

**Adventist Healthcare, Inc and
Controlled Entities**

Consolidated Financial Statements and
Supplementary Information

December 31, 2010 and 2009

Adventist Healthcare, Inc and Controlled Entities

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December 31, 2010 and 2009

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Independent Auditors' Report

Board of Trustees
Adventist Healthcare, Inc and Controlled Entities

We have audited the accompanying consolidated balance sheets of Adventist HealthCare, Inc. and controlled entities (the "Corporation") as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Adventist HealthCare, Inc. and controlled entities as of December 31, 2010 and 2009, and the results of their operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

ParenteBeard LLC

Wilkes-Barre, Pennsylvania
April 27, 2011

Adventist HealthCare, Inc.

Consolidated Balance Sheets

December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 32,366,183	\$ 51,938,007
Short-term investments	164,424,244	110,062,525
Assets whose use is limited	10,176,978	9,218,668
Patient accounts receivable, net of estimated allowances of \$87,023,000 in 2010 and \$75,621,000 in 2009	121,738,350	109,107,412
Other receivables, net of estimated allowance for uncollectible accounts of \$2,704,000 in 2010 and \$2,031,000 in 2009	11,370,728	11,014,922
Inventories	11,502,900	10,911,170
Prepaid expenses and other current assets	<u>4,085,293</u>	<u>3,741,754</u>
Total current assets	355,664,676	305,994,458
Property And Equipment, Net	379,358,364	401,653,153
Assets Whose Use Is Limited:		
Under trust indentures, held by trustees	4,393,189	17,779,814
Professional liability trust fund	10,873,593	8,706,460
Deferred compensation fund	1,769,687	1,295,650
Cash And Cash Equivalents Temporarily Restricted For Capital Acquisition	2,401,581	3,032,857
Investments And Investments In Unconsolidated Subsidiaries	8,999,453	10,996,060
Land Held For Healthcare Development	63,695,713	60,698,213
Deferred Financing Costs, Net	4,214,161	4,763,433
Intangible Assets, Net	6,307,009	6,827,592
Deposits And Other Noncurrent Assets	<u>8,029,018</u>	<u>9,179,174</u>
Total	<u>\$ 845,706,444</u>	<u>\$ 830,926,864</u>

See notes to consolidated financial statements

Adventist HealthCare, Inc.

Consolidated Balance Sheets - Continued

December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Liabilities And Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 76,820,946	\$ 81,967,934
Accrued compensation and related items	34,313,828	32,834,450
Interest payable	1,018,146	1,191,677
Due to third party payors	20,416,870	18,165,286
Estimated self-insured professional liability	1,265,100	1,386,644
Short-term financing	-	18,000,000
Current maturities of long-term obligations	<u>36,462,427</u>	<u>207,057,284</u>
Total current liabilities	170,297,317	360,603,275
Construction Payable	1,664,302	428,064
Long-Term Obligations, Net:		
Bonds payable	243,507,996	117,718,206
Notes payable	35,342,069	30,857,705
Capital lease obligations	16,464,957	21,214,785
Derivative Financial Instruments	18,554,996	8,148,622
Deferred Compensation	1,769,687	1,295,650
Other Liabilities	12,034,637	6,289,868
Estimated Self-Insured Professional Liability	<u>8,956,524</u>	<u>8,170,969</u>
Total liabilities	<u>508,592,485</u>	<u>554,727,144</u>
Net Assets:		
Unrestricted	327,126,511	264,642,860
Temporarily restricted	9,646,027	11,215,464
Permanently restricted	<u>341,421</u>	<u>341,396</u>
Total net assets	<u>337,113,959</u>	<u>276,199,720</u>
Total	<u>\$ 845,706,444</u>	<u>\$ 830,926,864</u>

See notes to consolidated financial statements

Adventist HealthCare, Inc.

