certain restrictive covenants, including a minimum debt service coverage ratio, a maximum debt to total capitalization ratio, a minimum day's cash on hand ratio, and restrictions against transfers of assets outside of the entities of The Alliance.

(Continued)

All land and improvements, buildings and improvements, and equipment of The Alliance, with the exception of the East campus of TVRH, are pledged as collateral pursuant to the 2008 Series Bonds.

Aggregate maturities of long-term debt as of June 30, 2013 are as follows (in thousands):

2014	$	7,062
2015		6,500
2016		6,054
2017		5,609
2018		5,870
Thereafter		133,896
	$	164,991

Annual sinking fund contributions as required by the Bonds aggregate from approximately $6,242,000 in 2014 to $5,930,000 in 2036. The lowest annual sinking fund contribution occurs in 2033 with aggregate maturities of $5,110,000 and the highest annual sinking fund contribution occurs in 2021 with aggregate maturities of $21,085,000.

The Series 2009A Bonds are a private placement with a national bank and have a maturity date of July 1, 2036. In accordance with the Trust Indenture, the bank has a tender option on December 1, 2014 (Bank Tender Date). The bank must give The Alliance a notice of intent to tender the bonds at least one year in advance of the Bank Tender Date. The bank provided this notice of their intent to tender the bonds as of the Bank Tender Date. (See note 11).

In October 2011, Series 2011 Hospital Revenue Refunding Bonds with an aggregate principal amount of $63,340,000 were issued with the City of Leesburg, payable through 2036 by the Obligated Group under an agreement with the City of Leesburg. These bonds are a private placement issue with JP Morgan Chase Bank, NA and were issued to refund the Series 2008A and the Series 2008C Hospital Revenue Refunding Bonds, and the Series 2009B Taxable Hospital Revenue Refunding Bonds. In accordance with the Trust Indenture, the Bank has a tender option on October 1, 2018 (Bank Tender Date). The Bank must give The Alliance a notice of intent to tender the bonds at least one year in advance of the Bank Tender Date. A loss on early extinguishment of debt in the amount of $936,000 was recognized in connection with the refunding and is included in other nonoperating gains (losses) on the consolidated statements of operations and changes in net assets for the year ended June 30, 2012.

Obligation Number 13, RBC Commercial Loan was issued in March 2011 and is payable through 2021. At maturity, this loan contains a balloon payment in the amount of $16,075,000. For purposes of calculating the maximum annual debt service ratio, the Obligated group is electing to amortize this loan over a period not to exceed twenty years and will use the most recently published Bond Buyer Revenue Bond Index that is immediately prior to the date of calculation.

The Alliance paid approximately $6,108,000 and $5,850,000 in interest costs during the years ended June 30, 2013 and 2012, respectively. On January 25, 2006, TVRH entered into an interest rate swap agreement (the First Swap Agreement) to limit the effect of increases in interest rates related to the 2006 Series Bonds; the First Swap Agreement was extended to the 2008B&C Series Bonds. In December 2009,

(Continued)

the Alliance refunded the 2008B Auction Rate Bonds with variable rate bonds placed with PNC Bank. Due to the refunding of the 2008B Auction Rate Bonds, the First Swap Agreement is now related solely to the 2009A Series Bonds. The notional principal amount of the First Swap Agreement is $30,000,000. The effect of the First Swap Agreement is to attempt to fix the effective interest rate at 3.4878%. For the years ended June 30, 2013 and 2012, TVRH recognized an increase in interest expense of $1,048,000 and $1,042,000, respectively, in the consolidated statements of operations and changes in net assets associated with payment differentials for its First Swap Agreement. The fair value of the First Swap Agreement is the estimated amount TVRH would receive or pay to terminate the First Swap Agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the parties. The fair value of the First Swap Agreement is a liability of $6,128,000 and $9,533,000 as of June 30, 2013 and 2012, respectively, and is included as a separate noncurrent liability in the accompanying consolidated balance sheets. The change in the fair value of the First Swap Agreement resulted in a gain of $3,405,000 and a loss of $5,102,000 for the years ended June 30, 2013 and 2012, respectively, and is classified as a nonoperating gain or loss in the accompanying consolidated statements of operations and changes in net assets.

