



**CENTRAL FLORIDA HEALTH ALLIANCE, INC.
OBLIGATED GROUP**

Combined Financial Statements
and Other Financial Information

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

**CENTRAL FLORIDA HEALTH ALLIANCE, INC.
OBLIGATED GROUP**

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KPMG LLP
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Independent Auditors' Report

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

We have audited the accompanying combined balance sheets of the Central Florida Health Alliance, Inc. Obligated Group (Obligated Group) as of June 30, 2010 and 2009, and the related combined statements of operations and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Obligated Group's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Central Florida Health Alliance, Inc. Obligated Group as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining information included in Schedules 1 and 2 is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations, and changes in net assets of the individual companies. The combining information has been subjected to the auditing procedures applied in the audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

KPMG LLP

November 9, 2010
Certified Public Accountants

**CENTRAL FLORIDA HEALTH ALLIANCE, INC.
OBLIGATED GROUP**

Combined Balance Sheets

June 30, 2010 and 2009

Assets	2010	2009
	<u> </u>	<u> </u>
Current assets:		
Cash and cash equivalents	\$ 53,635,944	34,328,814
Cash and investments held by bond trustee – required for current liabilities	11,552,859	12,479,985
Accounts receivable, less allowances for uncollectible patient accounts of approximately \$40,466,000 and \$38,196,000 in 2010 and 2009, respectively	44,068,697	38,838,787
Estimated third-party settlements, net	1,295,000	1,758,080
Supplies	9,899,409	8,860,081
Prepaid expenses and other current assets	9,066,378	11,867,585
Total current assets	<u>129,518,287</u>	<u>108,133,332</u>
Assets limited as to use:		
Cash and investments held by bond trustee, less current portion	6,577,710	5,986,813
Other	4,575,567	2,660,774
Total assets limited as to use	<u>11,153,277</u>	<u>8,647,587</u>
Property and equipment, net	176,575,169	184,822,376
Other assets:		
Investments	88,036,572	96,245,865
Deferred loan costs, net	1,762,631	2,414,097
Interest in net assets of Leesburg Regional Medical Center Charitable Foundation, Inc.	—	1,524,290
Due from affiliates	7,388,113	1,280,004
Other assets	894,248	—
Total other assets	<u>98,081,564</u>	<u>101,464,256</u>
Total assets	<u>\$ 415,328,297</u>	<u>403,067,551</u>

**CENTRAL FLORIDA HEALTH ALLIANCE, INC.
OBLIGATED GROUP**

Combined Balance Sheets

June 30, 2010 and 2009

Liabilities and Net Assets	2010	2009
	<u> </u>	<u> </u>
Current liabilities:		
Accounts payable	\$ 19,860,709	15,744,839
Accrued expenses:		
Employee compensation and benefits	20,467,163	14,712,215
Interest	2,186,356	2,069,202
Other	11,501,375	12,929,155
Current portion of long-term debt	<u>5,000,000</u>	<u>4,715,000</u>
Total current liabilities	59,015,603	50,170,411
Interest rate swaps	7,663,158	5,121,610
Other	12,907,742	8,342,913
Long-term debt, less current portion	<u>154,594,700</u>	<u>162,282,084</u>
Total liabilities	<u>234,181,203</u>	<u>225,917,018</u>
Net assets:		
Unrestricted	181,147,094	175,919,304
Temporarily restricted	—	129,367
Permanently restricted	<u>—</u>	<u>1,101,862</u>
Total net assets	<u>181,147,094</u>	<u>177,150,533</u>
Total liabilities and net assets	<u>\$ 415,328,297</u>	<u>403,067,551</u>

See accompanying notes to combined financial statements.