Consolidated Statements of Operations

For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Unrestricted Revenues:		
Net patient service revenue	\$ 746,035,851	\$ 753,480,088
Other revenue	<u>39,224,727</u>	<u>35,812,868</u>
Total unrestricted revenues	<u>785,260,578</u>	<u>789,292,956</u>
Expenses:		
Salaries and wages	332,148,833	321,834,526
Employee benefits	66,400,095	63,905,640
Contract labor	21,861,051	24,752,494
Medical supplies	115,215,279	126,644,675
General and administrative	105,530,027	107,239,894
Building and maintenance	41,753,585	38,674,431
Insurance	5,870,548	6,046,606
Provision for uncollectible accounts	30,806,966	39,449,089
Interest	9,075,200	9,456,618
Depreciation and amortization	<u>33,006,310</u>	<u>32,380,682</u>
Total expenses	<u>761,667,894</u>	<u>770,384,655</u>
Income from operations	<u>23,592,684</u>	<u>18,908,301</u>
Other Income (Expense):		
Investment income (loss)	4,775,018	(5,985,192)
Other income	<u>543,683</u>	<u>974,886</u>
Total other income (expense)	<u>5,318,701</u>	<u>(5,010,306)</u>
Portion Of Loss Related To Minority Interest		
	<u>-</u>	<u>(160,353)</u>
Revenues in excess of expenses from continuing operations	28,911,385	13,737,642
Income from discontinued operations	<u>32,475,492</u>	<u>2,411,808</u>
Revenues in excess of expenses	61,386,877	16,149,450
Change in net unrealized gains and losses on investments other than trading securities	896,239	2,410,087
Change in unrealized (loss) gain on derivative financial instruments	(4,187,491)	14,361,100
Transfer from unconsolidated subsidiary	1,741	371
Net assets released from restriction for purchase of property and equipment	4,356,320	2,561,025
Change in minority interest	-	(157,932)
Other unrestricted net asset activity	<u>29,965</u>	<u>-</u>
Increase in unrestricted net assets	<u>\$ 62,483,651</u>	<u>\$ 35,324,101</u>

See notes to consolidated financial statements

Adventist HealthCare, Inc.Consolidated Statements Of Changes In Net Assets
Years Ended December 31, 2010 And 2009

	<u>2010</u>	<u>2009</u>
Unrestricted Net Assets:		
Revenues in excess of expenses	\$ 61,386,877	\$ 16,149,450
Change in net unrealized gains and losses on investments other than trading securities	896,239	2,410,087
Change in unrealized (loss) gain on derivative financial instruments	(4,187,491)	14,361,100
Transfer from unconsolidated subsidiary	1,741	371
Net assets released from restriction for purchase of property and equipment	4,356,320	2,561,025
Change in minority interest	-	(157,932)
Other unrestricted net asset activity	<u>29,965</u>	<u>-</u>
 Increase in unrestricted net assets	 <u>62,483,651</u>	 <u>35,324,101</u>
 Temporarily Restricted Net Assets:		
Restricted gifts and donations	6,429,331	8,415,751
Net assets released from restriction for purchase of property and equipment	(4,356,320)	(2,561,025)
Net assets released from restriction used for operations	(3,662,005)	(4,317,792)
Change in value of beneficial interest in trusts and charitable gift annuity obligation	113,304	187,198
Change in discount of pledges receivable and provision for doubtful pledges	(120,454)	(243,656)
Donor restricted investment income	<u>26,707</u>	<u>19,109</u>
 (Decrease) increase in temporarily restricted net assets	 <u>(1,569,437)</u>	 <u>1,499,585</u>
 Permanently Restricted Net Assets,		
Other permanently restricted net asset activity	<u>25</u>	<u>7,545</u>
 Increase in net assets	 60,914,239	 36,831,231
 Net assets, beginning	 <u>276,199,720</u>	 <u>239,368,489</u>
 Net assets, ending	 <u>\$ 337,113,959</u>	 <u>\$ 276,199,720</u>

