

**Audited
Combined
Financial
Statements
and Other
Financial
Information**

December 31, 2010

**Adventist Health System –
Florida Division Hospitals**

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Combined Balance Sheet

December 31, 2010

(dollars in thousands)

ASSETS

Current Assets

Cash and cash management deposits	\$ 1,849,795
Investments	162
Current portion of assets whose use is limited	26,897
Patient accounts receivable, less allowance for uncollectible accounts of approximately \$190,800	135,362
Other receivables	193,591
Inventories	80,522
Prepaid expenses and other current assets	28,211

2,314,540

Property and Equipment

2,654,165

Assets Whose Use is Limited, net of current portion

109,862

Other Assets

202,791

\$ 5,281,358

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable and accrued liabilities	\$ 289,680
Estimated settlements to third parties	72,006
Other current liabilities	102,939
Short-term financings	124,336
Current maturities of long-term debt	38,447

627,408

Long-Term Debt, net of current maturities

1,690,916

Other Noncurrent Liabilities

102,323

2,420,647

Net Assets

Unrestricted	2,736,089
Temporarily restricted	124,622

2,860,711

Commitments and Contingencies

\$ 5,281,358

Adventist Health
System – Florida
Division Hospitals

The accompanying notes are an integral part of these combined financial statements.

Combined Statement of Operations and Changes in Net Assets

For the year ended
December 31, 2010

(dollars in thousands)

Revenue		
Patient service		\$ 3,355,835
Other		35,928
		<u>3,391,763</u>
Expenses		
Employee compensation		1,443,066
Supplies		637,747
Professional fees		260,892
Provision for bad debts		160,298
Other		385,468
Interest		82,484
Depreciation and amortization		187,183
		<u>3,157,138</u>
Income from Operations		234,625
Nonoperating Gains, Net		<u>16,472</u>
Excess of Revenue and Gains over Expenses		251,097
Unrestricted Net Assets		
Net assets released from restrictions for purchase of property and equipment		13,680
Addition of University Community Hospital, Inc.'s and Bert Fish Medical Center's net assets to the Division		390,058
Transfers to affiliates		(23,271)
Pension related changes other than net periodic pension benefit		23,500
Other changes		8,719
		<u>663,783</u>
Temporarily Restricted Net Assets		
Investment income		1,170
Gifts and grants		18,676
Net assets released from restrictions for purchase of property and equipment or use in operations		(20,624)
Addition of University Community Hospital, Inc.'s and Bert Fish Medical Center's net assets to the Division		22,244
Other		842
		<u>22,308</u>
Increase in Net Assets		686,091
Net assets, beginning of year		<u>2,174,620</u>
Net assets, end of year		<u>\$ 2,860,711</u>

Adventist Health
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The accompanying notes are an integral part of these combined financial statements.

Combined Statement of Cash Flows

For the year ended
December 31, 2010

	(dollars in thousands)	
Operating Activities		\$ 507,732
Investing Activities		
Cash from addition of University Community Hospital, Inc. and Bert Fish Medical Center		54,842
Purchases of property and equipment, net		(236,001)
Decrease in assets whose use is limited		4,556
Decrease in investments		17,010
Increase in other assets		(15,444)
		<u>(175,037)</u>
Financing Activities		
Additional long-term borrowings		254,715
Repayments of long-term borrowings		(307,096)
Repayments of short-term borrowings		(5,259)
Payment of deferred financing costs		(749)
Transfers to affiliates		(21,661)
Restricted gifts and grants and investment income		19,846
Other financing activities		(265)
		<u>(60,469)</u>
Increase in Cash and Cash Management Deposits		272,226
Cash and cash management deposits at beginning of year		1,577,569
Cash and Cash Management Deposits at End of Year		<u>\$ 1,849,795</u>
Operating Activities		
Increase in net assets		\$ 686,091
Increase in net assets from addition of University Community Hospital, Inc and Bert Fish Medical Center		(412,302)
Depreciation – operating		186,679
Depreciation – nonoperating		7,499
Amortization of intangible assets		504
Amortization of prepaid data processing fees		4,817
Amortization of deferred financing costs and original issue discounts and premiums		(347)
Loss on extinguishment of debt		11,871
Restricted gifts and grants and investment income		(19,846)
Transfers to affiliates		23,271
Change in operating assets and liabilities:		
Patient accounts receivable		(4,103)
Other receivables		(22,533)
Inventories		(7,089)
Prepaid expenses and other current assets		3,223
Accounts payable and accrued liabilities		1,508
Estimated settlements to third parties		11,838
Other current liabilities		71,579
Other noncurrent liabilities		(34,928)
		<u>\$ 507,732</u>
Supplemental Disclosures of Significant Noncash Transactions		
Transfer of deferred financing costs, original issue discounts and premiums, and debt service reserve funds to affiliated entity		\$ 1,610

Adventist Health
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The accompanying notes are an integral part of these combined financial statements.

Notes to Combined Financial Statements

*For the year ended
December 31, 2010
(dollars in thousands)*

**Adventist Health
System – Florida
Division Hospitals**

1. Significant Accounting Policies

Reporting Entity

Adventist Health System – Florida Division Hospitals (Division) is a group of not-for-profit, general acute care hospitals, exempt from state and federal income taxes. These hospitals are located in the State of Florida. These hospitals are controlled affiliates of Adventist Health System Sunbelt Healthcare Corporation d/b/a Adventist Health System (Parent Corporation).

The Division includes Florida Hospital Medical Center, Florida Hospital Heartland Medical Center, and Florida Hospital Wauchula, divisions of Adventist Health System/Sunbelt, Inc.; Florida Hospital Zephyrhills, Inc.; Southwest Volusia Healthcare Corporation; Memorial Hospital – West Volusia, Inc.; Florida Hospital Memorial Medical Center and Florida Hospital – Oceanside, divisions of Memorial Health Systems, Inc.; Memorial Hospital – Flagler, Inc.; Florida Hospital Waterman, Inc.; Bert Fish Medical Center, Inc. (BFMC); and University Community Hospital, Inc. (UCH) were added to the Division on July 1 and September 1, 2010, respectively (see note 2). UCH includes University Community Hospital – Medical Center, University Community Hospital – Carrollwood, Tarpon Springs Hospital Foundation, Inc. and a Long-Term Acute Care Hospital. These hospitals are included in the accompanying combined financial statements. All significant intercompany accounts and transactions have been eliminated in the combination.

The Division provides a full range of inpatient and outpatient services as permitted by the licenses issued to the Division's hospitals from the State of Florida. Activities associated with the provision of healthcare services within the hospital setting are the major and central operations of the Division. Revenue and expenses arise from, and are recorded based upon, the Division's activities.

The Division also engages in activities and transactions that do not relate to the direct care of patients within the hospital setting and are therefore incidental or peripheral to the Division's major ongoing operations. Activities and transactions that are incidental or peripheral to the operations of the Division are recorded as nonoperating gains or losses.

The Parent Corporation is controlled by the Lake Union Conference of Seventh-day Adventists, the Mid-America Union Conference of Seventh-day Adventists, the Southern Union Conference of Seventh-day Adventists, and the Southwestern Union Conference of Seventh-day Adventists, and was organized to provide managerial, financial, and other services to members of the Division, other hospitals, and other healthcare facilities (collectively referred to as the System).