**CENTRAL FLORIDA HEALTH ALLIANCE, INC.
OBLIGATED GROUP**

Combined Statements of Operations
and Changes in Net Assets

Years ended June 30, 2010 and 2009

	2010	2009
Unrestricted revenues:		
Net patient service revenue	\$ 356,970,899	355,503,779
Other revenues	3,972,874	3,265,341
Total revenues	360,943,773	358,769,120
Expenses:		
Salaries, wages, and benefits	154,185,773	156,730,754
Supplies and other costs	114,684,537	116,721,809
Physician and other professional fees	30,825,059	27,166,072
Provision for bad debts	26,961,851	27,098,156
Depreciation and amortization	23,307,829	24,265,902
Interest	6,255,524	7,237,207
Total expenses	356,220,573	359,219,900
Income (loss) from operations	4,723,200	(450,780)
Nonoperating gains (losses):		
Investment loss, net	(3,070,456)	(2,316,910)
Change in net unrealized gains and losses on investments	6,788,945	(7,813,344)
Change in fair value of interest rate swaps	(2,541,548)	(4,212,764)
Contributions	202,470	5,196
Change in interest in net assets of Leesburg Regional Medical Center Charitable Foundation, Inc.	—	(393,832)
Loss on extinguishment of debt	(648,158)	(5,926,723)
Gain on sale of property and equipment	28,128	3,244
Other	38,270	9,186
Nonoperating gains (losses), net	797,651	(20,645,947)
Excess (deficiency) of revenue and gains over expenses before discontinued operations	5,520,851	(21,096,727)
Discontinued operations:		
Gain on sale of businesses	—	6,380,959
Operating loss from discontinued operations	—	(545,047)
Discontinued operations	—	5,835,912
Excess (deficiency) of revenue and gains over expenses	5,520,851	(15,260,815)
Other changes in unrestricted net assets:		
Transfer of beneficial interest in net assets of Leesburg Regional Medical Center Charitable Foundation, Inc.	(293,061)	—
Change in unrestricted net assets	5,227,790	(15,260,815)
Temporarily restricted net assets:		
Transfer of beneficial interest in net assets of Leesburg Regional Medical Center Charitable Foundation, Inc.	(129,367)	129,367
Change in temporarily restricted net assets	(129,367)	129,367
Permanently restricted net assets:		
Transfer of beneficial interest in net assets of Leesburg Regional Medical Center Charitable Foundation, Inc.	(1,101,862)	(130,207)
Change in permanently restricted net assets	(1,101,862)	(130,207)
Change in net assets	3,996,561	(15,261,655)
Net assets, beginning of year	177,150,533	192,412,188
Net assets, end of year	\$ 181,147,094	177,150,533

See accompanying notes to combined financial statements.

CENTRAL FLORIDA HEALTH ALLIANCE, INC.
OBLIGATED GROUP

Combined Statements of Cash Flows

Years ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities and nonoperating gains:		
Change in net assets	\$ 3,996,561	(15,261,655)
Adjustments to reconcile change in net assets to net cash provided by operating activities and nonoperating gains:		
Depreciation and amortization	23,307,829	24,265,902
Provision for bad debts	26,961,851	27,098,156
Change in fair value of interest rate swaps	2,541,548	4,212,764
Change in net unrealized gains and losses on investments	(6,788,945)	7,813,344
Gain on sale of property and equipment	(28,128)	(3,244)
Change in interest in net assets of Foundation	1,524,290	394,672
Gain on sale of businesses	—	(6,380,959)
Loss on early extinguishment of debt	648,158	5,926,723
Amortization of premiums and discounts, net	(187,384)	(189,839)
Changes in operating assets and liabilities:		
Accounts receivable	(32,191,761)	(24,785,381)
Supplies	(1,039,328)	719,289
Estimated third-party receivables/payables	463,080	(4,170,073)
Prepaid expenses and other assets	1,906,959	(1,397,174)
Accounts payable	4,115,870	1,446,429
Accrued expenses	4,444,322	2,036,403
Other noncurrent liabilities	4,564,829	2,293,038
Net cash provided by operating activities and nonoperating gains	34,239,751	24,018,395
Cash flows from investing activities:		
Net change in investments	14,998,237	(13,286,131)
Purchases of property and equipment	(14,964,884)	(10,135,354)
Proceeds from sale of property and equipment	28,128	3,244
Proceeds from sale of businesses	—	5,239,331
Net change in assets limited as to use	(1,578,564)	2,987,048
Net cash used in investing activities	(1,517,083)	(15,191,862)
Cash flows from financing activities:		
Repayment of long-term debt and capital lease obligations	(44,715,000)	(102,517,952)
Proceeds from issuance of long-term debt	37,500,000	97,655,000
Change in due from affiliates	(6,108,109)	(784,088)
Payment of loan costs	(92,429)	(2,422,432)
Net cash used in financing activities	(13,415,538)	(8,069,472)
Change in cash and cash equivalents	19,307,130	757,061
Cash and cash equivalents, beginning of year	34,328,814	33,571,753
Cash and cash equivalents, end of year	\$ 53,635,944	34,328,814
Noncash financing activity:		
Notes receivable received in sales of businesses	\$ —	3,100,000

See accompanying notes to combined financial statements.

CENTRAL FLORIDA HEALTH ALLIANCE, INC.
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Notes to Combined Financial Statements

June 30, 2010 and 2009

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

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

The Central Florida Health Alliance, Inc. Obligated Group (Obligated Group) is responsible for the debt service on various bond instruments issued by the City of Leesburg and has pledged revenue, accounts receivable, land and improvements, buildings and improvements, and equipment as collateral on the bonds. Information related to the bonds is detailed in note 4. The legal entities which make up the Obligated Group are Leesburg Regional Medical Center, Inc. (LRMC), The Villages Tri-County Medical Center, Inc., d/b/a The Villages Health System (TVHS), and LRMC Home Health Services, Inc. (HHA). HHA was eliminated from the Obligated Group effective June 1, 2009 with the sale of that operation (note 9).