See notes to consolidated financial statements

Adventist HealthCare, Inc.Consolidated Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows From Operating Activities		
Increase in net assets	\$ 60,914,239	\$ 36,831,231
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for uncollectible accounts	31,786,516	42,014,919
Depreciation and amortization	34,565,992	34,018,450
Loss on sale of property and equipment	-	11,365
Gain on sale of assets of Adventist Senior Living Services, Inc.	(29,384,473)	-
Gain on derivative financial instrument termination	(1,006,962)	-
Loss on extinguishment of debt	3,155,409	-
Restricted contributions and grants	(2,956,307)	(5,051,552)
Earnings recognized from unconsolidated subsidiaries and affiliates	(7,085,830)	(1,300,128)
Amortization of bond discounts	9,790	9,790
Amortization of physician income guarantees	1,226,185	535,856
Change in net unrealized gains and losses on investments other than trading securities	(896,239)	(2,410,087)
Change in net unrealized loss (gain) on derivative financial instruments	4,598,806	(15,058,221)
Change in value of beneficial interest in trusts and charitable gift annuity	(113,304)	(187,198)
Change in discount on pledges receivable and provision for doubtful pledges	126,746	253,398
Changes in assets and liabilities:		
Patient accounts receivable, net	(45,433,540)	(33,364,087)
Other receivables, net	(1,510,159)	(2,394,086)
Inventories, prepaid expenses and other current assets	(968,223)	(311,301)
Accounts payable and accrued expenses	(8,569,582)	14,150,217
Accrued compensation and related items	1,479,378	(211,602)
Interest payable	(173,531)	(74,519)
Estimated self-insured professional liability	664,011	1,225,073
Due to third party payors	2,251,584	1,583,418
Other noncurrent assets and liabilities	7,482,813	1,203,355
Net cash provided by operating activities	<u>50,163,319</u>	<u>71,474,291</u>

See notes to consolidated financial statements

Adventist HealthCare, Inc.

Consolidated Statements of Cash Flows - Continued

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows From Investing Activities		
Purchase of property and equipment	\$ (36,662,933)	\$ (48,529,022)
Payments to physicians under income guarantees	(427,204)	(403,676)
(Increase) decrease in investments and investments in unconsolidated subsidiaries	(52,608,990)	29,621,900
Net additions to land held for healthcare development	(2,997,500)	(4,884,729)
Proceeds from the sale of property and equipment, net of transaction costs	61,256,896	-
Net proceeds from derivative financial instrument transactions	6,814,530	-
Distributions from investments in unconsolidated subsidiaries	6,569,713	2,704,103
Decrease (increase) in trustee held funds and restricted cash	<u>11,818,334</u>	<u>(1,475,452)</u>
Net cash used in investing activities	<u>(6,237,154)</u>	<u>(22,966,876)</u>
Cash Flows From Financing Activities		
Payment of financing costs	(1,058,900)	(662,889)
Repayments on long-term obligations, net	(47,395,396)	(14,629,729)
Change in short-term financing	(18,000,000)	(2,000,000)
Proceeds from restricted contributions and grants	<u>2,956,307</u>	<u>5,051,552</u>
Net cash used in financing activities	<u>(63,497,989)</u>	<u>(12,241,066)</u>
Net (decrease) increase in cash and cash equivalents	(19,571,824)	36,266,349
Cash and cash equivalents, beginning	<u>51,938,007</u>	<u>15,671,658</u>
Cash and cash equivalents, ending	<u>\$ 32,366,183</u>	<u>\$ 51,938,007</u>
Supplemental Disclosure Of Cash Flow Information		
Interest paid	<u>\$ 13,213,577</u>	<u>\$ 11,872,138</u>
Supplemental Disclosure Of Noncash Investing And Financing Activities		
Capital lease obligation incurred for equipment	<u>\$ 362,938</u>	<u>\$ 4,529,245</u>
Construction payable for property and equipment	<u>\$ 1,664,302</u>	<u>\$ 428,064</u>

See notes to consolidated financial statements

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Adventist HealthCare, Inc. (AHC) is a nonstock membership corporation organized to effectuate coordinated administration of hospitals and other health care organizations through the provision of key management and administrative services. AHC is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. AHC is not exempt from income taxes for unrelated business income. AHC's sole corporate member is Mid-Atlantic Adventist HealthCare, Inc.