SunSystem Development Corporation (Development) is a charitable foundation operated by the System for the benefit of its hospitals. The board of directors is appointed by the board of directors of the System. The Division includes Florida Hospital Medical Center Foundation, Florida Hospital Zephyrhills Foundation, Florida Hospital Heartland Medical Center Foundation, Florida Hospital Wauchula Foundation, Florida Hospital Fish Memorial Foundation, Florida Hospital Deland Foundation, and Florida Hospital Flagler Foundation (Foundations). The Foundations operate as divisions of Development and each have a service area community board of directors appointed or approved by the Parent Corporation and are involved in philanthropic activities for the respective hospital. The accounts of the Foundations are included in the accounts of the Division.

Notes to Combined Financial Statements

*For the year ended
December 31, 2010
(dollars in thousands)*

**Adventist Health
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Use of Estimates

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

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements* (ASU 2010-06), which the Division adopted effective January 1, 2010. ASU 2010-06 amends the Fair Value Measurements and Disclosures Topic of the Accounting Standards Codification (ASC) (ASC 820) to add new requirements for disclosures regarding transfers of financial assets and financial liabilities into and out of Levels 1 and 2 in the fair value hierarchy and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures regarding the level of disaggregation and the inputs and valuation techniques used to measure fair value. See note 12 for the additional disclosures required by ASU 2010-06.

In January 2010, the FASB issued ASU 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions* (ASU 2010-07), which codified FASB Statement of Financial Accounting Standards (SFAS) 164. The key provisions of ASU 2010-07 are as follows:

Provides new guidance on the recognition and measurement of mergers and acquisitions of not-for-profit entities and requires more extensive disclosures to enable users to evaluate the nature and financial effect of the merger or acquisition. This guidance is effective for mergers and acquisitions that occur on or after January 1, 2010.

Requires a not-for-profit entity to adopt the accounting provisions for goodwill and indefinite-lived intangible assets in the Intangibles – Goodwill and Other Topic of the ASC (ASC 350). As such, effective January 1, 2010, the Division no longer amortizes goodwill and indefinite-lived intangible assets; rather, they are evaluated annually for potential impairment. The adoption of ASC 350 did not result in any goodwill impairment.

In August 2010, the FASB issued ASU No. 2010-23, *Measuring Charity Care for Disclosure* (ASU 2010-23). The provisions of ASU 2010-23 are intended to reduce the diversity in how charity care is calculated and disclosed by healthcare entities. Charity care is required to be measured at cost, defined as the direct and indirect costs of providing the charity care. As the Division does not recognize revenue when charity care is provided, ASU 2010-23 will have no effect on the combined statement of operations and changes in net assets. ASU 2010-23 only requires additional disclosures, including the method used to estimate the cost of charity care. This new guidance is effective for fiscal years beginning after December 15, 2010, with early application permitted. The Division will adopt the new disclosure requirement in its combined financial statements for the year ended December 31, 2011.

In August 2010, the FASB issued ASU No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries* (ASU 2010-24). ASU 2010-24 prohibits the netting of insurance recoveries against a related claim liability and requires the claim liability to be calculated without consideration of insurance recoveries. This guidance is effective for fiscal years beginning after December 15, 2010, with early application permitted. The Division will adopt ASU 2010-24 for the year ended December 31, 2011. The new guidance is not expected to have a material impact on the Division's combined financial position or results of operations.

Notes to Combined Financial Statements

*For the year ended
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Patient Service Revenue, Patient Accounts Receivable, and Allowance for Uncollectible Accounts

The Division serves certain patients whose medical care costs are not paid at established rates. These patients include those sponsored under government programs such as Medicare and Medicaid, those sponsored under private contractual agreements, charity patients, and other uninsured patients who have limited ability to pay.

Patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered. The Division is subject to retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Adjustments to revenue related to prior periods increased patient service revenue by approximately \$16,200 for the year ended December 31, 2010.

Revenue from the Medicare and Medicaid programs represents approximately 36% of the Division's patient service revenue for the year ended December 31, 2010. 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.

The Division grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. To the extent the Division realizes additional losses resulting from higher credit risk for patients who are not identified as meeting or do not meet the charity definition described below, such additional losses are included in the provision for bad debts. Other than the accounts receivable related to the Medicare and Medicaid programs, there are no significant concentrations of accounts receivable due from an individual payor at December 31, 2010.

The provision for bad debts is based on management's assessment of historical and expected net collections considering business and economic conditions, trends in healthcare coverage, and other collection indicators. Throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon the payor composition and aging of accounts receivable as well as retrospective reviews of subsequent cash collections. The results of these reviews are then used to make any modifications to the provision for bad debts to establish an estimated allowance for uncollectible accounts. Accounts receivable are written off after collection efforts have been followed in accordance with the Division's policies.

Charity Care

The Division's patient acceptance policy is based on its mission statement and its charitable purposes. Accordingly, the Division accepts patients in immediate need of care, regardless of their ability to pay. A patient is classified as a charity patient based on established policies of the Division. These policies define charity services as those services for which no payment is due for all or a portion of the patient's bill from either the patient or other third parties. For financial reporting purposes, charity care is excluded from patient service revenue. The amount of charity care provided, determined on the basis of charges, was 6.0% of gross patient service revenue for the year ended December 31, 2010.

Notes to Combined Financial Statements

*For the year ended
December 31, 2010
(dollars in thousands)*

Excess of Revenue and Gains over Expenses

The combined statement of operations and changes in net assets includes excess of revenue and gains over expenses, which is analogous to income from continuing operations of a for-profit enterprise. Changes in unrestricted net assets that are excluded from excess of revenue and gains over expenses, consistent with industry practice, include pension related changes other than net periodic pension costs, permanent transfers of assets to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purpose of acquiring such assets).

Nonoperating Gains, Net

Nonoperating gains, net, represent the net operations of activities or transactions incidental or peripheral to the direct care of patients within the hospital setting and primarily include home health services, certain physician practices, the activity of the Foundations, equity income of affiliates, loss on extinguishment of debt and investment income.

Contributed Resources

Resources restricted by donors for specific operating purposes or a specified time period are held in temporarily restricted net assets until expended for the intended purpose or until the specified time restrictions are met, at which time they are reported as nonoperating gains, net. Resources restricted by donors for additions to property and equipment are held as temporarily restricted net assets until the assets are placed in service, at which time they are reported as transfers to unrestricted net assets. Gifts, grants, and bequests not restricted by donors are reported as nonoperating gains, net. At December 31, 2010, temporarily restricted net assets are available for various programs and capital expenditures at the Division's hospitals.

Cash Equivalents

Cash equivalents include all highly liquid investments including certificates of deposit and commercial paper with maturities not in excess of three months when purchased. Interest income on cash equivalents is reported as nonoperating gains, net. Cash equivalents are included in cash and cash management deposits in the accompanying combined balance sheet.

Functional Expenses

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

Assets Whose Use is Limited

Certain of the Division's investment's are limited as to use through board resolution, by provisions of contractual arrangements, under the terms of bond indentures or under the terms of other trust agreements. These investments are classified as assets whose use is limited in the accompanying combined balance sheet. Interest and dividend income and realized gains and losses on assets whose use is limited are reported as nonoperating gains, net in the accompanying combined statements of operations and changes in net assets.