LRMC operates a 316-bed, short-term acute care hospital, referred to as LRMC and was the sole member of, and had a controlling voting interest in, LRMC Home Health Services, Inc. through June 1, 2009. The Alliance is the sole member of LRMC. LRMC operated a 120-bed skilled nursing facility (SNF) through September 1, 2008 (note 9) and was the sole member of HHA through June 1, 2009 (note 9).

TVHS is a 198-bed, acute care hospital. LRMC was the sole corporate member of TVHS through March 8, 2009. As of March 9, 2009, The Alliance became the sole corporate member of TVHS.

The Alliance, through its hospitals and post acute services, provides healthcare services to patients in the central Florida area.

(b) Use of Estimates

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

(c) Cash and Cash Equivalents

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

(d) Supplies

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

CENTRAL FLORIDA HEALTH ALLIANCE, INC.
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Notes to Combined Financial Statements

June 30, 2010 and 2009

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

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

Other assets limited as to use includes \$4,575,567 and \$2,660,774 as of June 30, 2010 and 2009, respectively, which has been designated for the State of Florida workers' compensation and medical malpractice requirements.

(f) ***Allowance for Uncollectible Patient Accounts***

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

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

(g) ***Property and Equipment***

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

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

<u>Assets</u>	<u>Estimated life</u>
Land improvements	3 – 25 years
Buildings and improvements	5 – 40 years
Equipment	2 – 20 years

CENTRAL FLORIDA HEALTH ALLIANCE, INC.
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Notes to Combined Financial Statements

June 30, 2010 and 2009

(h) *Deferred Loan Costs and Original Issue Premiums and Discounts*

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

Original issue premiums and discounts (note 4) are being amortized over the life of the financing using the straight-line method, which approximates the effective-interest method. Amortization of original issue premiums and discounts is included in interest expense in the combined statements of operations and changes in net assets.

(i) *Interest in Net Assets of Leesburg Regional Medical Center Charitable Foundation, Inc.*

The Obligated Group recognizes its interest in the net assets of Leesburg Regional Medical Center Charitable Foundation, Inc. (the Foundation). This interest is adjusted to reflect its share of changes in the Foundation's net assets. On July 1, 2009, the Obligated Group's interest in net assets of the Foundation was transferred to The Alliance.

(j) *Interest Rate Swaps*

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

(k) *Temporarily and Permanently Restricted Net Assets*

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

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

(l) *Donor-Restricted Gifts*

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

CENTRAL FLORIDA HEALTH ALLIANCE, INC.
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Notes to Combined Financial Statements

June 30, 2010 and 2009

(m) *Impairment of Long-Lived Assets*

Management regularly evaluates whether events or changes in circumstances have occurred that could indicate impairment in the value of long-lived assets. If there is an indication that the carrying amount of an asset is not recoverable, the Obligated Group estimates the projected undiscounted cash flows from the use and eventual disposition of the asset, excluding interest, to determine if an impairment loss should be recognized. The amount of impairment loss, if any, is determined by comparing the carrying value of the asset to its estimated fair value. There were no such impairment losses recorded during the years ended June 30, 2010 or 2009.

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

(n) *Nonoperating Gains and Losses and Excess of Revenue and Gains over Expenses*

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

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

(o) *Net Patient Service Revenue*

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

Net patient service revenue is reported at the net realizable amounts due from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors due to future audits, reviews and investigations. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined or as years are no longer subject to such audits, reviews and investigations.

CENTRAL FLORIDA HEALTH ALLIANCE, INC.
OBLIGATED GROUP

Notes to Combined Financial Statements

June 30, 2010 and 2009

(p) Medicare and Medicaid Programs

The Medicare program pays LRMC and TVHS for services rendered on a prospective basis. Payments for inpatient services are based on each patient's DRG assignment. Payments for outpatient services are based on the Ambulatory Payment Group (APC) assignment. DRGs and APCs are based on each patient's clinical diagnosis and medical procedures. The Medicare program also reimburses LRMC and TVHS for capital costs on a prospective basis. LRMC and TVHS are reimbursed for cost reimbursable items at a tentative rate with final settlement determined after audit by the fiscal intermediary. The Medicaid program reimburses LRMC and TVHS on a per service basis established by using prior year's cost, not to exceed the current year's allowable cost. Annual provisions for contractual adjustments are based on management's computation of prospective payments and allowable costs. Final determination of amounts earned pursuant to the Medicare and Medicaid programs is subject to review by appropriate governmental authorities or their agents. In the opinion of management, adequate provision has been made for any adjustments that may result from such reviews.

Final settlements have been determined and received for all Medicare cost reports through the year ended June 30, 2008. Adjustments to revenue are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as changes in estimated provisions and final settlements are determined. Adjustments to revenue related to prior periods decreased net patient service revenue by approximately \$220,000 and increased net patient service revenue by approximately \$3,299,000 for the years ended June 30, 2010 and 2009, respectively.