AHC is comprised of several operating divisions. Shady Grove Adventist Hospital (SGAH) is a 336-bed acute care hospital located in Rockville, Maryland. Washington Adventist Hospital (WAH) is a 281-bed acute care hospital with 22 acute rehabilitation beds located in Takoma Park, Maryland. Adventist Behavioral Health (ABH) is comprised of three separate facilities located in Maryland. ABH – Rockville is a 106-bed psychiatric hospital with 63 residential treatment rooms and 32 group home beds for adolescents. ABH – Eastern Shore is the region's only acute care and residential mental health resource for children and adolescents, which has 15 acute care psychiatric beds and 60 residential treatment rooms. ABH – Anne Arundel offers 31 adolescent residential treatment beds, 18 group home beds for adolescent males, and the opportunity for special and general education for up to 65 adolescents with emotional and behavioral disabilities. The Support Center is comprised of the corporate office that provides corporate and centralized shared service functions that benefit the entire healthcare system. The Support Center is comprised of the following units: Adventist Preferred Nursing (APN), Adventist Choice Nursing (ACN), Adventist Home Assistance (AHA) and the AHC Benefit business unit. APN maintains and manages a pool of skilled nurses that provide services to affiliated healthcare entities for a fee. ACN provides skilled nursing care to individual patients and other healthcare entities not affiliated with AHC. AHA provides non-clinical assistance to homebound patients who cannot perform certain daily activities on their own. The AHC Benefit business unit administers the self insured health benefit program including health insurance, dental and vision coverage for Adventist HealthCare, Inc. and controlled entities.

Hackettstown Community Hospital d.b.a. Hackettstown Regional Medical Center (HRMC) is a 111-bed not-for-profit acute care hospital organized under the laws of the State of New Jersey. The primary purpose of HRMC is to participate in the health ministry of the Seventh-day Adventist Church and to promote the wholeness of man physically, mentally and spiritually through acute care hospital services. HRMC is tax-exempt under Section 501(c)(3) of the Internal Revenue Code.

Adventist Rehabilitation Hospital of Maryland, Inc. (ARHM) is comprised of two outpatient sites in Maryland. ARHM - Rockville is a 53-bed rehabilitation facility and ARHM - Takoma Park is a 24-bed rehabilitation facility. ARHM is tax-exempt under Section 501(c)(3) of the Internal Revenue Code.

The Reginald S. Lourie Center for Infants and Young Children (Lourie Center) is a not-for-profit organization that specializes in the diagnosis, treatment and prevention of developmental and emotional disorders in children from birth through ten years of age. The Lourie Center is tax-exempt under Section 501(c)(3) of the Internal Revenue Code.

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Adventist Medical Group (AMG), formerly known as Adventist Physician Services, Inc., is a not-for-profit entity that provides physician professional health services to further provide necessary services to the communities it serves. AMG is tax-exempt under Section 501(c)3 of the Internal Revenue Code.

Adventist Senior Living Services, Inc. (ASLS) is a nonstock membership corporation that provides management and support services to five subsidiary nursing homes, a wholly-owned dialysis center, and one affiliated nursing home. The facilities' residents primarily come from the State of Maryland. ASLS and its subsidiary nursing homes are tax-exempt under Section 501(c)3 of the Internal Revenue Code.

Adventist Home Health Services, Inc. (AHHS) is a nonstock membership corporation organized to provide home health services in Maryland. It is tax-exempt under Section 501(c)3 of the Internal Revenue Code.

Adventist Management Services, Inc. (AMSI) is organized as a taxable corporation to provide management services to its subsidiaries that provide various health care services including, but not limited to a wholly-owned healthcare recruitment organization, GROW HealthCare, LLC.