In August 2008, LRMC entered into another interest rate swap agreement (the Second Swap Agreement) to limit the effect of increases in interest rates related to the 2008A Series Bonds. The Second Swap Agreement expires in July 2031. In October 2011, the Alliance refunded the 2008A and 2008C Series Bonds. Due to the refunding of the 2008A Series Bonds, the Second Swap Agreement is now related solely to the 2011 Series Bonds. The original notional principal amount of the Swap Agreement was $22,655,000. The effect of the Second Swap Agreement is to attempt to fix the effective interest rate at 3.352%. For the years ended June 30, 2013 and 2012, LRMC recognized an increase in interest expense of $646,000 and $664,000, respectively, in the consolidated statements of operations and changes in net assets associated with payment differentials for its Second Swap Agreement. The fair value of the Second Swap Agreement is the estimated amount LRMC would receive or pay to terminate the Second Swap Agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the parties. The fair value of the Second Swap Agreement is a liability of $2,716,000 and $4,203,000 as of June 30, 2013 and 2012, respectively, and is included as a separate noncurrent liability in the accompanying consolidated balance sheets. The change in the fair value of the Second Swap Agreement resulted in a gain of $1,487,000 and a loss of $2,063,000 for the years ended June 30, 2013 and 2012, respectively, and is classified as a nonoperating gain or loss in the accompanying consolidated statements of operations and changes in net assets.

(6) Retirement and Health Plans

The Alliance has a defined contribution retirement plan (the Plan) covering substantially all employees. Through December 31, 2012, the Plan provided that The Alliance will match 50% of employee contributions, up to 3% of the contributing employee’s compensation. On January 1, 2013, The Alliance changed the Plan design. The Alliance implemented a Safe Harbor Plan design and changed to immediate vesting on all contributions. The Alliance will match 100% of employee contributions up to 3%, and then 50% on the next 2% of employee contributions, up to 4% of the contributing employee’s compensation. Additional contributions to the Plan are at the discretion of the Board of Directors. The Alliance contributed an additional 1.25% of employee compensation for the years ended June 30, 2013 and 2012. Total Plan expense was approximately $4,319,000 and $2,897,000 for the years ended June 30, 2013 and 2012, respectively.

The Alliance has an employee health benefit plan covering substantially all health costs for eligible employees and their dependents, including self-insurance coverage for amounts up to a specified level. Health plan expense was approximately $16,107,000 and $18,203,000 for the years ended June 30, 2013 and 2012, respectively.

(7) Commitments and Contingencies

(a) Operating Leases

The Alliance leases certain equipment and office space under operating leases. Approximate future minimum lease payments under noncancelable operating leases are as follows:

2014	$	705,000
2015 and thereafter		9,143,000

$9,012,000 of the future lease payments relates to a 20-year lease for the Cancer Center located at TVRH with annual lease payments of $522,000.

Total expense under operating leases was approximately $2,769,000 and $3,544,000 for the years ended June 30, 2013 and 2012, respectively, and is included in supplies and other costs.

(b) Professional Malpractice Insurance

The Alliance annually purchases commercial malpractice insurance policies to cover medical malpractice claims. Such policies have deductible provisions, in varying amounts, for which the Alliance is self-insured.

Losses that are subject to the deductible provisions, including an estimate of claims incurred but not reported, total approximately $19,054,000 and $21,395,000 as of June 30, 2013 and 2012, respectively. Such amounts are included in other accrued expenses, if payment is expected within one year, or as other long-term liabilities in the accompanying consolidated balance sheets. The Alliance may be liable for ultimate losses in excess of amounts accrued. In the opinion of management, such amounts would not have a material adverse effect on The Alliance’s financial position or results of operations.

(c) North Lake County Hospital District

Under a resolution of the North Lake County Hospital District (the District) and confirmed by the State Legislature, tax proceeds generated from the District’s northwest territory are collected to provide for care to indigents who are qualified District residents. The District remits amounts as an intergovernmental transfer (IGT) to the State of Florida to be matched with federal matching dollars and provide enhanced Medicaid reimbursement rates. However, there is no assurance that this enhanced reimbursement program will continue. During the fiscal years ended June 30, 2013 and 2012, North Lake County Tax District provided IGT funding through Letters of Agreement with the state for the benefit of LRMC in the amount of $3,307,300 and $3,925,807, respectively. The District is not liable for any of the obligations of the Obligated Group under the Master Indenture and its taxing power is not pledged to the payment of debt service on the Obligations issued under the Master Indenture.

During the 2012 Florida Legislative session, a local bill modified the Hospital District. The main points of HB1299 are the following:

- Additional reporting/requirements for organizations that receive the dollars.
- Ability of other primary care providers to apply for the funds.
- Adjustability of the millage levied.

(d) Litigation

From time to time, The Alliance is involved in other litigation and claims arising in the normal course of business. After consultation with legal counsel, management believes that these matters will be resolved with no material adverse effect on The Alliance's financial position or results of operations.