Approximately 61% and 63% of net patient service revenue was derived from the Medicare program for the years ended June 30, 2010 and 2009, respectively. Approximately 4% and 1% of net patient service revenue was derived from the Medicaid program for the years ended June 30, 2010 and 2009, respectively. 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.

(q) Uncompensated Care

The Obligated Group provides uncompensated charity care to patients who meet certain established criteria. The Obligated Group does not pursue collection of amounts determined to qualify as charity care; therefore, these amounts are excluded from net patient service revenues. Charity care at established rates was approximately \$31,091,000 and \$23,949,000 for the years ended June 30, 2010 and 2009, respectively.

The Obligated Group also provides uncompensated care to patients that do not have health insurance or that do not meet the established criteria for charity care. The Obligated Group pursues collection of these amounts net of any discounts; however, certain amounts are eventually determined to be uncollectible. These amounts are classified as provision for bad debts in the accompanying combined statements of operations and changes in net assets and totaled approximately \$26,962,000 and \$27,321,000 for the years ended June 30, 2010 and 2009, respectively.

CENTRAL FLORIDA HEALTH ALLIANCE, INC.
OBLIGATED GROUP

Notes to Combined Financial Statements

June 30, 2010 and 2009

(r) Functional Expenses

The Obligated Group does not present expense information by functional classification because its resources and activities are primarily related to providing healthcare services. Further, since the Obligated Group 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.

(s) Asset Retirement Obligations

The Obligated Group recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the Obligated Group capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the combined statements of operations and changes in net assets. There were no asset retirement liabilities recorded as of June 30, 2010 or 2009.

(t) Income Taxes

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

(u) New Accounting Pronouncements

In August 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-23, *Measuring Charity Care for Disclosure*. This ASU amends FASB ASU Topic 954, *Health Care Entities*, to require healthcare entities to use cost as the measurement basis for charity care disclosure purposes. Healthcare entities are required to identify costs of providing charity care as direct or indirect, and disclose the method used to make this distinction. The ASU will be effective for the Obligated Group for the year ended June 30, 2012.

In August 2010, the FASB issued ASU No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*. This ASU clarifies that a healthcare entity should not net insurance recoveries against a related claim liability and will be effective for the Obligated Group for the year ended June 30, 2012.

(v) Reclassifications

Certain reclassifications are reflected in the 2009 combined financial statements to conform to the 2010 presentation.

CENTRAL FLORIDA HEALTH ALLIANCE, INC.
OBLIGATED GROUP

Notes to Combined Financial Statements

June 30, 2010 and 2009

(2) Investments and Assets Limited as to Use

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

	June 30	
	2010	2009
Government securities	\$ 3,308,557	2,973,990
Fixed income	31,716,730	32,451,456
Corporate bonds	3,693,080	3,672,400
Equity securities	21,483,261	16,341,761
Investments in limited liability partnerships	8,265,933	16,687,317
Money market funds	15,066,879	23,856,598
Mutual funds	3,572,044	—
Other investments	755,864	—
Accrued interest	174,224	262,343
	\$ 88,036,572	96,245,865

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

	June 30	
	2010	2009
U.S. government bonds	\$ —	18,522,306
Money market funds	22,706,136	2,605,266
	22,706,136	21,127,572
Less amounts classified as current	(11,552,859)	(12,479,985)
	\$ 11,153,277	8,647,587

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

	June 30	
	2010	2009
Principal and interest funds	\$ 6,377,859	6,984,071
Debt service reserve funds	6,577,710	8,957,727
Collateral for interest rate swaps	5,175,000	2,525,000
	18,130,569	18,466,798
Amounts required for current liabilities	(11,552,859)	(12,479,985)
	\$ 6,577,710	5,986,813

**CENTRAL FLORIDA HEALTH ALLIANCE, INC.
OBLIGATED GROUP**

Notes to Combined Financial Statements

June 30, 2010 and 2009

Investment income (loss), net, from short-term and noncurrent investments, assets limited as to use and cash and cash equivalents amounted to \$(3,070,456) and \$(2,316,910) for the years ended June 30, 2010 and 2009, respectively. Investment income is comprised of interest and dividends of \$2,025,779 and \$2,380,896 and net realized gains (losses) of \$(5,096,235) and \$(4,945,332) for the years ended June 30, 2010 and 2009, respectively. Changes in net unrealized gains (losses) on investments were \$6,788,945 and \$(7,813,344) for the years ended June 30, 2010 and 2009, respectively.

