FLORIDA HEALTH SCIENCES CENTER, INC.

Consolidated Financial Statements and Reports as Required by
OMB Circular A-133 and Chapter 10.650

September 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

FLORIDA HEALTH SCIENCES CENTER, INC.

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

Independent Auditors' Report

The Board of Directors
Florida Health Sciences Center, Inc.:

We have audited the accompanying consolidated financial statements of Florida Health Sciences Center, Inc. (the Center), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of operations and changes in unrestricted net assets, changes in 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Florida Health Sciences Center, Inc. as of September 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.650, *Rules of the Auditor General* 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 information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards and state financial assistance is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2013 on our consideration of Florida Health Sciences Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Florida Health Sciences Center, Inc.'s internal control over financial reporting and compliance.

KPMG LLP

Certified Public Accountants
December 19, 2013

FLORIDA HEALTH SCIENCES CENTER, INC.

Consolidated Balance Sheets

September 30, 2013 and 2012

Assets		**2013**	**2012**
Current assets:			
Cash and cash equivalents	$	94,027,571	89,851,287
Short-term investments		8,048,436	8,152,166
Current portion of assets limited as to use		9,380,161	9,034,450
Patient accounts receivable, net of allowance for uncollectible accounts of approximately $117,516,000 in 2013 and $146,042,000 in 2012		140,200,302	137,215,612
Inventories		20,167,792	20,615,322
Prepaid expenses and other current assets		10,307,874	17,558,887
Total current assets		282,132,136	282,427,724
Assets limited as to use, less current portion		638,951,860	499,672,068
Property and equipment, net		449,020,218	459,277,846
Other assets		9,412,533	10,131,368
	$	1,379,516,747	1,251,509,006
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	83,299,886	80,888,550
Accrued expenses		92,638,304	94,476,220
Current installments of long-term debt		4,158,459	7,627,279
Current installments of obligations under capital leases		—	53,727
Estimated third-party payor settlements		84,071,944	69,672,520
Total current liabilities		264,168,593	252,718,296
Long-term debt, excluding current installments		396,831,953	364,912,367
Obligations under capital leases, excluding current installments		—	32,346
Other liabilities		100,006,760	166,163,293
Total liabilities		761,007,306	783,826,302
Net assets:			
Unrestricted		602,195,810	450,654,758
Temporarily restricted		15,410,641	16,177,758
Permanently restricted		902,990	850,188
Total net assets		618,509,441	467,682,704
	$	1,379,516,747	1,251,509,006

See accompanying notes to consolidated financial statements.

FLORIDA HEALTH SCIENCES CENTER, INC.

Consolidated Statements of Operations and Changes in Unrestricted Net Assets

Years ended September 30, 2013 and 2012

	2013	2012
Unrestricted revenues, gains, and other support:		
Patient service revenue (net of contractual allowances and discounts)	$ 1,032,349,371	970,317,559
Provision for bad debts	(77,459,331)	(48,661,315)
Net patient services revenue less provision for bad debts	954,890,040	921,656,244
Disproportionate share distributions	23,637,250	26,121,039
Other revenue	40,685,133	40,352,902
Total unrestricted revenues, gains, and other support	1,019,212,423	988,130,185
Expenses:		
Salaries and benefits	482,254,873	480,497,523
Medical supplies	218,842,109	208,511,053
Purchased services	75,831,959	72,365,891
Utilities and leases	20,394,701	20,747,108
Insurance	18,578,309	25,067,922
Depreciation and amortization	42,700,335	43,508,694
Professional fees	32,452,548	33,923,642
Interest	18,829,853	19,154,570
Other	76,538,479	72,936,519
Total expenses	986,423,166	976,712,922
Operating income	32,789,257	11,417,263
Nonoperating gains (losses):		
Investment return	42,966,485	36,849,631
Loss on extinguishment of debt	(6,792,087)	—
Contributions	(300,000)	(75,000)
Total nonoperating gains	35,874,398	36,774,631
Revenues, gains, and other support over expenses	68,663,655	48,191,894
Other changes in net assets:		
Net assets released from restrictions used for property and equipment	4,277,067	3,214,168
Pension-related changes other than net periodic pension cost	78,600,330	(529,766)
Increase in unrestricted net assets	$ 151,541,052	50,876,296

See accompanying notes to consolidated financial statements.

FLORIDA HEALTH SCIENCES CENTER, INC.

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2013 and 2012

	2013	2012
Unrestricted net assets:		
Revenue, gains, and other support over expenses	$ 68,663,655	48,191,894
Net assets released from restrictions used for property equipment	4,277,067	3,214,168
Pension-related changes other than net periodic pension cost	78,600,330	(529,766)
Increase in unrestricted net assets	151,541,052	50,876,296
Temporarily restricted net assets:		
Net assets released from restrictions:		
Used for property and equipment	(4,277,067)	(3,214,168)
Used for operations	(1,479,377)	(1,186,062)
Contributions	3,644,560	2,715,413
Increase in beneficial interest in net assets of Tampa General Hospital Foundation	1,344,767	283,809
Decrease in temporarily restricted net assets	(767,117)	(1,401,008)
Permanently restricted net assets:		
Increase in beneficial interest in net assets of Tampa General Hospital Foundation	52,802	16,363
Increase in permanently restricted net assets	52,802	16,363
Increase in net assets	150,826,737	49,491,651
Net assets, beginning of year	467,682,704	418,191,053
Net assets, end of year	$ 618,509,441	467,682,704

See accompanying notes to consolidated financial statements.

FLORIDA HEALTH SCIENCES CENTER, INC.

Consolidated Statements of Cash Flows

Years ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Increase in net assets	$ 150,826,737	49,491,651
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	42,700,335	43,508,694
Amortization of debt issue costs	2,204,432	206,851
Restricted contributions	(2,392,325)	(1,148,818)
Unrealized gains, net	(22,233,096)	(23,051,906)
Realized gains	(10,279,743)	(3,915,528)
Provision for bad debts	77,459,331	48,661,315
Pension-related changes other than net periodic pension cost	(78,600,330)	529,766
Changes in operating assets and liabilities:		
Patient accounts receivable	(80,444,021)	(61,114,611)
Inventories	447,530	(1,398,372)
Prepaid expenses and other current assets	7,291,013	14,699,364
Accounts payable	5,257,474	5,494,289
Accrued expenses	(1,837,916)	2,959,527
Estimated third-party payor settlements	14,399,425	9,805,439
Other liabilities	12,443,797	1,225,742
Net cash provided by operating activities	117,242,643	85,953,403
Cash flows from investing activities:		
Purchases of property and equipment	(34,684,741)	(49,433,448)
Increase in assets limited as to use	(107,112,664)	(51,536)
Decrease in short-term investments, net	103,730	24,975,767
Net cash used in investing activities	(141,693,675)	(24,509,217)
Cash flows from financing activities:		
Proceeds from restricted contributions	2,392,326	1,148,818
Proceeds from issuance of long-term debt	216,412,697	5,875,741
Payments on long-term debt and capital leases	(188,048,006)	(7,426,799)
Payments of debt issue costs	(2,129,701)	(15,000)
Net cash provided by (used in) financing activities	28,627,316	(417,240)
Increase in cash and cash equivalents	4,176,284	61,026,946
Cash and cash equivalents at beginning of year	89,851,287	28,824,341
Cash and cash equivalents at end of year	$ 94,027,571	89,851,287
Supplemental cash flow information:		
Cash paid for interest	$ 19,813,027	19,272,898
Accounts payable for property and equipment purchases	3,807,748	6,653,887