Notes to Combined Financial Statements

*For the year ended
December 31, 2010
(dollars in thousands)*

Sale of Patient Accounts Receivable

The System and certain of its member affiliates maintain a program (Program) for the continuous sale of certain patient accounts receivable to Highlands County Health Facilities Authority (Highlands) on a nonrecourse basis. Highlands has partially financed the purchase of the patient accounts receivable through the issuance of tax-exempt bonds (Bonds), of which Highlands had \$304,230 outstanding as of December 31, 2010. These Bonds are supported by a bank letter of credit arrangement that expires in December 2013. As of December 31, 2010, the estimated net realizable value, as defined in the underlying agreements, of patient accounts receivable sold and removed from the accompanying combined balance sheet was \$354,389. The patient accounts receivable sold consist primarily of amounts due from government programs and commercial insurers. The proceeds from Highlands consist of the Division's allocation of cash from the Bonds, a note on a subordinated basis with the Bonds and a note on a parity basis with the Bonds. The note on a subordinated basis with the Bonds is in an amount to provide the required overcollateralization of the Bonds and was \$57,744 at December 31, 2010. The note on a parity basis with the Bonds is the excess of eligible accounts receivable sold over the sum of cash received and the subordinated note, and was \$91,914 at December 31, 2010. These notes are included in other receivables (current) in the accompanying combined balance sheet. Due to the nature of the patient accounts receivable sold, collectibility of the subordinated and parity notes is not significantly impacted by credit risk.

Inventories

Inventories (primarily pharmaceutical and medical supplies) are stated at the lower of cost or market under the first-in, first-out method of valuation.

Property and Equipment

Property and equipment are reported on the basis of 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. Depreciation is computed primarily utilizing the straight-line method over the expected useful lives of the assets. Amortization of capitalized leased assets is included in depreciation expense and allowances for depreciation.

Goodwill

Goodwill represents the excess of the purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of the businesses acquired. These amounts are included in other assets (noncurrent) in the accompanying combined balance sheet and are evaluated annually for impairment or when there is an indicator of impairment.

Deferred Financing Costs

Direct financing costs are included in other assets (noncurrent) in the accompanying combined balance sheet and deferred and amortized over the remaining lives of the financings using the effective interest method.

Interest in the Net Assets of Unconsolidated Foundations

Interest in the net assets of unconsolidated foundations represents contributions received on behalf of the Division or its member affiliates by independent fund-raising foundations. As the Division cannot influence the foundations to the extent that it can determine the timing and amount of distributions, the Division's interest in the net assets of the foundations is included in other assets (noncurrent) in the accompanying combined balance sheet and changes in that interest are included in temporarily restricted net assets.

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Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or business conditions indicate the carrying amount of such assets may not be fully recoverable. Initial assessments of recoverability are based on estimates of undiscounted future net cash flows associated with an asset or group of assets. Where impairment is indicated, the carrying amount of these long-lived assets is reduced to fair value based on discounted net cash flows or other estimates of fair value.

Bond Discounts and Premiums

Bonds payable, including related original issue discounts and/or premiums, are included in long-term debt. Discounts and premiums are being amortized over the life of the bonds using the effective interest method.

Income Taxes

The Division follows the Income Taxes Topic of the ASC (ASC 740), which prescribes the accounting for uncertainty in income tax positions recognized in financial statements. ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

2. Acquisitions by the Parent Corporation

University Community Hospital, Inc.

Effective September 1, 2010, the Parent Corporation became the sole member of UCH. UCH is comprised of three hospitals and one long-term acute care facility in the Tampa, Florida market. The transaction was accounted for as an acquisition under ASC 805 by the Parent Corporation.

On September 1, 2010, the entities comprising UCH (the UCH Entities) became members of the Division. The assets and liabilities of the UCH Entities were added to the Division as of September 1, 2010, resulting in an increase in unrestricted and temporarily restricted net assets of \$361,618 and \$22,223, respectively, in the accompanying combined statement of operations and changes in net assets. The results of operations of the UCH Entities are included in the accompanying combined financial statements effective September 1, 2010. The UCH Entities' revenue and deficiency of revenue over expenses for the four-month period ended December 31, 2010, included in the accompanying combined statement of operations and changes in net assets, were \$168,786 and \$9,153 respectively.

Bert Fish Medical Center

Effective July 1, 2010, the Parent Corporation became the sole member of BFMC and assumed a lease of a hospital facility with the Southeast Volusia Hospital District (the District). BFMC leases and operates a 112-bed hospital in New Smyrna Beach, Florida. The transaction was accounted for as an acquisition under ASC 805 by the Parent Corporation.

On July 1, 2010, BFMC became a member of the Division. The assets and liabilities of BFMC were added to the Division as of July 1, 2010, resulting in an increase in unrestricted and temporarily restricted net assets of \$28,440 and \$21, respectively, in the accompanying combined statement of operations and changes in net assets. The results of operations of BFMC are included in the accompanying combined financial statements effective July 1, 2010. BFMC's revenue and deficiency of revenue over expenses for the six-month period ended December 31, 2010, included in the accompanying combined statement of operations and changes in net assets, were \$45,356 and \$2,005 respectively.

Notes to Combined Financial Statements

*For the year ended
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**Adventist Health
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3. Cash Management Deposits

The Division, along with other member affiliates of the System, participates in a cash management program managed by the Parent Corporation. This cash management program maintains separate accounts for each hospital in the Division and member affiliate at one central bank. Cash management deposits have the general characteristics of demand deposits in that the Division may deposit additional funds at any time and also effectively may withdraw funds at any time without prior notice or penalty, subject to limitations and controls established by the Parent Corporation. Certain deposits are federally insured in limited amounts. Amounts are transferred each day to or from a central investment pool maintained by the Parent Corporation. Cash management deposits approximated \$1,848,000 at December 31, 2010, and are included in cash and cash management deposits in the accompanying combined balance sheet.

The central investment pool primarily invests in fixed income instruments, equity instruments and alternative investments (primarily hedge funds) through partnership investment trusts and a wholly-owned subsidiary. See note 12 for allocation of investments in the central investment pool. Fixed income and equity instruments within the central investment pool, excluding alternative investments accounted for under the equity method, are recorded at fair value. The Parent Corporation has designated primarily all fixed income instruments within the central investment pool as other than trading securities and, accordingly, changes in unrealized gains and losses are included in the Parent Corporation's unrestricted net assets and allocated to the participants in the central investment pool when realized. The central investment pool's primary equity investment portfolio includes various domestic exchange indices and equity options, including puts and calls. The Parent Corporation has designated these equity instruments within the primary equity investment portfolio as trading securities and, accordingly, changes in unrealized gains and losses are included in the Parent Corporation's excess of revenue and gains over expenses and are allocated to the participants in the period they occur. Ownership interest in certain alternative investments is accounted for under the equity method. Accordingly, the Parent Corporation recognizes its share of these hedge funds' income or loss, both realized and unrealized, as investment income or loss and is allocated to the participants in the period they occur.

The Parent Corporation also has a wholly-owned subsidiary, AHS-K2 Alternatives Portfolio, Ltd. (the Fund), that invests in alternative investments through partnership investment trusts. The Fund follows the Financial Services – Investment Companies Topic of the ASC (ASC 946), which requires that the investments in the underlying funds be recorded at fair value. Unrealized appreciation and depreciation resulting from valuing the underlying funds is recognized as investment income or loss in the period they occur. Certain other equity investments, primarily held by the Division's Foundations, are designated as other than trading and the related change in unrealized gains and losses are included in the Division's unrestricted net assets. Investment income on the accompanying combined statement of operations and changes in net assets includes the Division's allocated share of the central investment pool's income, which includes interest and dividend income, realized gains and losses, certain unrealized gains and losses, and income or loss from hedge funds. The Parent Corporation accounts for investments on a settlement-date basis. See note 4 for details of investment income for the year ended December 31, 2010.