(3) Property and Equipment

A summary of property and equipment is as follows:

	June 30	
	2010	2009
Land and improvements	\$ 22,930,580	22,907,572
Buildings and improvements	206,304,602	206,419,175
Equipment	172,090,842	164,384,268
	401,326,024	393,711,015
Less accumulated depreciation and amortization	(240,739,411)	(219,242,156)
	160,586,613	174,468,859
Construction in progress	15,988,556	10,353,517
	\$ 176,575,169	184,822,376

The remaining balance in construction in progress at June 30, 2010 relates to unoccupied shell space at TVHS, renovations at LRMC, and information technology projects at both LRMC and TVHS.

**CENTRAL FLORIDA HEALTH ALLIANCE, INC.
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Notes to Combined Financial Statements

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(4) Long-Term Debt

Long-term debt consists of the following:

	June 30	
	2010	2009
Hospital Revenue Bonds, Series 2002 issued in July 2002 by the City of Leesburg and payable through 2033 by LRMC, Inc. under an agreement with the City of Leesburg, with interest at 3.5% to 5.5% per annum.	\$ 28,945,000	29,610,000
Hospital Revenue Refunding Bonds, Series 2003 issued in June 2003 by the City of Leesburg and payable through 2019 by LRMC, Inc. under an agreement with the City of Leesburg, with interest at 3% to 5% per annum.	34,670,000	38,200,000
Hospital Revenue Refunding bonds, Series 2008A issued in August 2008 by the City of Leesburg and payable through 2031 by LRMC under an agreement with the City of Leesburg, with interest at a variable rate (1.50% at June 30, 2010)	22,135,000	22,655,000
Hospital Revenue Refunding bonds, Series 2008B issued in December 2008 by the City of Leesburg and payable through 2036 by TVHS under an agreement with the City of Leesburg, with interest at a variable rate (0.29% at June 30, 2009)	—	40,000,000
Hospital Revenue Refunding Bonds, Series 2008C issued in December 2008 by the City of Leesburg and payable through 2036 by TVHS under an agreement with the City of Leesburg, with interest at a variable rate (1.40% at June 30, 2010)	35,000,000	35,000,000
Hospital Revenue Refunding bonds, Series 2009A issued in December 2009 by the City of Leesburg and payable through 2036 by TVHS under an agreement with the City of Leesburg, with interest at a variable rate (1.78% at June 30, 2010)	30,000,000	—
Hospital Revenue Refunding bonds, Series 2009B issued in December 2009 by the City of Leesburg and payable through 2036 by TVHS under an agreement with the City of Leesburg, with interest at a variable rate (2.10% at June 30, 2010)	7,500,000	—
	<u>158,250,000</u>	<u>165,465,000</u>
Current portion	<u>(5,000,000)</u>	<u>(4,715,000)</u>
	153,250,000	160,750,000
Original issue premiums	1,587,287	1,785,698
Original issue discounts	<u>(242,587)</u>	<u>(253,614)</u>
	<u>\$ 154,594,700</u>	<u>162,282,084</u>

All revenue and accounts receivable of the Obligated Group are pledged as collateral pursuant to the Refunding and Revenue Bonds (collectively, the Bonds). The Obligated Group's debt agreements contain

CENTRAL FLORIDA HEALTH ALLIANCE, INC.
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Notes to Combined Financial Statements

June 30, 2010 and 2009

certain restrictive covenants, including a minimum debt service coverage ratio and restrictions against transfers of assets outside of the entities of the Obligated Group.

All land and improvements, buildings and improvements and equipment of the Obligated Group, with the exception of the East campus of TVHS, are pledged as collateral pursuant to the 2008 Series Bonds.

Aggregate maturities of long-term debt as of June 30, 2010 are as follows:

2011	\$ 5,000,000
2012	5,240,000
2013	5,500,000
2014	5,770,000
2015	6,005,000
Thereafter	<u>130,735,000</u>
	<u>\$ 158,250,000</u>

Annual sinking fund contributions as required by the Bonds aggregate from approximately \$5,000,000 in 2010 to \$5,930,000 in 2036. The lowest annual sinking fund contribution occurs in 2018 with aggregate maturities of \$4,520,000 and the highest annual sinking fund contribution occurs in 2031 with aggregate maturities of \$8,140,000.

The Obligated Group paid approximately \$6,256,000 and \$7,224,000 in interest costs during the years ended June 30, 2010 and 2009, respectively. On January 25, 2006, TVHS entered into an interest rate swap agreement (the First Swap Agreement) to limit the effect of increases in interest rates related to the 2006 Series Bonds; the First Swap Agreement was extended to the 2008B Series Bonds. The First Swap Agreement expires in July 2036. The notional principal amount of the First Swap Agreement is \$30,000,000. The effect of the First Swap Agreement is to attempt to fix the effective interest rate at 3.4875%. For the years ended June 30, 2010 and 2009, TVHS recognized an increase in interest expense of \$1,013,581 and \$806,622, respectively, in the combined statements of operations and changes in net assets associated with payment differentials for its First Swap Agreement. The fair value of the First Swap Agreement is the estimated amount TVHS would receive or pay to terminate the First Swap Agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the parties. The fair value of the First Swap Agreement is a liability of \$5,057,455 and \$3,391,137 as of June 30, 2010 and June 30, 2009, respectively, and is included as a separate noncurrent liability in the accompanying combined balance sheets. The change in the fair value of the First Swap Agreement resulted in a loss of \$1,666,318 and \$2,482,291 for the years ended June 30, 2010 and 2009, respectively, and is classified as a nonoperating loss in the accompanying combined statements of operations and changes in net assets.