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization and Basis of Presentation

Florida Health Sciences Center, Inc. (the Center), located in Tampa, Florida, is a not-for-profit entity incorporated during 1997 to meet the healthcare needs of the citizens of Hillsborough County and the state of Florida. The Center operates Tampa General Hospital (the Hospital), where it administers a teaching program for interns and residents. The Center incorporated Florida Health Sciences Center, Ltd. (the Captive) on May 21, 2010 under the Companies Law of the Cayman Islands and obtained an Unrestricted Class "B" Insurers License under the provisions of the Cayman Islands Insurance Law. The Captive, a wholly owned subsidiary of the Center, provides professional and general liability coverage to the Center. Tampa General Hospital Foundation (the Foundation) is a related not-for-profit organization, which supports the Center. The consolidated financial statements of the Center include the operations of the Hospital, the Captive, and the Center's beneficial interest in the net assets of the Foundation. All significant intercompany transactions among those entities have been eliminated during consolidation.

On October 1, 1997, control of the operations and all assets and liabilities of the Hospital were transferred from Hillsborough County Hospital Authority (the Authority), a governmental entity, to the Center. The change in control was accomplished through the execution of an agreement between the Authority and the Center, as well as changes granted by the Florida Legislature that provided for the privatization of the Hospital.

In connection with the change in control, the Center entered into a 49-year lease agreement, which can be extended for an additional 49 years, with the Authority to lease the land and buildings on the Davis Islands campus, together with all improvements located thereon, for a nominal annual rental amount of $10. For financial reporting purposes, the fair value of the leased assets of approximately $86,571,000 as of October 1, 1997 was reported as an increase in temporarily restricted net assets for the year ended September 30, 1998, as the leased assets can only be utilized in accordance with the specifications of the lease agreement. During 2013 and 2012, net assets of approximately $1,885,000 and $2,066,000, respectively, were released from restriction, relating to the annual depreciation expense associated with the leased assets.

In 2010, the Hospital created Tampa General Medical Group (TGMG), a division of Tampa General Hospital. TGMG includes physicians that were once part of the Lifelink Transplant Institute. TGMG has grown to include physicians specializing in family practice, cardiology, endocrinology, hepatology (liver disease), internal medicine, nephrology (kidney disease), organ transplantation and surgery. The over 40 physicians that compose TGMG are spread across several locations in the Tampa area.

(b) Mission Statement

Tampa General Hospital is committed to serving all residents of West Central Florida. The Hospital provides comprehensive health services, ranging from wellness and primary care to the most complex specialty care and post-acute services. The Hospital's care reflects a patient-centered approach, and the Hospital's services are delivered in an exceptional manner, with benchmark performance in clinical outcomes, care processes, cost-effectiveness, and patient experience. With

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the Hospital's unique blend of academic and other healthcare partners, the Hospital plays a special role in supporting medical education and research in its region.

(c) Cash and Cash Equivalents

The Center considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

(d) Inventories

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

(e) Assets Limited as to Use

Assets limited as to use primarily include assets held by independent bank trustees on behalf of the Center under terms of bond indentures and self-insurance trust agreements, and assets designated for capital improvements and employee health benefits, over which the Center retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities have been reclassified to current assets in the consolidated balance sheets.

Earnings on investments include realized and unrealized gains and losses on investments, interest income, and dividends and are included as revenues, gains, and other support over expenses in the consolidated statements of operations and changes in unrestricted net assets, unless the income or loss is restricted by donor or law. Investment income and net gains and losses restricted by donor stipulations are reported as an increase or decrease in temporarily restricted net assets.

(f) Property and Equipment

Property and equipment, transferred from the Authority on October 1, 1997, was recorded at fair value as determined by an independent appraisal. Other property and equipment acquisitions are recorded at historical cost at the date of acquisition or fair value at the date of donation. Maintenance and repairs are charged to expense as incurred, and improvements are capitalized. Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets ranging from 3 to 40 years. Equipment under capital leases is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization expense in the accompanying consolidated financial statements. Interest cost on borrowed funds during the construction period is capitalized as a component of the cost of the assets.

Gifts of long-lived assets such as land, buildings, or equipment with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support and are recorded at fair value at the time the gift is made. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

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(g) *Other Assets*

Other assets include debt issuance costs of approximately $3,339,000 and $3,414,000 as of September 30, 2013 and 2012, respectively. The amount as of September 30, 2012 includes cost capitalized in connection with the issuance of the Series 2003A, 2003B and 2006 bonds. The amount as of September 30, 2013 includes cost capitalized in connection with the issuance of the Series 2006, 2012A and a 2013 bank loan. Debt issuance costs incurred as part of the Series 2003A and 2003B bonds were amortized over the term of the related debt using the straight-line method, which approximates the effective interest method. Debt issuance costs incurred as part of the issuance of the Series 2006 and 2012A bonds, and 2013 bank loan are amortized using the effective interest method. Amortization is included as a component of interest expense. The debt issuance costs are net of accumulated amortization of approximately $991,000 and $1,659,000 as of September 30, 2013 and 2012, respectively.

(h) *Bond Discounts and Premiums*

Bond discounts and premiums are being amortized using the effective interest method over the life of the related debt. Amortization of bond discounts and premiums is included as a component of interest expense. Bond premiums of approximately $15,836,000 and $4,719,000 are included with related debt in the consolidated balance sheet as of September 30, 2013 and 2012, respectively.

(i) *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. There were no impairment losses recorded during the years ended September 30, 2013 and 2012. If there is an indication that the carrying amount of an asset is not recoverable, the Center estimates the projected undiscounted cash flows, from the use and eventual disposition of the asset, excluding interest, to determine whether an impairment loss exists. The impairment loss, if any, would be determined by comparing the historical carrying value of the asset to its estimated fair value.

In addition to consideration of impairment due to 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.

(j) *Estimated Professional Liability, Workers' Compensation, and Employee Benefits Cost*

The Center is self-insured for professional liability, workers' compensation, and employee health benefits. The provision for professional liability, workers' compensation, and employee health benefit claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported, based on evaluation of pending claims and past experience.

(k) *Temporarily and Permanently Restricted Net Assets*

Temporarily restricted net assets are those whose use is limited by donors to a specific time period or purpose. The majority of temporarily restricted net assets are maintained pursuant to the lease agreement with the Authority, whereby the Center must continue to provide specific patient-care related services, continue to serve as a teaching hospital, and continue to provide certain levels of indigent care throughout the 49-year lease term. Permanently restricted net assets have been restricted by donors to be maintained by the Center in perpetuity, the income from which is expendable to support the Center's operations.

(l) Beneficial Interest in Tampa General Hospital Foundation

The Center recognizes its beneficial interest in the net assets of the Foundation. This interest is adjusted to reflect its share of change in the Foundation net assets.