(8) Concentrations of Credit Risk

The Alliance grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The Alliance does not charge interest on accounts receivable. Net patient accounts receivable included approximately $28,571,000 or 60%, due from the Medicare program as of June 30, 2013, and $25,024,000 or 59%, due from the Medicare program as of June 30, 2012. The credit risk for other concentrations of receivables is limited due to the large number of insurance companies and other payors that provide payments for services.

Other third-party payors with significant balances are (in thousands):

	2013	2012
Other Commercial	$ 4,475 (9%)	5,078 (11%)
Blue Cross	4,171 (9%)	3,149 (7%)
Medicaid	4,111 (9%)	3,770 (8%)

(9) Fair Value Measurements

ASC Topic 820 *Fair Value Measurement* defines fair value as the exit price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. ASC Topic 820 requires investments to be grouped into three categories based on certain criteria as noted below:

- Level 1: Fair value is determined by using quoted prices for identical assets or liabilities in active markets.
- Level 2: Fair value is determined by using other than quoted prices that are observable for the asset or liability (e.g., quoted prices for identical assets or liabilities in inactive markets, quoted prices for

similar assets or liabilities in active markets, observable inputs other than quoted prices, and inputs derived principally from or corroborated by observable market data by correlation or other means).

- Level 3: Fair value is determined by using inputs based on management assumptions that are not directly observable.

The table below summarizes the fair values of The Alliance's significant financial assets and liabilities as of June 30, 2013 (in thousands):

	June 30, 2013	Fair value measurements at reporting date using		
		Level 1	**Level 2**	**Level 3**
Assets:				
Government and AAA-rated corporate bonds	$ 21,809	—	21,809	—
Fixed income	15,080	—	15,080	—
Equity securities	39,308	39,308	—	—
Money market funds	79,074	79,074	—	—
Mutual funds	11,291	11,291	—	—
Accrued interest	210	210	—	—
	$ 166,772	129,883	36,889	—
Liabilities:				
Interest rate swaps	$ 8,844	—	8,844	—

The table below summarizes the fair values of The Alliance's significant financial assets and liabilities as of June 30, 2012 (in thousands):

	June 30, 2012	Fair value measurements at reporting date using		
		Level 1	**Level 2**	**Level 3**
Assets:				
Government and AAA-rated corporate bonds	$ 26,588	—	26,588	—
Fixed income	19,370	—	19,370	—
Equity securities	26,956	26,956	—	—
Money market funds	36,220	36,220	—	—
Mutual funds	11,530	11,530	—	—
Accrued interest	243	243	—	—
	$ 120,907	74,949	45,958	—
Liabilities:				
Interest rate swaps	$ 13,736	—	13,736	—

(Continued)

The Alliance's Level 1 assets and liabilities include investments in corporate equities, exchange-traded limited liability partnerships, mutual funds, and money market funds and are valued at the quoted market prices. The Alliance's Level 2 assets and liabilities include investments in U.S. Treasuries, government securities, corporate debt securities, and asset-backed securities with fair values modeled by external pricing vendors. Level 2 assets and liabilities also include The Alliance's interest rate swaps valued using widely accepted models that incorporate readily observable inputs in active markets. There were no transfers of financial assets or liabilities between Level 1 and Level 2 during the years ended June 30, 2013 and 2012.

Estimates of fair value are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could affect the estimates. Except as follows, the fair values of The Alliance's financial instruments (as defined) at June 30, 2013 and 2012 approximate associated carrying values (in thousands):

	2013		2012	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Long-term debt	$ 165,775	163,882	170,949	176,519

Fair value of The Alliance's debt is based upon the quoted market prices for the same or similar issues or on the current rates offered to The Alliance for debt of the same remaining maturities.

(10) Subsequent Events

In July 2013, The Alliance has received an offer to extend the 2009A mandatory tender date to December 1, 2019 and to reduce interest rate to 67% of the one-month LIBOR plus 75 basis points from 65% of one-month LIBOR plus 155 basis points. The Alliance has accepted the offer and expects to close prior to December 1, 2013.

The Alliance has evaluated events and transactions occurring subsequent to June 30, 2013 as of October 7, 2013, which is the date the consolidated financial statements were available to be issued.