In August 2008, LRMC entered into another interest rate swap agreement (the Second Swap Agreement) to limit the effect of increases in interest rates related to the 2008A Series Bonds. The Second Swap Agreement expires in July 2031. The notional principal amount of the Swap Agreement is \$22,655,000. The effect of the Second Swap Agreement is to attempt to fix the effective interest rate at 3.352%. For the years ended June 30, 2010 and 2009, LRMC recognized an increase in interest expense of \$702,541 and \$458,712, respectively, in the combined statements of operations and changes in net assets associated with

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payment differentials for its Second Swap Agreement. The fair value of the Second Swap Agreement is the estimated amount LRMC would receive or pay to terminate the Second Swap Agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the parties. The fair value of the Second Swap Agreement is a liability of \$2,605,703 and \$1,730,473 as of June 30, 2010 and 2009, respectively, and is included as a separate noncurrent liability in the accompanying combined balance sheets. The change in the fair value of the Second Swap Agreement resulted in a loss of \$875,230 and \$1,730,473 for the years ended June 30, 2010 and 2009, respectively, and is classified as a nonoperating loss in the accompanying combined statements of operations and changes in net assets.

Due to the uncertainty surrounding monoline bond insurers, such as AMBAC, MBIA, FSA, and Radian, during 2009, the Obligated Group refunded the 2001 Auction Rate Bonds insured by AMBAC and the 2006 Bonds insured by Radian. The 2001 Auction Rate Bonds were refunded in late September with variable rate bonds supported with a letter of credit through Regions Bank. The 2006 Bonds were refunded in December 2008 with variable rate bonds supported with letters of credit through Bank of Nova Scotia and Regions Bank. Losses on early extinguishment of debt recorded during the year ended June 30, 2009 totaled \$945,514 for LRMC and \$4,981,209 for TVHS. In December 2009, the Obligated Group refunded the 2008B Auction Rate Bonds with variable rate bonds placed with PNC Bank. Losses on early extinguishment of debt recorded during the year ended June 30, 2010 totaled \$648,158 for TVHS.

(5) Retirement and Health Plans

The Obligated Group has a defined contribution retirement plan (the Plan) covering substantially all employees. The Plan provides that the Obligated Group will match 50% of employee contributions, up to 3% of the contributing employee's compensation. Additional contributions to the Plan are at the discretion of the Board of Directors. The Obligated Group contributed an additional 1.25% of employee compensation for the years ended June 30, 2010 and 2009. Total Plan expense was approximately \$3,442,000 and \$3,246,000 for the years ended June 30, 2010 and 2009, respectively.

The Obligated Group has an employee health benefit plan covering substantially all health costs for eligible employees and their dependents, including self-insurance coverage for amounts up to a specified level. Health plan expense was approximately \$27,508,000 and \$25,211,000 for the years ended June 30, 2010 and 2009, respectively.

(6) Commitments and Contingencies

(a) Operating Leases

Total expenses under operating leases was approximately \$2,750,000 and \$614,000 for the years ended June 30, 2010 and 2009, respectively, and are included in supplies and other costs.

(b) Contingencies

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

CENTRAL FLORIDA HEALTH ALLIANCE, INC.
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Notes to Combined Financial Statements

June 30, 2010 and 2009

Losses that are subject to the deductible provisions, including an estimate of claims incurred but not reported, total approximately \$16,945,000 and \$14,057,000 as of June 30, 2010 and 2009, respectively. Such amounts are included in other accrued expenses, if payment is expected within one year, or as other long-term liabilities in the accompanying combined balance sheets. The Obligated Group may be liable for ultimate losses in excess of amounts accrued. In the opinion of management, such amounts would not have a material adverse effect on the Obligated Group's financial position or results of operations.

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

(7) Concentrations of Credit Risk

The Obligated Group grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The Obligated Group does not charge interest on accounts receivable. Net patient accounts receivable included approximately \$24,174,000 or 55%, due from the Medicare program as of June 30, 2010, and \$20,126,000 or 50%, due from the Medicare program as of June 30, 2009. The credit risk for other concentrations of receivables is limited due to the large number of insurance companies and other payors that provide payments for services.

(8) Fair Value Measurements

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

Level 1: Fair value is determined by using quoted prices for identical assets or liabilities in active markets.