In July 2011, the State of Florida adopted the Florida Uniform Prudent Management of Institutional Funds Act ("FUPMIFA"). The Foundation complies with the provisions of FUPMIFA.

(m) Patient Accounts Receivable

Receivables are reported net of an allowance for bad debt and contractual adjustment estimates. Although the aggregate amount of receivables may include balances due from patients and third-party payors (including final settlements and appeals), amounts due from third-party payors for retroactive adjustments of items, such as final settlements or appeals, are reported separately in the consolidated financial statements.

For receivables associated with services provided to patients who have third-party coverage, the Center analyzes contractually due amounts and provides an allowance for doubtful accounts, if necessary. 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 Center records a significant provision for bad debts in the period of service on the basis of its past experience. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Center's allowance for doubtful accounts for private self-pay patients decreased from 87% of self-pay accounts receivable as of September 30, 2012 to 82% of self-pay accounts receivable as of September 30, 2013. In addition, the Center's private self-pay write-offs increased $15,141,000 from $20,610,000 for the year ended September 30, 2012 to $35,751,000 for the year ended September 30, 2013. This change was the result of increases in unfunded care during the year ended September 30, 2013. This increase represents patients who did not meet charity criteria. The Center has not changed its charity care or uninsured discount policies during the years ended September 30, 2012 or 2013. The Center does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

(n) Net Patient Service Revenue

Net patient service revenue is recorded in the period in which services are provided and is reported at the net realizable amounts from patients, third-party payors, and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors. Pass-through amounts are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates associated with these programs will change.

The Center recognizes patient service revenue associated with services provided to patients who have third-party (managed care, Medicare, Medicaid, other) payor coverage on the basis of contractual rates for the services rendered. For under insured and uninsured patients who do not qualify for charity care, the Center recognizes revenue on the basis of individualized arrangements based on financial need and medical necessity. These arrangements shall not take into account age, gender, race, social or immigrant status, sexual orientation or religious affiliation. On the basis of historical experience, a significant portion of the Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Center records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized for the years ended September 30, 2013 and 2012 from these major payor sources, are as follows:

	2013	2012
Managed care	$ 410,911,823	348,141,584
Medicare	352,378,575	333,342,116
Medicaid	179,904,997	206,613,796
Other	83,943,768	70,741,813
Self-pay	5,210,208	11,478,250
	$ 1,032,349,371	970,317,559

(o) Electronic Health Record Incentive Program

The Centers for Medicare & Medicaid Services (CMS) have implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments for the meaningful use of certified electronic health records (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The Medicare EHR incentive program provides annual incentive payments to eligible professionals, eligible hospitals, and critical access hospitals, as defined, that are meaningful users of certified EHR technology. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, upgrade and meaningfully use certified EHR technology. The Center utilizes a grant accounting model to recognize EHR incentive revenues. The Center records EHR incentive revenue ratably throughout the incentive reporting period when it is reasonably assured that it will meet the meaningful use objectives for the required reporting period and that the grants will be received. The EHR reporting period for eligible professionals and hospitals is based on the federal fiscal year, which coincides with the Center's fiscal year of October 1 through September 30. The Center believes that it and its eligible professionals that met meaningful use objectives for the fiscal year ending September 30, 2012 will continue to meet those objectives for the fiscal year ending September 30, 2013. EHR incentive revenues were approximately $4,600,000 and $5,489,000 for the fiscal years ended September 30, 2013 and 2012,

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and are included in other revenues in the accompanying consolidated statements of operations and changes in unrestricted net assets.

(p) Nonoperating Gains and Losses and Revenue, Gains, and Other Support over Expenses

Activities deemed by the Center to be a provision of healthcare services are reported as unrestricted revenues, gains and other support, and expenses. Other activities that are peripheral to providing healthcare services are reported as nonoperating gains and losses.

The consolidated statements of operations and changes in unrestricted net assets include revenue, gains, and other support over expenses. Changes in unrestricted net assets that are excluded from revenue, gains, and other support over expenses are consistent with industry practice. Changes in unrestricted net assets consist primarily of pension liability adjustments and contributions of long-lived assets, if any.

(q) Disproportionate Share Distributions

The State of Florida Agency for Health Care Administration distributes low-income pool and disproportionate share payments to the Center based on its indigent care service level. The Center's policy is to recognize these distributions as revenue when amounts are due and collection is reasonably assured. The receipt of any additional distributions is contingent upon the continued support by the Florida State Legislature.

(r) Charity Care

The Center provides care to patients who meet certain criteria by reference to established charity care policies. Because the Center does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as revenue. Partial payments to which the Center is entitled from Medicaid, public assistance, and other programs on behalf of patients that meet the Center's charity care criteria are reported as net patient services revenue.

(s) Income Taxes

The Center has been recognized by the Internal Revenue Service as a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code. Accordingly, income earned in the furtherance of the Center's tax-exempt purpose is exempt from federal and state income taxes. Taxes are not levied in the Cayman Islands for income, profit, capital, or capital gains generated by Florida Health Sciences Center, Ltd.

The Center applies Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, which clarifies the accounting for uncertainty in income tax positions and provides guidance when tax positions are recognized in an entity's financial statements and how the value of these positions are determined.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Center and recognize a tax liability (or asset) if the Center has taken an uncertain position that more likely than not would not be sustainable upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Center, and has concluded that as of September 30, 2013 and 2012, 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 Center is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2008.

(t) Use of Estimates

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

(2) Net Patient Service Revenue

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. The most significant third-party payors to the Center are the Medicare and Medicaid programs, which account for approximately 37% and 35%, respectively, of the Center's net patient services revenue for both the years ended September 30, 2013 and 2012. A summary of the payment arrangements with major third-party payors is as follows:

(a) Medicare

Inpatient acute care services rendered to Medicare program beneficiaries are paid on a prospectively determined rate per discharge based on the Medicare Severity Diagnosis-related Group (MSDRG) assigned to the patient. Inpatient nonacute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology, subject to certain limits and fee schedules. The majority of outpatient services are paid on prospectively determined rates per occurrence based on the ambulatory payment classification assigned to the service provided. The Center also receives a disproportionate share payment from Medicare in addition to its diagnosis-related group payments, based on its level of Medicaid patient volume and low income Medicare beneficiaries.

The Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Center and audits thereof by the Medicare fiscal intermediary. Final settlement has been determined for 2006 and prior. Differences between estimated provisions for cost report settlements and final amounts are reflected as net patient services revenue in the fiscal year the cost reports are considered finalized. Changes in such estimates related to prior cost reporting periods resulted in an increase in net patient services revenue of approximately $12,572,000 and $14,268,000 for the years ended September 30, 2013 and 2012, respectively.

(b) Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, subject to certain limits. The Center is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Center and audits by the Medicaid fiscal intermediary.

The Center has also entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

(3) Charity Care

The Center provides necessary medical care regardless of the patient's ability to pay for services under its Charity Care policy. Qualification for charity care is based on the current Federal Poverty Income Guidelines (FPG). Underinsured and uninsured patients, who do not meet charity guidelines, may qualify for discounted care. Charity or discount consideration is available only after all third party reimbursement and government sources have been exhausted. Excessive assets or medical expenses may be factored as part of the charity or discount evaluation. The Center ensures that financial counseling communication is clear, concise, and considerate of the patient and family members. In addition, regulatory changes that may have the potential to alter charity classifications are monitored and incorporated into the policy, as necessary.