The central investment pool participates in securities lending transactions with its custodian, whereby a portion of its investments is loaned to certain brokerage firms in return for cash and securities from the brokers as collateral for the investments loaned, usually on a short-term basis. Collateral provided by brokers is maintained at levels approximating 102% of the fair value of the securities on loan and is adjusted for daily market fluctuations.

Notes to Combined Financial Statements

*For the year ended
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4. Assets Whose Use is Limited

Assets whose use is limited include investments held by bond trustees, investments held under other trust agreements, and investments designated by boards for employee retirement plans and capital expenditures. Amounts to be used for the payment of current liabilities are classified as current assets. Management has designated primarily all fixed income and equity instruments within assets whose use is limited as other than trading securities and, accordingly, changes in unrealized gains and losses are included in unrestricted net assets.

Indenture requirements of tax-exempt financings that are allocated to the Division provide for the establishment and maintenance of various accounts with trustees. These arrangements require the trustee to control the expenditure of debt proceeds, as well as the payment of interest and the payment of debt to bondholders. Investments held by trustees required under indenture agreements are allocated to the Division by the Parent Corporation in connection with the debt allocated to the Division (see note 7).

Assets whose use is limited is comprised of the following at December 31, 2010:

Other than trading portfolio

Fixed income instruments	
U.S. government agencies and sponsored entities	\$ 15,945
Municipal bonds	807
U.S. corporate bonds	872
Accrued interest	482
	<u>18,106</u>
Domestic equity instruments	2,596
Domestic bond index securities	377
	<u>2,973</u>
Cash, cash equivalents and cash management deposits	<u>115,680</u>
	<u><u>\$ 136,759</u></u>

A summary of the major limitations as to the use of these assets consists of the following at December 31, 2010:

Investments held by bond trustees – allocated required bond funds	\$ 29,228
Employee benefit funds	19,253
Board designated funds for capital expenditures	78,111
Other	10,167
	<u>136,759</u>
Less amounts to pay current liabilities	<u>(26,897)</u>
	<u><u>\$ 109,862</u></u>

Allocated trust funds are comprised of the following at December 31, 2010:

U.S. government agencies and sponsored entities	65%
Cash and cash equivalents	34
Accrued interest receivable	1
	<u>100%</u>

Notes to Combined Financial Statements

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Total investment income from the central investment pool allocation (see note 3) and assets whose use is limited amounted to \$56,875 and is comprised of the following for the year ended December 31, 2010:

Interest and dividend income	\$ 19,875
Net realized and unrealized gains/losses	22,770
The Division's share of hedge funds' income	14,230
	<u>\$ 56,875</u>

5. Property and Equipment

Property and equipment consists of the following at December 31, 2010:

Land and improvements	\$ 356,394
Buildings and improvements	1,962,672
Equipment	1,986,735
	<u>4,305,801</u>
Less allowances for depreciation	(1,752,547)
	<u>2,553,254</u>
Construction in progress	100,911
	<u>\$ 2,654,165</u>

Certain hospitals have entered into construction projects for which costs have been incurred and included in construction in progress. These and other committed projects will be financed through operations, proceeds of borrowings, and board designated funds (see note 4). The estimated costs to complete these projects approximated \$70,500 at December 31, 2010.

During periods of construction, interest costs are capitalized to the respective property accounts. Interest capitalized approximated \$2,900 for the year ended December 31, 2010.

6. Other Assets

Other assets consists of the following at December 31, 2010:

Goodwill	\$ 38,003
Deferred financing costs	13,112
Notes and loans receivable	30,806
Prepaid data processing fees (see note 11)	21,661
Interests in net assets of unconsolidated foundations	44,911
Investment in unconsolidated entities	23,066
Other noncurrent assets	31,232
	<u>\$ 202,791</u>

Notes to Combined Financial Statements

*For the year ended
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7. Long-Term Debt

Long-term debt consists of the following at December 31, 2010:

Fixed-rate Hospital Revenue Bonds, interest rates from 2.00% to 6.25%, payable through 2039	\$ 1,193,940
Variable-rate Hospital Revenue Bonds, payable through 2037	470,464
Capitalized leases payable	46,857
Other indebtedness	7,562
Unamortized original issue premiums, net	10,540
	<hr/>
	1,729,363
Less current maturities	(38,447)
	<hr/>
	<u>\$ 1,690,916</u>

Master Trust Indenture

Long-term debt has been issued primarily on a tax-exempt basis. Certain members of the Division and certain other affiliates controlled by the Parent Corporation comprise the Adventist Health System/Sunbelt Obligated Group (Obligated Group). The Obligated Group is a group of not-for-profit corporations, which are jointly and severally liable under a Master Trust Indenture (MTI) to make all payments required with respect to obligations under the MTI. Total obligations under the MTI were approximately \$3,394,000 at December 31, 2010. At December 31, 2010, the Obligated Group had unrestricted net assets of approximately \$4,111,000. The obligations are secured under the MTI, which provides, among other things, for the deposit of revenue with the master trustee in the event of certain defaults, pledges of accounts receivable, pledges not to encumber property, and limitations on additional borrowings. In addition, the MTI requires certain covenants and reporting requirements to be met by the Obligated Group.

The System allocates debt and the related proceeds to individual facilities based on capital funding needs. Subsequently, the individual facility's debt is managed under a pooled debt methodology. Under this methodology, each facility is allocated debt balances in the same ratio of fixed-rate to variable-rate debt balances that exist at the System. Each facility is allocated interest expense using a weighted-average interest rate based on the total interest expense of the System.

Variable-Rate Bonds

Certain variable-rate bonds may be put to the Parent Corporation at the option of the bondholder. The variable-rate bonds have associated remarketing agreements, which generally provide the Parent Corporation the option to market the obligations at the then prevailing market rates for periods ranging from seven days to the maturity dates.

The obligations have been primarily marketed for seven-day periods during 2010, with interest rates ranging from 0.02% to 1.25%. The Parent Corporation has various sources of liquidity in the event any variable-rate bonds are put and not remarketed, including bank letter of credit agreements. The bank letter of credit agreements provide, among other things, that in the event a market for these obligations is not sustained, the bank would purchase the obligations at rates that vary with prime or in certain cases, the London Interbank Offer Rate (LIBOR). The Parent Corporation's obligation to the bank would be payable in accordance with the variable-rate bonds' original maturities over the remaining term of the letter of credit agreements, with the remaining amount due upon expiration of the letter of credit agreements.

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The System has a revolving credit agreement (Revolving Note) with a syndicate of banks (Syndicate) in the aggregate amount of \$1,885,200 for letter of credit agreements, liquidity facilities and general corporate needs, including working capital, capital expenditures, and acquisitions. The Revolving Note, which expires in December 2011, has certain prime rate and LIBOR-based pricing options. At December 31, 2010, the System had \$736,377 of the Revolving Note committed to letters of credit agreements that secure variable-rate bonds. At December 31, 2010, \$5,000 was outstanding under the Revolving Note, which is included in short-term financings in the accompanying combined balance sheet.