Schedule 1

CENTRAL FLORIDA HEALTH ALLIANCE, INC. AND AFFILIATES

Consolidating Balance Sheet Information

June 30, 2013

(Dollars in thousands)

Assets	LRMC	TVRH	Elimination	Obligated Group	Surgery Ctr of Mount Dora	LRMC Foundation	TVRH Foundation	Venture and Alliance Labs	The Alliance	Eliminations	Total
Current assets:											
Cash and cash equivalents	$ 19,464	27,741	—	47,205	200	1,453	710	3,321	923	—	53,812
Cash and investments held by bond trustee	9,524	495	—	10,019	—	—	—	—	—	—	10,019
Accounts receivable, net	27,390	18,932	—	46,322	367	—	—	598	—	—	47,287
Supplies	6,203	3,706	—	9,909	175	—	24	—	—	—	10,108
Prepaid and other current assets	1,355	4,944	—	6,299	33	—	2	38	—	—	6,372
Total current assets	63,936	55,818	—	119,754	775	1,453	736	3,957	923	—	127,598
Assets limited as to use:											
Cash and investments held by bond trustee, less current portion	6,578	57	—	6,635	—	—	—	—	—	—	6,635
Other	4,605	—	—	4,605	—	1,402	—	—	—	—	6,007
Total assets limited as to use	11,183	57	—	11,240	—	1,402	—	—	—	—	12,642
Property and equipment, net	81,068	95,911	—	176,979	894	—	8	570	1,003	—	179,454
Other assets:											
Investments	123,129	20,000	—	143,129	—	905	77	—	—	—	144,111
Investments in unconsolidated affiliates	26,316	159	—	26,475	—	—	—	2	3,971	(3,816)	26,632
Deferred loan costs, net	658	63	—	721	8	—	—	—	—	—	729
Due from affiliates	14,977	—	(1,930)	13,047	—	—	—	—	—	(13,047)	—
Other	2,989	171	—	3,160	7,771	—	—	4,533	—	—	15,464
Total other assets	168,069	20,393	(1,930)	186,532	7,779	905	77	4,535	3,971	(16,863)	186,936
Total assets	$ 324,256	172,179	(1,930)	494,505	9,448	3,760	821	9,062	5,897	(16,863)	506,630

(Continued)

Schedule 1

CENTRAL FLORIDA HEALTH ALLIANCE, INC. AND AFFILIATES

Consolidating Balance Sheet Information

June 30, 2013

(Dollars in thousands)

Liabilities and Net Assets	LRMC	TVRH	Elimination	Obligated Group	Surgery Ctr of Mount Dora	LRMC Foundation	TVRH Foundation	Venture and Alliance Labs	The Alliance	Eliminations	Total
Current liabilities:											
Accounts payable	$ 12,829	5,841	—	18,670	452	224	8	387	10	—	19,751
Due to affiliates	—	1,969	(1,930)	39	—	893	—	8,983	3,132	(13,047)	—
Accrued expenses:											
Employee compensation and benefits	8,586	6,272	—	14,858	46	—	—	—	—	—	14,904
Interest	1,576	1,005	—	2,581	—	—	—	—	—	—	2,581
Other	6,585	540	—	7,125	—	—	—	53	—	—	7,178
Estimated third-party settlements	4,680	1,132	—	5,812	—	—	—	—	—	—	5,812
Current portion of long-term debt	6,555	156	—	6,711	351	—	—	—	—	—	7,062
Total current liabilities	40,811	16,915	(1,930)	55,796	849	1,117	8	9,423	3,142	(13,047)	57,288
Interest rate swaps	2,716	6,128	—	8,844	—						8,844
Other	14,906	7,533	—	22,439	—	—	—	—	—	—	22,439
Long-term debt, less current portion	85,203	72,818	—	158,021	692	—	—	—	—	—	158,713
Total liabilities	143,636	103,394	(1,930)	245,100	1,541	1,117	8	9,423	3,142	(13,047)	247,284
Net assets:											
Unrestricted	180,620	68,750	—	249,370	7,907	1,175	813	(361)	2,755	(7,632)	254,027
Temporarily restricted	—	35	—	35	—	285	—	—	—	—	320
Permanently restricted	—	—	—	—	—	1,183	—	—	—	—	1,183
Total net assets attributable to Central Florida Health Alliance, Inc.	180,620	68,785	—	249,405	7,907	2,643	813	(361)	2,755	(7,632)	255,530
Noncontrolling interest	—	—	—	—	—	—	—	—	—	3,816	3,816
Total net assets	180,620	68,785	—	249,405	7,907	2,643	813	(361)	2,755	(3,816)	259,346
Total liabilities and net assets	$ 324,256	172,179	(1,930)	494,505	9,448	3,760	821	9,062	5,897	(16,863)	506,630

See accompanying independent auditors' report.