The Center maintains records to identify and monitor the level of charity care. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The following measures the level of charity care and other community benefits, as defined, at estimated costs for the years ended September 30, 2013 and 2012:

	2013	2012
Traditional charity care	$ 52,013,000	38,029,000
Unreimbursed Medicaid and Medicaid HMO	27,075,000	21,626,000
Unreimbursed Hillsborough County Health Plan	19,750,000	18,374,000
	$ 98,838,000	78,029,000
As a percentage of operating expenses	10%	8%

(4) Concentration of Credit Risk of Net Accounts Receivable

The Center grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of September 30 is as follows:

	2013	2012
Managed care	48%	48%
Medicare	22	21
Medicaid	10	9
Other	20	22
	100%	100%

(Continued)

The credit risk in other payors is limited due to the large number of insurance companies that provide payments for services.

(5) Assets Limited as to Use and Short Term Investments

Assets limited as to use as of September 30, 2013 and 2012, at fair value, are as follows:

		2013	2012
Internally designated for capital improvements and employee health benefits:			
Cash and cash equivalents	$	40,545,336	30,104,603
Equities securities:			
Domestic stocks		223,698,122	148,991,850
Global stocks		36,562,466	30,867,860
Fixed income securities:			
Government obligations		43,786,466	36,444,176
Corporate bonds		167,230,730	144,826,049
Beneficial interest in Tampa General Hospital Foundation		6,548,026	5,150,456
Total internally designated for capital improvements and employee health benefits		518,371,146	396,384,994
Held by trustee under malpractice self-insurance arrangement:			
Cash and cash equivalents		14,343,288	11,237,166
Corporate bonds		—	411,808
Government obligations		—	21,369,976
Municipal bonds		43,986,765	27,272,066
Mutual funds		22,236,993	18,533,432
Total held by trustee under malpractice self-insurance arrangement		80,567,046	78,824,448
Held by trustee under bond indentures:			
Cash and cash equivalents		49,393,829	19,359,056
Government obligations		—	14,138,020
Total held by trustee under bond indentures		49,393,829	33,497,076
Assets limited to use		648,332,021	508,706,518
Amount required to meet current obligations		(9,380,161)	(9,034,450)
Assets limited to use, less current portion	$	638,951,860	499,672,068

Short-term investments, stated at fair value, consist of the following as of September 30, 2013 and 2012:

		2013	2012
Cash and cash equivalents	$	3,041,666	3,130,658
Government bonds		5,006,770	5,021,508
	$	8,048,436	8,152,166

Investment income and gains and losses on assets limited as to use, cash equivalents and other investments are comprised of the following for the years ended September 30, 2013 and 2012:

		2013	2012
Other revenue:			
Interest income	$	3,222,027	3,180,302
Net realized gains on sale of investments, net		172,953	160,065
Unrealized gains on trading investments, net		1,433,425	2,562,488
Total		4,828,405	5,902,855
Nonoperating gains:			
Interest income and dividends		12,060,024	12,604,750
Net realized gains on sale of investments, net		10,106,790	3,755,463
Unrealized gains on trading investments, net		20,799,671	20,489,418
Total		42,966,485	36,849,631
Total investment return	$	47,794,890	42,752,486

(6) Fair Value Measurements

FASB ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. FASB 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 or corroborated for the asset by other independently verifiable market data (e.g., quoted prices for identical assets in inactive markets, quoted prices for similar assets 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.

Following is a description of the valuation methodologies used for significant assets measured at fair value at September 30, 2013:

Cash and cash equivalents: The carrying amounts reported in the consolidated balance sheets approximate the fair value because of the short maturities of these instruments.

Investments: Valued at the closing price reported on the active market on which the individual securities are traded, or valued based on quoted prices for similar assets.

Estimates of fair values 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.

The following tables summarize the fair values of the Center's significant financial assets and liabilities as of September 30, 2013 and 2012:

	September 30, 2013	Fair value measurement at reporting date	
		Level 1	Level 2
Cash and cash equivalents	$ 94,027,571	94,027,571	—
Short-term investments:			
Cash and cash equivalents	3,041,666	3,041,666	—
Government bonds	5,006,770	5,006,770	—
Assets limited to use:			
Cash and cash equivalents	104,282,453	104,282,453	—
Equity income securities:			
Domestic stocks	223,698,122	223,698,122	—
Global stocks	36,562,466	36,562,466	—
Mutual funds	22,236,993	22,236,993	—
Fixed income securities:			
Government obligations	43,786,466	43,786,466	—
Corporate bonds	167,230,730	—	167,230,730
Municipal bonds	43,986,765	—	43,986,765
Beneficial interest in Tampa General Hospital Foundation	6,548,026	—	6,548,026
	648,332,021	430,566,500	217,765,521
Total	$ 750,408,028	532,642,507	217,765,521

		September 30, 2012	Fair value measurement at reporting date	
			Level 1	Level 2
Cash and cash equivalents	$	89,851,287	89,851,287	—
Short-term investments:				
Cash and cash equivalents		3,130,658	3,130,658	—
Government bonds		5,021,508	5,021,508	—
Assets limited to use:				
Cash and cash equivalents		60,700,825	60,700,825	—
Equity income securities:				
Domestic stocks		148,991,850	148,991,850	—
Global stocks		30,867,860	30,867,860	—
Mutual funds		18,533,432	18,533,462 Obvious CPA Firm Typo	—
Fixed income securities:				
Government obligations		71,952,172	71,952,172	—
Corporate bonds		145,237,857	—	145,237,857
Municipal bonds		27,272,066	—	27,272,066
Beneficial interest in Tampa General Hospital Foundation		5,150,456	—	5,150,456
		508,706,518	~~331,046,169~~	177,660,379
Total	$	606,709,971	~~429,049,622~~	177,660,379
			429,049,592	

There were no transfers of financial assets or liabilities between Level 1 and Level 2 during the years ended September 30, 2013 and 2012. There were no investments classified as Level 3 during the years ended September 30, 2013 and 2012.

(7) Long-Term Debt

Long-term debt consists of the following:

		2013	2012
Series 2003A and B Bonds, net of unamortized discount of $981,668 at September 30, 2012, maturing in various amounts through October 1, 2034, with stated rates of 2.5% to 5.45%	$	—	180,533,332
Series 2006 Bonds, net of unamortized premium of $3,442,560 and $3,737,394 as of September 30, 2013 and 2012, respectively, maturing in various amounts through October 1, 2041, with stated rates of 4% to 5.25%		182,852,560	184,187,395
Note payable, due in monthly installments through 2015 at a stated rate of interest of 6.5%, collateralized by land, with a balloon payment due on November 14, 2015		—	3,733,858
Series 2012A Bonds, net of unamortized premium of $12,392,542 as of September 30, 2013, maturing in various amounts through October 1, 2043, with stated rates of 3% to 5%		178,882,542	—
2013 bank loan, maturing in various amounts through October 1, 2024 at a stated interest rate of 2.57%		37,020,000	—
Note payable, due in monthly installments through 2015 at a stated rate of interest of 3.25%, collateralized by software	$	2,235,310	4,085,061
Total long-term debt		400,990,412	372,539,646
Less current installments		(4,158,459)	(7,627,279)
Long-term debt, excluding current installments	$	396,831,953	364,912,367

Effective May 1, 2003, the Hillsborough County Industrial Authority (Florida) issued $210,000,000 aggregate principal amounts of tax-exempt Hospital Revenue Refunding Bonds (2003 Bonds), comprising Series A principal $91,885,000 and Series B principal $118,115,000. A portion of the proceeds of the 2003 Bonds was used to purchase and redeem the Hospital's outstanding Series 1992 Bonds, and the remaining proceeds of the 2003 Bonds were utilized for the expansion, improvement, and further equipping of the healthcare facilities. As of September 30, 2013, the Series A and Series B 2003 Bonds have been fully redeemed through the Series 2012A and 2013 bank loan issues.