In December 2010, the System amended the Revolving Note (New Revolving Note) with a revised group of banks (New Syndicate). The New Revolving Note totals \$1,750,000 and has an expiration date of December 2015. The New Revolving Note was executed in December 2010 and became effective on March 10, 2011, upon the replacement of the existing letters of credit with letters of credit issued by the New Syndicate.

As of December 31, 2010, the Parent Corporation had \$81,390 of variable-rate bonds supported by a standby bond purchase agreement. This agreement provides, among other things, that in the event a market for certain obligations is not sustained, the bank would purchase the obligations at rates that vary with the higher of the prime rate or the federal funds rate. The Parent Corporation's obligation to the bank would be payable in accordance with the variable-rate bonds' original maturities over the remaining term of the standby bond purchase agreement, with the remaining amount due upon expiration of the standby bond purchase agreement in March 2013.

Variable-rate bonds that are not supported by or exceed the limits under bank letter of credit agreements or are supported by agreements that expire within a year are included in short-term financings in the accompanying combined balance sheet.

2010 Debt Transactions

During September 2010, the Parent Corporation drew \$225,000 on its Revolving Note and used the proceeds to extinguish the outstanding bonds of UCH. During 2010, the Parent Corporation issued bonds with par amounts totaling \$357,000 with final maturity dates in 2036. Bonds with par amounts totaling \$282,000 have fixed interest rates ranging from 2.39% to 2.96% through a mandatory tender date of January 2018. Bonds with par amounts of \$75,000 have a fixed interest rate of 3.57% through a mandatory tender date of January 2021. The interest rate on these bonds may be reset at the respective mandatory tender dates to either a fixed-rate or variable-rate mode. Proceeds from these bonds were used to repay the draw on the Revolving Note, extinguish certain other debt and provide funding for certain pension plans and working capital needs of acquired facilities. In connection with the extinguishment of the UCH debt obligation, the Division recorded a loss from early extinguishment of debt of \$11,871. This amount is included in nonoperating gains, net in the combined statement of operations and changes in net assets. The Division also transferred net assets in the amount of \$1,610 to the Parent Corporation, which included deferred financing costs, original issue discounts or premiums, and debt service reserve funds related to other obligations that were extinguished. This amount is included in transfers to affiliates in the accompanying combined statement of operations and changes in net assets for the year ended December 31, 2010.

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Maturities of long-term debt consist of the following:

2011	\$	38,447
2012		46,765
2013		39,737
2014		38,770
2015		40,679
Thereafter		1,514,425

Cash paid for interest, net of amounts capitalized, approximated \$49,500 during the year ended December 31, 2010.

8. Retirement Plans

Defined Contribution Plans

The Division participates with other Seventh-day Adventist healthcare entities in a defined contribution retirement plan (Plan) that covers substantially all full-time employees who are at least 18 years of age. The Plan is exempt from the Employee Retirement Income Security Act of 1974. The Plan provides, among other things, that the employer contribute 2.6% of wages, plus additional amounts for very highly paid employees. Additionally, the Plan provides that the employer match 50% of the employee's contributions up to 4% of the contributing employee's wages, resulting in a maximum available match of 2% of the contributing employee's wages each year. UCH and BFMC sponsored retirement savings plans through December 31, 2010. Subsequent to December 31, 2010, these plans ceased accepting contributions. Effective January 1, 2011, both UCH and BFMC employees were eligible to participate in the Plan.

Contributions for all of the above plans are included in employee compensation in the accompanying combined statement of operations and changes in net assets in the amount of \$36,876 for the year ended December 31, 2010.

Defined Benefit Plans

Prior to January 1, 1992, substantially all of the hospitals within the Division participated in a multiemployer, noncontributory defined benefit retirement plan (Old Plan) administered by the General Conference of Seventh-day Adventists that is exempt from the Employee Retirement Income Security Act of 1974. During 1992, the Old Plan was suspended and the Plan was established. The Division, along with the other participants in the Old Plan, may be required to make future contributions to the Old Plan to fund any difference between the present value of the Old Plan benefits and the fair value of the Old Plan assets. Future funding amounts and the funding time period have not been determined by the Old Plan administrators; however, management believes the impact of any such future decisions will not have a material adverse effect to the Division's combined financial statements.

As of the date of the acquisitions by the Parent Corporation, both UCH and BFMC sponsored noncontributory defined benefit pension plans (the Pension Plans). The System froze the Pension Plans in December 2010, such that no new benefits will be accrued in the future. As a result of freezing future benefits, the Division recognized a curtailment gain of approximately \$4,882 during the year ended December 31, 2010, which is included in employee compensation in the accompanying combined statement of operations and changes in net assets.

ASC Topic 715, Compensation – Retirement Benefits, requires employers that sponsor defined benefit plans to recognize the funded status of their postretirement benefit plans in the statement of financial position, measure the fair value of plan assets and benefit

Notes to Combined Financial Statements

*For the year ended
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obligations as of the date of the year-end statement of financial position, and provide additional disclosures.

The following table sets forth the combined benefit obligations and the assets of the Pension Plans at December 31, 2010, the components of net periodic benefit costs for the year then ended, and a reconciliation of the amounts recognized in the accompanying combined financial statements:

Accumulated benefit obligation, end of year	<u>\$ 196,206</u>
Change in projected benefit obligation:	
Projected benefit obligation, beginning of year	\$ –
Projected benefit obligation assumed in acquisitions	212,835
Service cost	552
Interest cost	3,836
Curtailement gain	(4,882)
Benefits paid	(2,363)
Actuarial gain	<u>(13,772)</u>
Projected benefit obligation, end of year	196,206
Change in plan assets:	
Fair value of plan assets, beginning of year	–
Fair value of plan assets at acquisition	114,083
Actual return on plan assets	12,990
Employer contributions	1,559
Benefits paid	<u>(2,363)</u>
Fair value of plan assets, end of year	<u>126,269</u>
Deficiency of fair value of plan assets over projected benefit obligation, included in other noncurrent liabilities	<u>\$ (69,937)</u>

Included in unrestricted net assets at December 31, 2010, are unrecognized actuarial gains of approximately \$23,500 that have not yet been recognized in net periodic pension expense. The actuarial gain included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending December 31, 2011 is \$186.

The components of net periodic pension benefit for the year ended December 31, 2010, were as follows:

Service cost	\$ 552
Interest cost	3,836
Expected return on plan assets	(3,262)
Curtailement gain	(4,882)
Net periodic pension benefit	<u>\$ (3,756)</u>

The assumptions used to determine the benefit obligation and net periodic benefit cost for the Pension Plans are set forth below:

Used to determine projected benefit obligation	
Discount rate	5.35 – 5.50%
Used to determine benefit cost	
Discount rate	4.80 – 5.50%
Expected long-term rate of return on plan assets	8.00 – 8.50%
Rate of compensation increase	3.00 – 3.50%

**Adventist Health
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The Pension Plans' assets are invested in a portfolio designed to protect principal and obtain competitive investment returns and long-term investment growth, consistent with actuarial assumptions, with a reasonable and prudent level of risk. Diversification is achieved by allocating funds to various asset classes and investment styles and by retaining multiple investment managers with complementary styles, philosophies, and approaches.