Level 2: Fair value is determined by using other than quoted prices that are observable for the asset or liability (e.g., quoted prices for identical assets or liabilities in inactive markets, quoted prices for similar assets or liabilities in active markets, observable inputs other than quoted prices, and inputs derived principally from or corroborated by observable market data by correlation or other means).

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

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Notes to Combined Financial Statements

June 30, 2010 and 2009

The table below summarizes the fair values of the Obligated Group's significant financial assets and liabilities as of June 30, 2010:

	June 30 2010	Fair value measurements at reporting date using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable Inputs (Level 3)
Assets:				
Investments	\$ 110,742,708	67,066,965	43,675,743	—
Liabilities:				
Interest rate swaps	\$ 7,663,158	—	7,663,158	—

The table below summarizes the fair values of the Obligated Group's significant financial assets and liabilities as of June 30, 2009:

	June 30 2009	Fair value measurements at reporting date using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable Inputs (Level 3)
Assets:				
Investments	\$ 117,373,437	64,562,264	52,811,173	—
Liabilities:				
Interest rate swaps	\$ 5,121,610	—	5,121,610	—

The Obligated Group's Level 1 assets and liabilities include investments in U.S. Treasuries, government securities, corporate equities, mutual funds, certificates of deposit and money market funds and are valued at the quoted market prices. The Obligated Group's Level 2 assets and liabilities include investments in corporate debt securities, asset-backed securities, and limited liability partnerships with fair values modeled by external pricing vendors or the managing partner. Level 2 assets and liabilities also include the Obligated Group's interest rate swaps valued using widely accepted models that incorporate readily observable inputs in active markets.

CENTRAL FLORIDA HEALTH ALLIANCE, INC.
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Notes to Combined Financial Statements

June 30, 2010 and 2009

Estimates of fair value are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could affect the estimates. Except as follows, the fair values of the Obligated Group's financial instruments (as defined) at June 30, 2010 and 2009 approximate associated carrying values.

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt	\$ 159,594,700	157,116,143	166,997,084	165,397,603

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

(9) Sale of Businesses

On September 1, 2008, LRMC closed the sale of its skilled nursing operations to an unrelated party. The purchaser had been financially responsible for the skilled nursing operations subject to the proposed sale agreement since July 1, 2008. The purchaser is currently operating the skilled nursing activities within LRMC's existing facility while the purchaser builds a new building to relocate the skilled nursing operations. The purchaser leases approximately 43,000 square feet of the 117,000 square foot LRMC North Campus. The sale of the skilled nursing operations resulted in a gain on sale recorded on LRMC of approximately \$2,222,000.

On June 1, 2009, LRMC sold its home health operations to an unrelated party. The sale of the home health operations resulted in a gain on sale of approximately \$4,159,000. Subsequent to the sale, the net assets of HHA of approximately \$4,839,000 were transferred from HHA to LRMC. Income (losses) from discontinued operations for the period ended June 1, 2009 were approximately \$(545,000).

(10) Subsequent Events

The Obligated Group has evaluated events and transactions occurring subsequent to June 30, 2010 as of November 9, 2010, which is the date the combined financial statements were available to be issued.

OTHER FINANCIAL INFORMATION

**CENTRAL FLORIDA HEALTH ALLIANCE, INC.
OBLIGATED GROUP**

Combining Balance Sheet Information

June 30, 2010

Assets	LRMC, Inc.	TVHS	Eliminations	Obligated Group
Current assets:				
Cash and cash equivalents	\$ 32,635,700	21,000,244	—	53,635,944
Cash and investments held by bond trustee – required for current liabilities	8,238,117	3,314,742	—	11,552,859
Accounts receivable, net	29,496,281	14,572,416	—	44,068,697
Estimated third-party settlements	1,170,000	125,000	—	1,295,000
Supplies	7,261,480	2,637,929	—	9,899,409
Prepaid expenses and other current assets	8,160,887	905,491	—	9,066,378
Total current assets	<u>86,962,465</u>	<u>42,555,822</u>	<u>—</u>	<u>129,518,287</u>
Assets limited as to use:				
Cash and investments held by bond trustee, less current portion	6,577,710	—	—	6,577,710
Other	4,520,059	55,508	—	4,575,567
Total assets limited as to use	<u>11,097,769</u>	<u>55,508</u>	<u>—</u>	<u>11,153,277</u>
Property and equipment, net	<u>78,955,547</u>	<u>97,619,622</u>	<u>—</u>	<u>176,575,169</u>
Other assets:				
Investments	88,036,572	—	—	88,036,572
Deferred loan costs, net	1,109,782	652,849	—	1,762,631
Due from affiliates	10,858,417	746,469	(4,216,773)	7,388,113
Other assets	894,248	—	—	894,248
Total other assets	<u>100,899,019</u>	<u>1,399,318</u>	<u>(4,216,773)</u>	<u>98,081,564</u>
Total assets	<u>\$ 277,914,800</u>	<u>141,630,270</u>	<u>(4,216,773)</u>	<u>415,328,297</u>