On September 28, 2006, the Hillsborough County Industrial Authority (Florida) issued $185,000,000 aggregate principal amounts of tax-exempt Hospital Revenue Refunding Bonds (2006 Bonds). Proceeds of the 2006 Bonds were utilized for the expansion, improvement, and further equipping of the Hospital's healthcare facilities. The 2006 Bonds contain various covenants, including but not limited to the maintenance of a minimum debt service coverage ratio and provides that certain funds be established with a trustee bank (note 5). Management believes the Center is in compliance with such covenants at September 30, 2013.

On February 28, 2013, the Hillsborough County Industrial Authority (Florida) issued $166,490,000 aggregate principle amounts of tax-exempt Hospital Revenue Refunding Bonds (2012A Bonds). A portion of the proceeds of the 2012A Bonds was used to purchase and redeem all of the Hospital's outstanding 2003B Bonds and a portion of the Hospital's outstanding Series 2003A Bonds. The remaining proceeds of the 2012A Bonds will be utilized for the expansion, improvement and further equipping of the healthcare facilities. The 2012A Bonds contain various covenants, including, but not limited to, the maintenance of a minimum debt service coverage ratio and provides that certain funds be established with a trustee bank (note 5). Management believes the Center is in compliance with such covenants at September 30, 2013.

On September 19, 2013, the Hillsborough County Industrial Development Authority (Florida), Florida Health Sciences Center, Inc. and PNC Bank N.A. entered into a Loan Agreement (2013 bank loan) in the amount of $37,020,000 to provide the refunding of the remaining outstanding principal of the Series 2003A Bonds. The 2013 bank loan contain various covenants, including, but not limited to, the maintenance of a minimum debt service coverage ratio. Management believes the Center is in compliance with such covenants at September 30, 2013.

A loss on early extinguishment of debt of approximately $6,792,000 was recorded during 2013 related to the redemption of the 2003A bonds. This amount is included in other nonoperating gains (losses) in the accompanying consolidated statements of operations and changes in unrestricted net assets.

The 2006 and 2012A Bonds are secured solely by a pledge of and a security interest in the revenue of the Center. Such pledge and security interest have been assigned to a bank trustee. Stated interest rates on the 2006 Bonds range from 4.0% to 5.25%, with an effective rate of 5.01% at September 30, 2013, and maturities through October 1, 2041. Except for $10,215,000 of serial bonds maturing prior to October 1, 2017, the 2006 Bonds are subject to mandatory redemption by the Center beginning October 1, 2017 at par plus accrued interest. Stated interest rates on the 2012A Bonds range from 3.0% to 5.0% with an effective rate of 4.09% at September 30, 2013, and maturities through October 1, 2043. Except for $21,180,000 of serial bonds maturing prior to October 1, 2028, the 2012A Bonds are subject to mandatory redemption by the Center beginning October 1, 2028 at par plus accrued interest. Stated interest rates on the 2013 bank loan are set at 2.57% with an effective rate of 2.43% at September 30, 2013, and maturities to October 1, 2024.

Scheduled maturities of long-term debt as of September 30, 2013 are as follows:

Year ending September 30:		
2014	$	3,035,124
2015		6,170,186
2016		9,544,000
2017		6,109,000
2018		6,297,000
Thereafter		354,000,000
Long-term debt, excluding unamortized premiums (discounts)		385,155,310
Unamortized premium		15,835,102
Long-term debt, including unamortized premiums (discounts)	$	400,990,412

(Continued)

(8) Property and Equipment

Property and equipment consist of the following as of September 30, 2013 and 2012:

		2013	2012
Land	$	46,639,634	46,639,634
Land improvements, buildings, and fixed equipment		442,493,449	428,724,284
Major moveable equipment		271,977,635	261,610,391
Other equipment		7,777,729	7,954,791
Total property and equipment		768,888,447	744,929,100
Accumulated depreciation and amortization		(346,295,972)	(304,483,043)
Total property and equipment less depreciation and amortization		422,592,475	440,446,057
Construction in progress		26,427,743	18,831,789
Property and equipment, net	$	449,020,218	459,277,846

As of September 30, 2013, the estimated cost to complete construction in progress is approximately $19,635,000.

Interest expense, net of interest income of approximately $555,000 and $167,000, was capitalized during the years ended September 30, 2013 and 2012, respectively.

(9) Lease Obligations

The Center leases certain medical and other support equipment under operating leases. Rent expense under noncancelable operating leases was approximately $7,909,000 and $9,007,000 for the years ended September 30, 2013 and 2012, respectively. The Center does not have any capital leases outstanding as of September 30, 2013. Future minimum lease payments as of September 30, 2013 are as follows:

		Operating leases
Year ending September 30:		
2014	$	6,857,520
2015		6,111,130
2016		3,677,780
2017		1,679,199
2018		653,279
Total leases	$	18,978,908

(10) Pension and Other Postretirement Benefits

(a) Retirement Plan

The Center established the Florida Health Sciences Center, Inc. Retirement Plan (the Plan), which became effective January 1, 1998. The Plan is a noncontributory, single employer, cash balance defined benefit pension plan. The Tampa General Staffing, Inc. Retirement Plan was merged into the Plan effective January 1, 1998.

All employees are eligible to participate in the Plan as of the beginning of the month following the later of the employee's attainment of age 21 and the completion of one year of service (i.e., generally a plan year during which the employee completes 1,000 hours of service).

The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. Furthermore, the Plan provides a health insurance subsidy to participants who had 20 years of service with the Florida Retirement System as of December 31, 1996. This subsidy is a monthly supplemental payment that a participant may be eligible to receive if they elect health insurance coverage. The amounts payable by the Plan are reduced by the amount payable by the Florida Retirement System for the subsidy. The minimum subsidy is $30 per month and the maximum is $90 per month.