The Pension Plans' assets are managed solely in the interest of the Pension Plans' participants and their beneficiaries. The expected long-term rate of return on the Pension Plans' assets is based on historical and projected rates of return for current and planned asset categories in the Pension Plans' investment portfolio. Assumed projected rates of return for each asset category were selected after analyzing historical experience and future expectations of the returns and volatility for assets of that category using benchmark rates. Based on the target allocation among the asset categories, the overall expected rate of return for the portfolio was developed and adjusted for historical and expected experience of active portfolio management results compared to benchmark returns and for the effect of expenses paid from plan assets.

At December 31, 2010, the Pension Plan's assets consist primarily of cash and cash equivalents, publicly traded common stocks of both U.S. and international corporations, and fixed income securities. The System is in the process of reallocating the investment portfolio of the Pension Plans to a new asset allocation.

The weighted-average asset allocation for the Pension Plans at December 31, 2010, by asset category, is as follows:

Cash and cash equivalents	56%
Equities	40%
Fixed income	4%
	<u>100%</u>

The following table presents the Pension Plans' financial instruments as of December 31, 2010, measured at fair value on a recurring basis by the valuation hierarchy defined in note 12.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 71,198	\$ 71,198	\$ -	\$ -
Equity securities:				
Domestic	47,027	36,992	10,035	-
Foreign	2,761	2,761	-	-
Fixed income	5,283	5,283	-	-
	<u>\$ 126,269</u>	<u>\$ 116,234</u>	<u>\$ 10,035</u>	<u>\$ -</u>

Fair value methodologies for Level 1 and Level 2 are consistent with the inputs described in note 12.

Notes to Combined Financial Statements

*For the year ended
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Expected employer contributions for the year ending December 31, 2011, are \$43,800. The following represents the expected benefit plan payments for the next five years and the five years thereafter:

Year ending December 31:		
2011	\$	6,201
2012		6,725
2013		7,314
2014		7,927
2015		8,567
2016-2020		53,581

9. Medical Malpractice

The Division participates in a self-insured revocable trust (Trust), which covers the System's facilities for claims below a specified level (Excess Level). Claims above the Excess Level are covered by a claims-made policy with a commercial insurance company. An Excess Level of \$2,000 was established for the year ended December 31, 2001. The Excess Level was increased to \$7,500 and \$15,000, effective January 1, 2002 and 2003, respectively, and has remained at \$15,000 through December 31, 2010.

The assets and liabilities related to the Trust are recorded in the Parent Corporation's consolidated financial statements.

10. Commitments and Contingencies

Operating Leases

The Division leases certain property and equipment under operating leases. Lease and rental expense was approximately \$37,000 for the year ended December 31, 2010.

Net future minimum lease payments under noncancelable operating leases as of December 31, 2010, are as follows:

2011	\$	15,408
2012		13,703
2013		7,256
2014		5,465
2015		4,570
Thereafter		8,671

Litigation

Certain of the Division's facilities are involved in litigation arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters will be resolved without material adverse effect to the Division's combined financial statements.

Notes to Combined Financial Statements

*For the year ended
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11. Transactions with Related Organizations

Certain transactions are made with the Parent Corporation on a routine basis. These transactions are comprised of information technology services, medical malpractice, management fees (includes fees for management and other services provided by the Parent Corporation), workers' compensation, and other fees (includes legal fees, taxes, professional fees, and other items, initially paid for by the Parent Corporation).

Management fees and allocated costs consist of the following for the year ended December 31, 2010:

Information technology services	\$ 35,467
Medical malpractice insurance	45,107
Management fees	38,846
Workers' compensation insurance	5,261
Other fees	6,953
	<u>\$ 131,634</u>

During 2010, the Division transferred \$19,908 to the Parent Corporation to assist in funding various System operating and capital needs. Additionally, the Division transferred \$1,753 of net assets to affiliates under common control of the Parent Corporation for the funding of operating and capital needs.

Receivables from and payables to related organizations are principally related to the Parent Corporation and other affiliated organizations. These amounts consist of the following at December 31, 2010:

Receivables from related organizations included in other receivables (current)	\$ 13,194
Payables to related organizations included in other current liabilities	70,675

The Division serves patients under a contractual agreement with a managed care provider, which is a controlled affiliate of the Parent Corporation. Payments under this contractual agreement are based upon discounts from established charges. Services under the agreement represented approximately \$56,200 of the Division's patient service revenue for the year ended December 31, 2010. Premiums paid to the affiliate for employee health benefits approximated \$76,200 for the year ended December 31, 2010, and are included in employee compensation.

The Division pays professional fees to an affiliate for physician services related to physicians employed by the affiliate. Fees paid during 2010 approximated \$25,193 and are included in professional fees in the accompanying statement of operations and changes in net assets.

The Division has prepaid for certain data processing services to a related organization. The amount paid during 2010 was approximately \$9,900. The unamortized portion of the prepaid fees is included in other current assets and other assets (see note 6) in the accompanying combined balance sheet and will be amortized in future years.

Notes to Combined Financial Statements

For the year ended
December 31, 2010
(dollars in thousands)

12. Fair Value Measurements

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

Certain of the Division's financial assets and financial liabilities are measured at fair value on a recurring basis, including certain cash equivalents. The three levels of the fair value hierarchy defined by ASC 820 and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Division has the ability to access.

Level 2 – Financial assets and liabilities whose values are based on pricing inputs that are either directly observable or that can be derived or supported from observable data as of the reporting date. Level 2 inputs may include quoted prices for similar assets or liabilities in nonactive markets or pricing models whose inputs are observable for substantially the full term of the asset or liability.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both significant to the fair value of the financial asset or financial liability and are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. The Division has no financial assets or financial liabilities with significant Level 3 inputs.

Fair Values

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

The fair value of financial assets that are measured at fair value on a recurring basis at December 31, 2010, was as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
ASSETS				
Investments				
U.S. government agencies and sponsored entities	\$ 29	\$ –	\$ 29	\$ –
Domestic equities	123	123	–	–
Foreign equities	10	10	–	–
Total investments	<u>\$ 162</u>	<u>\$ 133</u>	<u>\$ 29</u>	<u>\$ –</u>

Notes to Combined Financial Statements

For the year ended
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(dollars in thousands)

	As of December 31, 2010 (cont.)			
	Total	Level 1	Level 2	Level 3
Assets whose use is limited				
U.S. government agencies and sponsored entities	\$ 15,945	\$ 15,945	\$ —	\$ —
U.S. corporate bonds	872	872	—	—
Municipal bonds	807	—	807	—
Domestic equity securities	2,596	2,596	—	—
Domestic bond index securities	377	377	—	—
Cash and cash equivalents	8,784	—	8,784	—
Total	\$ 29,381	\$ 19,790	\$ 9,591	\$ —

The fair value of financial assets that comprise the central investment pool and allocated trustee-held funds that are measured at fair value on a recurring basis at December 31, 2010, were measured at fair value based on inputs categorized as follows:

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	29%	29%	—%	—%
U.S. government agencies and sponsored entities	39	—	39	—
U.S. corporate bonds	2	—	2	—
Residential mortgage-backed	4	—	4	—
Collateralized debt obligations	3	—	3	—
Alternative investments	12	—	12	—
Domestic equity index securities	11	11	—	—
Total	100%	40%	60%	—%

The carrying value of cash, accounts receivable and accounts payable are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The fair values of the Division's allocated fixed-rate bonds are based on quoted market prices for the same or similar issues and approximate \$1,214,000 as of December 31, 2010. The carrying amount approximates fair value for all other long-term debt (see note 7).