**CENTRAL FLORIDA HEALTH ALLIANCE, INC.
OBLIGATED GROUP**

Combining Balance Sheet Information

June 30, 2010

Liabilities and Net Assets	LRMC, Inc.	TVHS	Eliminations	Obligated Group
Current liabilities:				
Accounts payable	\$ 14,017,413	5,843,296	—	19,860,709
Due to affiliates	13,521	4,203,252	(4,216,773)	—
Accrued expenses:				
Employee compensation and benefits	15,221,421	5,245,742	—	20,467,163
Interest	1,698,744	487,612	—	2,186,356
Other	8,456,349	3,045,026	—	11,501,375
Current portion of long-term debt	5,000,000	—	—	5,000,000
Total current liabilities	44,407,448	18,824,928	(4,216,773)	59,015,603
Interest rate swaps	2,605,703	5,057,455	—	7,663,158
Other	10,171,151	2,736,591	—	12,907,742
Long-term debt, less current portion	82,094,700	72,500,000	—	154,594,700
Total liabilities	139,279,002	99,118,974	(4,216,773)	234,181,203
Net assets:				
Unrestricted	138,635,798	42,511,296	—	181,147,094
Total net assets	138,635,798	42,511,296	—	181,147,094
Total liabilities and net assets	\$ 277,914,800	141,630,270	(4,216,773)	415,328,297

See accompanying independent auditors' report.

**CENTRAL FLORIDA HEALTH ALLIANCE, INC.
OBLIGATED GROUP**

Combining Statement of Operations
and Changes in Net Assets Information

Year ended June 30, 2010

	<u>LRMC, Inc.</u>	<u>TVHS</u>	<u>Eliminations</u>	<u>Obligated Group</u>
Unrestricted revenues:				
Net patient service revenue	\$ 238,360,848	118,610,051	—	356,970,899
Other revenues	3,088,940	883,934	—	3,972,874
Total revenues	<u>241,449,788</u>	<u>119,493,985</u>	<u>—</u>	<u>360,943,773</u>
Expenses:				
Salaries, wages, and benefits	103,454,028	50,731,745	—	154,185,773
Supplies and other costs	80,522,384	34,162,153	—	114,684,537
Physician and other professional fees	20,908,336	9,916,723	—	30,825,059
Provision for bad debts	15,524,529	11,437,322	—	26,961,851
Depreciation and amortization	14,376,909	8,930,920	—	23,307,829
Interest	4,125,305	2,130,219	—	6,255,524
Total expenses	<u>238,911,491</u>	<u>117,309,082</u>	<u>—</u>	<u>356,220,573</u>
Income from operations	<u>2,538,297</u>	<u>2,184,903</u>	<u>—</u>	<u>4,723,200</u>
Nonoperating gains (losses):				
Investment income (loss), net	(3,072,550)	2,094	—	(3,070,456)
Change in net unrealized gains and losses on investments	6,762,756	26,189	—	6,788,945
Change in fair value of interest rate swap	(875,230)	(1,666,318)	—	(2,541,548)
Contributions	—	202,470	—	202,470
Loss on extinguishment of debt	—	(648,158)	—	(648,158)
Gain on sale of property and equipment	22,128	6,000	—	28,128
Other	35,263	3,007	—	38,270
Nonoperating gains (losses), net	<u>2,872,367</u>	<u>(2,074,716)</u>	<u>—</u>	<u>797,651</u>
Excess of revenue and gains over expenses	5,410,664	110,187	—	5,520,851
Other changes in unrestricted net assets:				
Net asset transfers to affiliates	11,321,591	(11,321,591)	—	—
Transfer of beneficial interest in net assets of Foundation	(293,061)	—	—	(293,061)
Change in unrestricted net assets	<u>16,439,194</u>	<u>(11,211,404)</u>	<u>—</u>	<u>5,227,790</u>
Temporarily restricted net assets:				
Transfer of beneficial interest in net assets of Foundation	(129,367)	—	—	(129,367)
Change in temporarily restricted net assets	<u>(129,367)</u>	<u>—</u>	<u>—</u>	<u>(129,367)</u>
Permanently restricted net assets:				
Transfer of beneficial interest in net assets of Foundation	(1,101,862)	—	—	(1,101,862)
Change in permanently restricted net assets	<u>(1,101,862)</u>	<u>—</u>	<u>—</u>	<u>(1,101,862)</u>
Change in net assets	15,207,965	(11,211,404)	—	3,996,561
Net assets, beginning of year	<u>123,427,833</u>	<u>53,722,700</u>	<u>—</u>	<u>177,150,533</u>
Net assets, end of year	<u>\$ 138,635,798</u>	<u>42,511,296</u>	<u>—</u>	<u>181,147,094</u>

See accompanying independent auditors' report.