The actuarially computed net periodic pension cost for the Center's Plan for the years ended September 30, 2013 and 2012 included the following components:

		2013	2012
Service cost – benefits earned during the period	$	30,488,947	23,612,165
Interest cost on projected benefit obligation		9,277,995	9,864,101
Expected return on plan assets		(16,508,817)	(12,983,360)
Net amortization and deferral of unrecognized losses		4,381,100	4,988,603
Net periodic pension cost	$	27,639,225	25,481,509

The following table sets forth the Plan's funded status and amount recognized in other liabilities in the Center's consolidated balance sheets as of September 30, 2013 and 2012 (using a measurement date of September 30):

		2013	2012
Change in projected benefit obligation:			
Benefit obligation at beginning of year	$	275,804,834	233,571,110
Service cost		30,488,947	23,612,165
Interest cost		9,277,995	9,864,101
Amendments		(20,730,948)	—
Actuarial (gain) loss		(32,428,155)	18,187,468
Benefits paid		(12,000,967)	(9,430,010)
Projected benefit obligation at end of year		250,411,706	275,804,834
Change in plan assets:			
Fair value of plan assets at beginning of year		206,608,056	161,669,419
Actual return on plan assets		32,345,331	28,216,161
Employer contributions		21,061,662	26,152,486
Benefits paid		(12,000,967)	(9,430,010)
Fair value of plan assets		248,014,082	206,608,056
Funded status and accrued benefit costs	$	(2,397,624)	(69,196,778)

The funded status and accrued benefit costs decreased significantly from September 30, 2012 to September 30, 2013 due to a reduction of $25,400,000 in the projected benefit obligation and an increase of $41,406,000 in plan assets. The reduction in the projected benefit obligation is due to a pension plan amendment that will become effective on January 1, 2014 and an increase in the rate used to discount future benefit payments. The discount rate increased from 3.44% as of September 30, 2012 to 4.29% as of September 30, 2013.

The accumulated benefit obligation for the Plan was approximately $248,701,000 and $250,433,000 as of September 30, 2013 and 2012, respectively.

Weighted average assumptions used to determine projected benefit obligations as of September 30, 2013 and 2012 were as follows:

	2013	2012
Discount rate	4.29%	3.44%
Projected rate of compensation increase	3.00% – 8.00%	3.00% – 8.00%

The actuarial assumptions used in determining net periodic pension costs for the years ended September 30, 2013 and 2012 are as follows:

	2013	2012
Discount rate	3.44%	4.33%
Projected rate of increase in compensation levels	3.00	6.00
Expected long-term rate of return on plan assets	7.75	7.75

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual assets categories.

The following are deferred pension costs that have not yet been recognized in periodic pension expense but instead are accrued in unrestricted net assets as of September 30, 2013. Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the average remaining assumed service period for active employees:

		Net prior service cost	Net actuarial loss	Total
Amounts recognized in unrestricted net assets as of September 30, 2013	$	(19,880,191)	17,074,746	(2,805,445)
Amounts in net assets to be recognized during the next fiscal year		(17,909,904)	17,074,746	(835,158)

Plan Assets

The weighted average asset allocation of the Center's pension benefits as of September 30, 2013 and 2012 was as follows:

	Pension benefits plan assets at September 30	
Asset category	**2013**	**2012**
Cash and cash equivalents	7%	7%
Equity securities:		
Domestic stocks	59	60
Global stocks	14	13
Fixed income securities:		
U.S. Treasury obligations	4	1
Government agencies	1	1
Corporate bonds	15	18
Total	100%	100%

		September 30, 2013	Fair value measurement at reporting date	
			Level 1	Level 2
Cash and cash equivalents	$	17,832,507	17,832,507	—
Equity securities:				
Domestic stocks		147,097,883	147,097,883	—
Global stocks		35,940,707	35,940,707	—
Fixed income securities:				
Treasury obligations		8,968,477	8,968,477	—
Government obligations		1,807,061	1,807,061	—
Corporate bonds		36,367,447	—	36,367,447
Total	$	248,014,082	211,646,635	36,367,447

		September 30, 2012	Fair value measurement at reporting date	
			Level 1	Level 2
Cash and cash equivalents	$	14,488,375	14,488,375	—
Equity securities:				
Domestic stocks		122,861,253	122,861,253	—
Global stocks		27,476,205	27,476,205	—
Fixed income securities:				
Treasury obligations		2,949,324	2,949,324	—
Government obligations		2,068,414	2,068,414	—
Corporate bonds		36,764,485	—	36,764,485
Total	$	206,608,056	169,843,571	36,764,485

There were no transfers of financial assets or liabilities between Level 1 and Level 2 during the years ended September 30, 2013 and 2012. There were no investments classified as Level 3 during the years ended September 30, 2013 and 2012.

The investment objective of the defined benefit plan is to use prudent and reasonable levels of liquidity and investment risk to produce an investment return that provides for payments of benefits to participants and their beneficiaries. The investment objective also incorporates the financial condition of the plan, future growth of active and retired participants, inflation, and the rate of salary increases. The defined benefit plan's investment committee has selected market-based benchmarks to monitor the performance of the investment strategy and performs periodic reviews of investment performance.

The investment strategy has a current target allocation policy as follows: 75% equities and 25% fixed income and other securities. The expected long-term rate of return on plan assets is determined based primarily on expectations of future returns for the defined benefit plan's investments based on the

(Continued)

target asset allocation. Additionally, the historical returns on comparable equity and fixed income investments are considered in the estimate of the expected long-term rate of return on plan assets.

Cash Flows

The Center does not expect to make any contributions to the Plan in fiscal 2014.

The benefits expected to be paid in each year from 2014 through 2018 are approximately \$14,247,000; \$14,792,000; \$14,930,000; \$15,324,000; and \$16,192,000, respectively. The aggregate benefits expected to be paid from 2019 through 2023 are approximately \$101,036,000. The expected benefits are based on the same assumptions used to measure the Center's benefit obligations as of September 30, 2013 and include estimated future employee service.

(b) Supplemental Retirement Plan

Effective January 1, 2002, the Center established the Florida Health Sciences Center, Inc. Supplemental Executive Retirement Plan (SERP). The SERP is a nonqualified defined benefit plan limited to certain management or highly compensated employees as determined by the Center. Upon vesting, the SERP provides participants with deferred compensation annually, based on 60% of the participants' compensation during the highest five complete calendar years out of the last ten complete calendar years. Certain adjustments are made to the annual benefit based on current and projected years of service and expected benefits payable under the Florida Retirement System, if any, Social Security, and the Florida Health Sciences Center, Inc. Retirement Plan. Only calendar years beginning on or after January 1, 2002 are considered. Vesting is generally effective after a participant completes five years of service with the Center. The SERP also provides for certain death or disability benefits.

The actuarially computed net periodic pension cost for the Center's SERP for the years ended September 30, 2013 and 2012 included the following components (using a measurement date of September 30):

	2013	2012
Service cost – benefits earned during the period	$ 1,542,861	1,914,252
Interest cost on projected benefit obligation	488,595	695,128
Net amortization and deferral of unrecognized losses	807,739	577,958
Net periodic pension cost	$ 2,839,195	3,187,338

The following table sets forth the SERP's funded status and amount recognized in other liabilities in the Center's consolidated balance sheets as of September 30, 2013 and 2012:

		2013	2012
Change in projected benefit obligation:			
Benefit obligation at beginning of year	$	21,665,520	17,935,700
Service cost		1,542,861	1,914,252
Interest cost		488,595	695,128
Amendments		716,518	—
Actuarial gain (loss)		(949,211)	3,174,740
Settlements		(7,338,621)	—
Benefits paid		(1,131,785)	(2,054,300)
Projected benefit obligation at end of year		14,993,877	21,665,520
Fair value of plan assets at end of year		—	—
Funded status and accrued benefit costs	$	(14,993,877)	(21,665,520)

The accumulated benefit obligation for the SERP was approximately $11,920,000 and $17,190,000 as of September 30, 2013 and 2012, respectively.