Schedule 2

CENTRAL FLORIDA HEALTH ALLIANCE, INC. AND AFFILIATES

Consolidating Statement of Operations and
Changes in Net Assets Information

Year ended June 30, 2013

(Dollars in thousands)

	LRMC	TVRH	Obligated Grp	SCMD	LRMC Foundation	TVRH Foundation	Venture and Alliance Labs	The Alliance	Noncontrolling interest	Eliminations	Total
Unrestricted revenues:											
Net patient service revenue	$ 220,506	156,706	377,212	5,061	—	—	—	—	—	—	382,273
Less provision for bad debt	(8,515)	(5,194)	(13,709)	—	—	—	—	—	—	—	(13,709)
Net patient service revenue	211,991	151,512	363,503	5,061	—	—	—	—	—	—	368,564
Other revenues	2,799	625	3,424	—	1,814	689	6,127	72	—	(72)	12,054
Total revenues	214,790	152,137	366,927	5,061	1,814	689	6,127	72	—	(72)	380,618
Expenses:											
Salaries, wages, and benefits	100,602	66,614	167,216	1,457	165	—	3,102	—	—	—	171,940
Supplies and other costs	75,053	50,289	125,342	2,500	212	471	1,320	141	—	—	129,986
Physician and other professional fees	22,086	12,184	34,270	332	274	13	578	23	—	(23)	35,467
Depreciation and amortization	13,052	10,935	23,987	459	—	—	149	49	—	(49)	24,595
Interest	3,246	1,967	5,213	68	—	—	4	—	—	—	5,285
Total expenses	214,039	141,989	356,028	4,816	651	484	5,153	213	—	(72)	367,273
Income (loss) from operations	751	10,148	10,899	245	1,163	205	974	(141)	—	—	13,345
Nonoperating gains (losses):											
Investment income, net	7,679	46	7,725	—	111	—	—	—	—	—	7,836
Change in unrealized gains and losses on investments	(2,450)	—	(2,450)	—	—	—	—	—	—	—	(2,450)
Equity in earnings of unconsolidated affiliates	2,793	186	2,979	—	—	—	—	423	(126)	—	3,276
Change in fair value of interest rate swaps	1,487	3,405	4,892	—	—	—	—	—	—	—	4,892
Gain on sale of property and equipment	—	5	5	—	—	—	15	—	—	—	20
Other	74	273	347	—	—	—	—	—	—	—	347
Nonoperating gains (losses), net	9,583	3,915	13,498	—	111	—	15	423	(126)	—	13,921
Excess (deficiency) of revenue and gains over expenses and losses before noncontrolling interest	10,334	14,063	24,397	245	1,274	205	989	282	(126)	—	27,266
Noncontrolling interest	—	—	—	—	—	—	—	—	(120)	—	(120)
Excess (deficiency) of revenue and gains over expenses and losses	10,334	14,063	24,397	245	1,274	205	989	282	(246)	—	27,146
Other changes in unrestricted net assets:											
Contributions for capital purchases	4	1,582	1,586	—	—	—	—	—	—	—	1,586
Transfer of net assets from TVRH Foundation	—	—	—	—	—	608	—	—	—	—	608
Change in unrestricted net assets	10,338	15,645	25,983	245	1,274	813	989	282	(246)	—	29,340
Temporarily restricted net assets:											
Contributions	—	198	198	—	557	—	—	—	—	—	755
Items released to unrestricted assets	—	(1,582)	(1,582)	—	(818)	—	—	—	—	—	(2,400)
Change in temporarily restricted net assets	—	(1,384)	(1,384)	—	(261)	—	—	—	—	—	(1,645)
Permanently restricted net assets:											
Investment gain	—	—	—	—	107	—	—	—	—	—	107
Change in permanently restricted net assets	—	—	—	—	107	—	—	—	—	—	107
Noncontrolling interest:											
Excess of revenue and gains over expenses for NCI	—	—	—	—	—	—	—	—	120	—	120
Distributions	—	—	—	(330)	—	—	—	—	168	—	(162)
Change in noncontrolling interest	—	—	—	(330)	—	—	—	—	288	—	(42)
Change in net assets	10,338	14,261	24,599	(85)	1,120	813	989	282	42	—	27,760
Net assets (deficit), beginning of year	170,282	54,524	224,806	7,992	1,523	—	(1,350)	2,473	(3,858)	—	231,586
Net assets (deficit), end of year	$ 180,620	68,785	249,405	7,907	2,643	813	(361)	2,755	(3,816)	—	259,346

See accompanying independent auditors' report.