Washington Adventist Hospital Foundation, Inc., Shady Grove Adventist Hospital Foundation, Inc., Hackettstown Community Hospital Foundation, Inc., and Adventist Behavioral Health Foundation, Inc. (collectively the "Foundations") are separate nonstock corporations that operate for the furtherance of each named hospital's health care objectives primarily through the solicitation of contributions, gifts and bequests. The Foundations also exist to help fund new equipment purchases and capital improvement projects for their respective hospitals. The Foundations are tax-exempt under Section 501(c)3 of the Internal Revenue Code.

Principles of Consolidation

The consolidated financial statements for 2010 and 2009 include the accounts of AHC, the controlling parent, HRMC, ARHM, the Lourie Center, AMG, ASLS, AHHS, AMSI, the Foundations, and their majority-owned subsidiaries and controlled affiliates (collectively, the "Corporation"). All significant intercompany balances and transactions have been eliminated in the consolidated financial statements of the Corporation.

Subsequent Events

The Corporation evaluated subsequent events for recognition or disclosure through April 27, 2011, the date the consolidated financial statements were issued.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Risk Factors

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance; however, the possible future financial effects of this matter on the Corporation, if any, are not presently determinable.

Maryland Health Services Cost Review Commission

Patient charges of SGAH, WAH, ABH and ARHM are subject to review and approval by the Maryland Health Services Cost Review Commission (HSCRC). Management has filed the required reports with the HSCRC for each facility and believes they are in compliance with HSCRC requirements.

The HSCRC has placed into its methodology a rate system which, among other things, causes SGAH and WAH to calculate the amount of revenue lost or gained due to variances from approved rates. Revenue lost due to undercharges in rates is recouped through increases in prospective rates. Similarly, revenue gained due to overcharges in rates is paid back, wholly or in part, through reductions in prospective rates.

The Corporation reported net undercharges of \$8,915,506 and net overcharges of \$6,213,783 as of December 31, 2010 and 2009, respectively. These undercharges and overcharges reflect (1) the variance between actual patient charges and the rate orders, and (2) a provision for expected rate adjustments related to the case mix experience of WAH and SGAH. The net amounts are reported as a component of net patient service revenue and patient accounts receivable in the consolidated financial statements. Since the HSCRC's rate year extends from July 1 through June 30, these amounts will continue to fluctuate until the end of the rate year, at which time any over/under charges are amortized on the straight-line basis over the following rate year.

Under Maryland law, charges of specialty hospitals such as ARHM are subject to review and approval by the HSCRC. HSCRC regulations also include a provision whereby a hospital may apply for an exemption from the requirements to charge for services in accordance with the HSCRC regulations. Certain conditions regarding the percentage of revenue related to Medicare and Medicaid patients and total revenues must be met to receive the initial exemption and must be met each year thereafter. Reporting requirements as established by the HSCRC continue if an exemption regarding charging for services is received. The Corporation's management believes ARHM met the conditions for exemption during 2010 and 2009.

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include investments in money market funds and certificates of deposit purchased with original maturities of less than 90 days, excluding assets whose use is limited.

Patient Accounts Receivable

Patient accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for uncollectible accounts is estimated based upon a periodic review of the accounts receivable aging, payor classifications and application of historical write-off percentages.

Other Receivables

Other receivables represent amounts due to the Corporation for charges other than providing health care services to patients and pledges from donors. These services include, but are not limited to, fees from educational programs, rental of health care facility space, interest earned, and management services provided to unconsolidated subsidiaries. Other receivables are written off when they are determined to be uncollectible based on management's assessment of individual accounts. The allowance for doubtful accounts is estimated based upon historical collection experience and other managerial information.

Assets Whose Use Is Limited

Assets whose use is limited includes assets held by bond trustees under trust indentures, assets set aside as required by the Corporation's self-funded professional liability trust, and deferred compensation agreements. Amounts available to meet current liabilities of the Corporation have been reclassified as current assets in the accompanying consolidated balance sheets.