Reconciliation to the Combined Balance Sheets

Assets whose use is limited is reflected in the combined balance sheet at December 31, 2010 as follows:

Assets whose use is limited measured at fair value	\$ 29,381
Cash management deposits	106,896
Accrued interest	482
Total assets whose use is limited	\$ 136,759

Notes to Combined Financial Statements

*For the year ended
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Valuation Techniques and Inputs

Within the central investment pool and for those financial assets held by the Division, the fair values of the securities included in Level 1 were determined through quoted market prices. The fair values of Level 2 financial assets and liabilities were determined as follows:

Cash equivalents, U.S. government agencies and sponsored entities, U.S. corporate bonds, residential mortgage-backed and collateralized debt obligations – These Level 2 securities were valued through the use of third party pricing services that use evaluated bid prices adjusted for specific bond characteristics and market sentiment.

Alternative investments – These underlying funds are valued using the NAV as a practical expedient to determine fair value. Several factors are considered in appropriately classifying the underlying funds in the fair value hierarchy. An underlying fund is generally classified as Level 2 if the Parent Corporation has the ability to withdraw its investment with the underlying fund at NAV at the measurement date. An underlying fund is generally classified as Level 3 if the Parent Corporation does not have the ability to withdraw its investment with the underlying fund at NAV such as investments in closed end funds, side pockets or funds with suspended withdrawals imposed. If the Parent Corporation cannot withdraw its investment with the underlying funds at NAV when such investment is subject to lock-up or gate, or its withdrawal period does not coincide with the Parent Corporation's measurement date, the Parent Corporation considers the length of time until the investment will become redeemable in determining whether the fair value measurement of the investment should be classified as a Level 2 or Level 3 fair value measurement.

13. Subsequent Events

Subsequent to the acquisition of BFMC by the Parent Corporation, the Bert Fish Foundation, Inc. filed a lawsuit against the District, BFMC and the System (the Parties). The lawsuit alleged the acquisition was not completed in accordance with applicable Florida statutes and seeks to unwind the transaction. In late February 2011, Florida's Seventh Judicial Circuit Court (the Court) ruled that the parties must submit a plan to return the control of BFMC from the System back to the District. The System expects the transfer of control to be completed in the second quarter of 2011.

The Division evaluated events and transactions occurring subsequent to December 31, 2010 through March 28, 2011, the date the combined financial statements were available for issuance. During this period, there were no subsequent events that required recognition in the combined financial statements. Additionally, there were no nonrecognized subsequent events that required disclosure.

Other Financial Information

Adventist Health System – Florida Division Hospitals

Combining Balance Sheets

December 31, 2010

(dollars in thousands)

	Florida Hospital Medical Center	Florida Hospital Zephyrhills, Inc.	Florida Hospital Heartland Medical Center	Florida Hospital Wauchula	Southwest Volusia Healthcare Corporation	Memorial Hospital – West Volusia, Inc.
ASSETS						
Current Assets						
Cash and cash management deposits	\$ 1,161,931	\$ 78,075	\$ 74,949	\$ 1,100	\$ 68,130	\$ 39,406
Investments	–	162	–	–	–	–
Current portion of assets whose use is limited	22,201	376	380	–	358	190
Patient accounts receivable, net	55,975	1,138	1,254	375	379	432
Other receivables	128,416	6,998	8,581	11,725	6,126	6,018
Inventories	48,846	2,358	2,582	102	2,075	1,404
Prepaid expenses and other current assets	10,788	1,220	1,739	64	2,009	1,580
	<u>1,428,157</u>	<u>90,327</u>	<u>89,485</u>	<u>13,366</u>	<u>79,077</u>	<u>49,030</u>
Property and Equipment	1,341,609	74,841	73,670	4,548	59,180	52,595
Assets Whose Use is Limited, net of current portion	12,898	940	949	–	893	476
Other Assets	52,334	5,676	4,854	–	3,656	3,119
	<u>\$ 2,834,998</u>	<u>\$ 171,784</u>	<u>\$ 168,958</u>	<u>\$ 17,914</u>	<u>\$ 142,806</u>	<u>\$ 105,220</u>
LIABILITIES AND NET ASSETS						
Current Liabilities						
Accounts payable and accrued liabilities	\$ 159,103	\$ 8,391	\$ 9,022	\$ 987	\$ 6,990	\$ 7,745
Estimated settlements to third parties	36,057	2,469	5,012	1,628	1,372	1,609
Other current liabilities	80,731	296	10,830	–	279	225
Short-term financings	76,009	5,173	5,228	–	4,918	2,619
Current maturities of long-term debt	20,276	1,233	1,246	–	1,471	885
	<u>372,176</u>	<u>17,562</u>	<u>31,338</u>	<u>2,615</u>	<u>15,030</u>	<u>13,083</u>
Long-Term Debt, net of current maturities	887,141	64,038	64,724	–	61,172	32,621
Other Noncurrent Liabilities	17,622	–	105	123	25	58
	<u>1,276,939</u>	<u>81,600</u>	<u>96,167</u>	<u>2,738</u>	<u>76,227</u>	<u>45,762</u>
Net Assets						
Unrestricted net asset (deficit)	1,478,973	89,223	72,717	14,952	65,942	59,099
Temporarily restricted net asset	79,086	961	74	224	637	359
	<u>1,558,059</u>	<u>90,184</u>	<u>72,791</u>	<u>15,176</u>	<u>66,579</u>	<u>59,458</u>
Commitments and Contingencies						
	<u>\$ 2,834,998</u>	<u>\$ 171,784</u>	<u>\$ 168,958</u>	<u>\$ 17,914</u>	<u>\$ 142,806</u>	<u>\$ 105,220</u>