Weighted average assumptions used to determine projected benefit obligations at September 30, 2013 and 2012 were as follows:

	2013	2012
Discount rate	3.46%	2.54%
Projected rate of compensation increase	3.00% – 8.00%	3.00% – 8.00%

The actuarial assumptions used in determining net periodic pension costs for the years ended September 30, 2013 and 2012 are as follows:

	2013	2012
Discount rate	2.54% – 2.77%	3.60%
Projected rate of increase in compensation levels	3.00% – 8.00%	3.00% – 8.00%

(Continued)

The following are deferred pension costs, which have not yet been recognized in periodic pension expense but instead are accrued in unrestricted net assets as of September 30, 2013. Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the average remaining assumed service period for active employees:

		Net prior service cost	Net actuarial loss	Total
Amounts recognized in unrestricted net assets as of September 30, 2013	$	75,920	731,819	807,739
Amounts in net assets to be recognized during the next fiscal year		75,920	436,425	512,345

Cash Flows

The Center does not expect to make any contributions to the SERP in fiscal 2014.

The benefits expected to be paid in each year from 2014 through 2018 are approximately $1,606,000; $1,466,000; $1,359,000; $485,000; and $1,427,000, respectively. The aggregate benefits expected to be paid in the five years from 2019 through 2023 are approximately $10,963,000. The expected benefits are based on the same assumptions used to measure the Center's benefit obligations at September 30, 2013 and include estimated future employee service.

(11) Commitments and Contingencies

(a) Litigation

During the normal course of business, the Center is involved in litigation with respect to professional liability claims and other matters. In addition, the Center is subject to periodic regulatory investigations. The Center has purchased insurance coverage to minimize its exposure to such risk. This coverage includes property, directors and officers, vehicles, medical malpractice, and general liability. Each policy has its own deductible and/or self-insurance retention. Based on current information, management believes at this time that the results of the litigation and inquiries are not likely to have a material adverse effect on the consolidated financial position and results of the Center.

(b) Professional Liability

The Center insures its professional and general liability on a claims-made basis through a commercial insurance carrier. The Center has secured claims-made coverage continuously from October 1, 1997 through September 30, 2013. The Center has renewed its claims-made policy.

For claims prior to October 1, 1997, the Authority, as an agency or subdivision of the state of Florida, had sovereign immunity in tort actions. Therefore, in accordance with Chapter 768.28, the

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Center's legal liability was limited by statute to $100,000 per claimant and $200,000 for all claimants per occurrence. Self-insurance retention limits from October 1, 1997 to September 30, 2010 range from $1,000,000 to $5,000,000. On May 21, 2010, the Captive was incorporated to provide excess professional liability and general liability coverage to the Center on a claims–made basis. The Captive's liability under this policy is limited to $80,000,000 per claim and in the aggregate.

The Center has employed independent actuaries to assist management in estimating the ultimate costs, if any, of the settlement of known claims and incidents, as well as unreported incidents that may be asserted, arising from services rendered to patients. Reported amounts for professional liability were approximately $82,777,000 and $80,619,000 as of September 30, 2013 and 2012, respectively, and are included in accrued expenses and other liabilities on the accompanying consolidated balance sheets. The Center records the professional liability based on the actuarially determined expected level. Given the maturity of the plan, the Center believes the expected level is a better estimate of the ultimate outcome than other confidence levels. The expected level is a commonly followed industry practice.

(c) Third Party Reimbursement

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Center is aware of these laws and regulations and, to the best of its knowledge and belief, is in compliance. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

(12) Other Funding Sources

The Hospital receives funding from various components of the state of Florida's (the State) Medicaid program, including the Low Income Pool program (LIP) and Medicaid per diem rates. The State's LIP program distributes funding to the Hospital in recognition of the disproportionate level of care provided to indigent patients and to defray some of the costs associated with graduate medical education. The LIP is a federal matching program that provides states with the opportunity to receive additional distributions based upon the difference between Medicaid reimbursement and the amount that would have been received for the same patients using Medicare reimbursement formulas, as defined. Medicaid fee for service is paid based on inpatient per diem and outpatient per line rates and may be adjusted based on annual cost report submissions.

The total funding amounts from the LIP and trauma programs were approximately $23,637,000 and $26,121,000 during the years ended September 30, 2013 and 2012, respectively, and are reported as disproportionate share distributions in the accompanying consolidated statements of operations and changes in unrestricted net assets. Since July 1, 2001, the Hospital receives trauma funding of approximately $3,500,000 per year from Hillsborough County to supplement the Hospital's reimbursement for trauma services rendered to Hillsborough County residents.

Under the terms of an agreement with the Hillsborough County Health Plan, the Hospital is paid for authorized services provided to eligible recipients based on contracted rates. The contract renews on an annual basis and is currently through June 30, 2014. These payments are subject to certain limits (network caps) for each network per contract, including amounts the Hospital must reimburse physicians. For the year ended September 30, 2013 and 2012, approximately $20,913,000 and $20,600,000, respectively, were included in net patient services revenue and/or trauma funding from Hillsborough County relating to this contract.

(13) Affiliated Organizations

The Foundation was established to solicit contributions from the general public on behalf of the Hospital for the funding of capital acquisitions and to support Hospital programs. As of September 30, 2013 and 2012, the Foundation held assets for the Hospital that were temporarily and permanently restricted by donors. The Hospital's interest in the net assets of the Foundation is included in assets limited as to use and amounted to approximately $6,548,000 and $5,150,000 as of September 30, 2013 and 2012, respectively.

The University of South Florida Board of Trustees (the University) has an affiliation agreement with the Center. The affiliation agreement establishes the Center as the primary teaching hospital for the University in order to provide healthcare education and training for students, residents, and other healthcare professionals. In accordance with the affiliation agreement, the University assigns physicians and residents to provide the customary services of the Center. For the years ended September 30, 2013 and 2012, the Center paid the University approximately $39,468,000 and $41,643,000, respectively, for these services, which also include the residents' salaries and the related malpractice coverage and medical director fees. These amounts are recorded within professional fees and other expenses in the accompanying consolidated statements of operations and changes in unrestricted net assets.

On September 24, 2013, Tampa General Hospital and Florida Hospital's Tampa Bay Network, agreed to jointly develop new clinical programs and services throughout the Greater Tampa Bay Area. The new agreement will provide residents of Tampa greater access to a variety of community-based healthcare services and broaden the geographic footprint of these two premier healthcare providers. Under the agreement, a new operating board made up of officials from both organizations will be created to determine the potential new services and how best to deliver that care to the community.

(14) Subsequent Events

The Center has evaluated events and transactions occurring subsequent to September 30, 2013 as of December 19, 2013, which is the date the consolidated financial statements were available to be issued, and has determined that no additional disclosures or adjustments are required.