Florida Hospital Memorial Medical Center and Florida Hospital – Oceanside	Memorial Hospital – Flagler, Inc.	Florida Hospital Waterman, Inc.	University Community Hospital – Medical Center	University Community Hospital – Carrollwood	Long-Term Acute Care Hospital	Tarpon Springs Hospital Foundation, Inc.	Bert Fish Medical Center, Inc.	Elimination Entries	Combined Total
\$ 91,797	\$ 117,759	\$ 153,465	\$ 52,481	\$ 49	\$ –	\$ 2,851	\$ 7,802	\$ –	\$ 1,849,795
–	–	–	–	–	–	–	–	–	162
859	432	597	–	–	–	–	1,504	–	26,897
2,048	3,330	750	37,510	12,131	4,225	8,823	6,992	–	135,362
12,277	5,511	7,691	546,620	481,063	89,352	3,577	98	(1,120,462)	193,591
4,577	2,626	3,485	7,303	1,790	223	1,237	1,914	–	80,522
2,190	1,070	2,259	3,895	–	46	430	921	–	28,211
<u>113,748</u>	<u>130,728</u>	<u>168,247</u>	<u>647,809</u>	<u>495,033</u>	<u>93,846</u>	<u>16,918</u>	<u>19,231</u>	<u>(1,120,462)</u>	<u>2,314,540</u>
287,082	75,985	134,031	363,438	101,738	24,717	14,177	46,554	–	2,654,165
2,146	1,079	1,492	64,704	–	–	7,669	16,616	–	109,862
25,337	17,553	23,165	53,295	3,083	1,874	5,235	3,610	–	202,791
<u>\$ 428,313</u>	<u>\$ 225,345</u>	<u>\$ 326,935</u>	<u>\$ 1,129,246</u>	<u>\$ 599,854</u>	<u>\$ 120,437</u>	<u>\$ 43,999</u>	<u>\$ 86,011</u>	<u>\$ (1,120,462)</u>	<u>\$ 5,281,358</u>
\$ 11,096	\$ 9,737	\$ 12,334	\$ 33,732	\$ 7,858	\$ 1,234	\$ 11,913	\$ 9,567	\$ (29)	\$ 289,680
5,863	3,283	4,573	6,855	1,362	–	847	1,076	–	72,006
2,728	650	591	576,927	438,701	93,740	14,796	2,878	(1,120,433)	102,939
11,813	5,939	8,213	–	–	–	4,424	–	–	124,336
4,131	1,415	2,396	1,573	442	55	179	3,145	–	38,447
<u>35,631</u>	<u>21,024</u>	<u>28,107</u>	<u>619,087</u>	<u>448,363</u>	<u>95,029</u>	<u>32,159</u>	<u>16,666</u>	<u>(1,120,462)</u>	<u>627,408</u>
148,416	73,738	102,036	144,326	56,556	28,643	6,932	20,573	–	1,690,916
648	140	252	39,073	8,262	393	15,072	20,550	–	102,323
<u>184,695</u>	<u>94,902</u>	<u>130,395</u>	<u>802,486</u>	<u>513,181</u>	<u>124,065</u>	<u>54,163</u>	<u>57,789</u>	<u>(1,120,462)</u>	<u>2,420,647</u>
239,454	129,585	179,356	308,358	86,673	(3,628)	(12,816)	28,201	–	2,736,089
4,164	858	17,184	18,402	–	–	2,652	21	–	124,622
<u>243,618</u>	<u>130,443</u>	<u>196,540</u>	<u>326,760</u>	<u>86,673</u>	<u>(3,628)</u>	<u>(10,164)</u>	<u>28,222</u>	<u>–</u>	<u>2,860,711</u>
<u>\$ 428,313</u>	<u>\$ 225,345</u>	<u>\$ 326,935</u>	<u>\$ 1,129,246</u>	<u>\$ 599,854</u>	<u>\$ 120,437</u>	<u>\$ 43,999</u>	<u>\$ 86,011</u>	<u>\$ (1,120,462)</u>	<u>\$ 5,281,358</u>

Adventist Health System – Florida Division Hospitals

Combining Statement of Revenue and Expenses

December 31, 2010

	Florida Hospital Medical Center	Florida Hospital Zephyrhills, Inc.	Florida Hospital Heartland Medical Center	Florida Hospital Wauchula	Southwest Volusia Healthcare Corporation	Memorial Hospital – West Volusia, Inc.	Florida Hospital Memorial Medical Center and Florida Hospital – Oceanside
<i>(dollars in thousands)</i>							
Revenue							
Patient service	\$ 2,107,037	\$ 135,393	\$ 141,987	\$ 20,792	\$ 134,664	\$ 112,955	\$ 208,800
Other	11,386	751	1,058	34	731	753	1,230
Total operating revenue	<u>2,118,423</u>	<u>136,144</u>	<u>143,045</u>	<u>20,826</u>	<u>135,395</u>	<u>113,708</u>	<u>210,030</u>
Expenses							
Employee compensation	933,252	54,058	62,719	8,338	55,010	49,712	80,239
Supplies	398,606	24,468	24,949	1,149	22,204	16,701	49,229
Professional fees	150,836	15,004	15,712	5,123	10,773	11,739	17,798
Provision for bad debts	83,037	7,533	7,288	2,300	7,754	8,728	8,211
Other	221,189	15,182	17,865	3,198	17,322	14,032	25,184
Interest	48,653	3,664	3,668	–	3,421	1,896	8,463
Depreciation and amortization	113,581	6,812	6,256	564	6,356	4,937	18,303
Total operating expenses	<u>1,949,154</u>	<u>126,721</u>	<u>138,457</u>	<u>20,672</u>	<u>122,840</u>	<u>107,745</u>	<u>207,427</u>
Income (Loss) from Operations	169,269	9,423	4,588	154	12,555	5,963	2,603
Nonoperating Gains (Losses)	15,223	(4,850)	(461)	(45)	348	(194)	1,284
Excess (Deficiency) of Revenue and Gains over Expenses	<u>\$ 184,492</u>	<u>\$ 4,573</u>	<u>\$ 4,127</u>	<u>\$ 109</u>	<u>\$ 12,903</u>	<u>\$ 5,769</u>	<u>\$ 3,887</u>

Memorial Hospital – Flagler, Inc.	Florida Hospital Waterman, Inc.	University Community Hospital – Medical Center	University Community Hospital – Carrollwood	Long-Term Acute Care Hospital	Tarpon Springs Hospital Foundation, Inc.	Bert Fish Medical Center, Inc.	Combined Total
\$ 113,845	\$ 177,805	\$ 107,857	\$ 29,413	\$ 6,718	\$ 22,580	\$ 35,989	\$ 3,355,835
366	8,034	1,978	101	48	91	9,367	35,928
<u>114,211</u>	<u>185,839</u>	<u>109,835</u>	<u>29,514</u>	<u>6,766</u>	<u>22,671</u>	<u>45,356</u>	<u>3,391,763</u>
37,877	74,965	44,186	10,573	2,835	9,765	19,537	1,443,066
17,132	35,473	23,696	10,208	926	4,575	8,431	637,747
7,504	15,408	5,517	1,073	592	1,607	2,206	260,892
5,096	10,991	9,310	1,164	111	4,060	4,715	160,298
13,615	20,990	16,418	4,947	808	5,882	8,836	385,468
4,221	5,913	1,282	434	158	326	385	82,484
5,877	11,543	8,321	1,873	289	222	2,249	187,183
<u>91,322</u>	<u>175,283</u>	<u>108,730</u>	<u>30,272</u>	<u>5,719</u>	<u>26,437</u>	<u>46,359</u>	<u>3,157,138</u>
22,889	10,556	1,105	(758)	1,047	(3,766)	(1,003)	234,625
4,561	8,389	(179)	(4,798)	(1,792)	(12)	(1,002)	16,472
<u>\$ 27,450</u>	<u>\$ 18,945</u>	<u>\$ 926</u>	<u>\$ (5,556)</u>	<u>\$ (745)</u>	<u>\$ (3,778)</u>	<u>\$ (2,005)</u>	<u>\$ 251,097</u>

**Report of
Independent
Certified
Public
Accountants**

The Board of Directors
Adventist Health System Sunbelt Healthcare Corporation
d/b/a Adventist Health System

We have audited the accompanying combined balance sheet of Adventist Health System – Florida Division Hospitals (the Division) as of December 31, 2010, and the related combined statement of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Division’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Adventist Health System – Florida Division Hospitals at December 31, 2010 and the combined results of their operations and their cash flows for the year then ended, in conformity with accounting principals generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The combining balance sheet and statement of revenue and expenses on pages 24 through 27 are presented for purposes of additional analysis and are not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

Ernst & Young LLP

Orlando, Florida
March 28, 2011

**Adventist Health
System – Florida
Division Hospitals**