SUPPLEMENTARY INFORMATION

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

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Florida Health Sciences Center, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Florida Health Sciences Center, Inc., which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of operations and changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 19, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Florida Health Sciences Center, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Florida Health Sciences Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Florida Health Sciences Center, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Florida Health Sciences Center, Inc.'s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

KPMG LLP

Certified Public Accountants
December 19, 2013

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

Independent Auditors’ Report on Compliance for Each Major Program and Report on Internal Control over Compliance

The Board of Directors
Florida Health Sciences Center, Inc.:

Report on Compliance for Each Major Federal Program

We have audited Florida Health Sciences Center, Inc.’s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the requirements described in the Florida Department of Financial Services’ *State Projects Compliance Supplement* that could have a direct and material effect on each of Florida Health Sciences Center, Inc.’s major federal programs and state projects for the year ended September 30, 2013. Florida Health Sciences Center, Inc.’s major federal programs and state projects are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

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

Auditors’ Responsibility

Our responsibility is to express an opinion on compliance for each of Florida Health Sciences Center, Inc.’s major federal programs and state projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.650, *Rules of the Auditor General*. Those standards, OMB Circular A-133, and Chapter 10.650 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about Florida Health Sciences Center, Inc.’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program and state project. However, our audit does not provide a legal determination of Florida Health Sciences Center, Inc.’s compliance.

Opinion on Each Major Federal Program and State Project

In our opinion, Florida Health Sciences Center, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state projects for the year ended September 30, 2013.

Report on Internal Control over Compliance

Management of Florida Health Sciences Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Florida Health Sciences Center, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program or state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and state project and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.650, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Florida Health Sciences Center, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or state project will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program or state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

KPMG LLP

Certified Public Accountants
June 6, 2014

FLORIDA HEALTH SCIENCES CENTER, INC.

Schedule of Expenditures of Federal Awards and State Financial Assistance

Year ended September 30, 2013

Federal or State Grantor/Pass Through Agency/Program Title	CFDA or CSFA Number	Agency or Pass Through Grant Number		Expenditures
U.S. Department of Education:				
Division of Vocational Rehabilitation:				
Direct Program:				
Florida Alliance for Assistive Services and Technology	84.224	13-CFRDC	$	71,922
Florida Alliance for Assistive Services and Technology	84.224	13-CFRDC-Amendment 2		6,500
Total U.S. Department of Education				78,422
U.S. Department of Health and Human Services				
Health Resources and Services Administration:				
Direct Program:				
Poison Control Center Enhancement and Awareness	93.253	6H4BHS15550-04-03		419,232
National Bioterrorism Hospital Preparedness Program	93.889	COQTL		120,000
Cdc Public Health Emergency Preparedness	93.069	COQTL		114,182
Ryan White – Hiv Emergency Relief Project Grants	93.914	HB312		72,856
Total U.S. Department of Health and Human Services				726,270
U.S. Department of Homeland Security:				
Passed Through Office of Emergency Management (FEMA):				
Hazard Mitigation Program	97.039	08HM-1G-08-39-08-014		1,335,919
Total Expenditures of Federal Awards			$	2,140,611
Florida Department of Education:				
Passed Through:				
Florida Alliance for Assistive Services and Technology:				
FL Department of Education, Division of Vocational Rehabilitation, 2010-2011 Gen. Appr. Act-GR	48.018	No. 13-CFRDC	$	15,788
FL Department of Education, Division of Vocational Rehabilitation, 2010-2011 Gen. Appr. Act-GR	48.018	13-CFRDC-Amendment 1		10,000
Total Florida Department of Education				25,788
State of Florida Department of Health:				
Poison Information Network	64.014	Contract # COQTL		475,774
Trauma Center Financial Support	64.075	MOU TRA-20		640,993
Ryan White – Hiv Emergency Relief Project Grants		HB312		72,856
Total State of Florida Department of Health				1,189,623
Total Expenditures of State Financial Assistance			$	1,215,411

See accompanying independent auditors' report and notes to schedule of expenditures of federal awards and state financial assistance.

FLORIDA HEALTH SCIENCES CENTER, INC.

Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance

Year ended September 30, 2013

(1) General

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance (the Schedule) presents the activity of all federal and state programs administered by Florida Health Sciences Center, Inc. (the Center). Awards received directly from federal and state agencies, as well as those passed through other governmental agencies, are included on the Schedule. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.650, *Rules of the Auditor General*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

(2) Basis of Accounting

Federal and state programs administered by the Center are accounted for within the Center's operating funds. The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance has been prepared on the same basis of accounting as the Center's consolidated financial statements. The Center's financial statements are prepared in accordance with U.S. generally accepted accounting principles. Transactions are recorded on an accrual accounting basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

(3) Relationship to Financial Statements

Federal awards and state financial assistance revenues are reported in the Center's consolidated financial statements as other revenue.

(4) Contingencies

Grant monies received and disbursed by the Center are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon prior experience, the Center does not believe that such disallowances, if any, would have a material effect on the financial position of the Center. Management is not aware of any material questioned or disallowed costs as a result of grant audits in process or completed.

FLORIDA HEALTH SCIENCES CENTER, INC.

Schedule of Findings and Questioned Costs

September 30, 2013

(1) Summary of Auditors' Results

(a)	The type of auditors' report issued:	Unmodified
(b)	Internal control over financial reporting:	
	Material weaknesses identified:	No
	Significant deficiencies identified that are not considered to be material weaknesses:	None reported
(c)	Noncompliance material to financial statements noted:	No

Federal Awards

(d)	Internal control over major programs:	
	Material weaknesses identified:	No
	Significant deficiencies identified that are not considered to be material weaknesses:	None reported
(e)	Type of auditor's report issued on compliance for major programs:	Unmodified
(f)	Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
(g)	Identification of major programs:	

Federal programs	CFDA No.
U.S. Department of Homeland Security – passed through Office of Emergency Management (FEMA) - Hazard Mitigation Program	97.039

(h)	Dollar threshold used to distinguish between type A and type B programs:	$300,000
(i)	Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133?	Yes

State Awards

(j)	Internal control over major programs:	
	Material weaknesses identified:	No
	Significant deficiencies identified that are not considered to be material weaknesses:	None reported

(Continued)

FLORIDA HEALTH SCIENCES CENTER, INC.

Schedule of Findings and Questioned Costs

September 30, 2013

(k)	Type of auditor’s report issued on compliance for major programs:	Unmodified
(l)	Any audit findings disclosed that are required to be reported under Chapter 10.650, Rules of the Auditor General?	No
(m)	Identification of major programs:	

State programs	State CFDA No.
State of Florida, Department of Health Trauma Center Financial Support	64.075

(n)	Dollar threshold used to distinguish between type A and type B programs:	\$300,000

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None

(3) Findings and Questioned Costs Relating to Federal Awards and State Projects

None

(4) There are no items related to state financial assistance required to be reported in a management letter pursuant to Chapter 10.650, *Rules of the Auditor General*.

FLORIDA HEALTH SCIENCES CENTER, INC

Summary Schedule of Prior Audit Findings for Fiscal Year End 09/30/13

The following is an update of prior audit findings and is prepared in accordance with Office of Management and Budget Circular A-133, Section .315(b).

There are no prior audit findings, thus no management responses or remedies.

Contact Person: Beth Gravél, Sr Financial Analyst
813 844-8143