Investments and Investment Risk

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Cash and cash equivalents and certificates of deposit are carried at cost which approximates fair value. Investments in joint ventures are accounted for using the equity or cost method of accounting depending on the Corporation's ownership interest. Investment income or loss (including realized gains and losses on investments, write-downs of the cost basis of investments due to an other-than-temporary decline in fair value, interest, and dividends) is included in the determination of revenues in excess of expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the determination of revenues in excess of expenses unless the investments are trading securities. Donor-restricted investment income is reported as an increase in temporarily restricted net assets.

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

The Corporation's investments are comprised of a variety of financial instruments. The fair values reported in the consolidated balance sheets are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying consolidated financial statements could change materially in the near term.

Inventories

Inventories of drugs, medical supplies and surgical supplies are valued at the lower of cost or market. Cost is determined primarily by the weighted average cost method.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Equipment under capital leases is amortized on the straight-line method over the shorter period of the lease term or estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the accompanying consolidated statements of operations.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment losses are recognized in the consolidated statements of operations as a component of revenues in excess of expenses as they are determined. The Corporation reviews its long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. In that event, the Corporation calculates the estimated future net cash flows to be generated by the asset. If those future net cash flows are less than the carrying value of the asset, an impairment loss is recognized for the difference between the estimated fair value and the carrying value of the asset. There were no impairment losses reported in 2010 or 2009.

Intangible Assets

The Corporation's intangible assets primarily include costs in excess of net assets acquired related to certain business acquisitions. The Corporation is amortizing goodwill over a period not to exceed 40 years. Amortization of goodwill and other intangible assets was \$313,866 and \$355,359 in 2010 and 2009, respectively. Accumulated amortization of goodwill and other intangible assets was \$1,686,269 and \$1,372,403 as of December 31, 2010 and 2009, respectively.

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Deferred Financing Costs

Costs incurred in connection with the issuance of long-term obligations have been deferred and are being amortized over the term of the related obligation using the straight-line method. Amortization was \$380,641 and \$296,556 in 2010 and 2009, respectively. Accumulated amortization of deferred financing costs was \$2,564,158 and \$2,183,517 at December 31, 2010 and 2009, respectively.

Due to Third Party Payors

The Corporation receives advances from third party payors to provide working capital for services rendered to the beneficiaries of such services. These advances are subject to periodic adjustment, and are principally determined based on the timing differences between the provision of care and the anticipated payment date of the claim for service in accordance with HSCRC's rate regulations.

For HRMC, the Medicare and Medicaid programs pay for primarily all inpatient and outpatient services at predetermined rates. Regulations require annual retroactive settlements for cost-based reimbursement through cost reports filed by HRMC. These retroactive settlements are estimated and recorded in the consolidated financial statements in the year in which they occur. The estimated settlements recorded at December 31, 2010 and 2009 could differ from actual settlements based on the results of cost report audits.

For certain Corporation subsidiaries, services provided on behalf of Medicare and Medicaid beneficiaries are ultimately reimbursed at cost. For cost reimbursement programs, statements of reimbursable costs are filed with the applicable program that compute the difference between reimbursable cost and interim payments, in order to determine a final settlement for services rendered to patients covered under these programs. Contractual reimbursements are affected by limitations relating to charges and the reasonableness of costs (subject to limitations) and are subject to audits by the agencies administering the applicable program.

The Corporation's working capital advances and all expected third party payor settlement activity are classified as current liabilities in the accompanying consolidated balance sheets.

Derivative Financial Instruments

The Corporation entered into four interest rate swap agreements, which are considered derivative financial instruments, to manage its interest rate exposure on certain long-term obligations (Note 11). The interest rate swap agreements are reported at fair value in the accompanying consolidated balance sheets. Management has designated two of the interest rate swap agreements as cash flow hedges. The related effective changes in fair value for the cash flow hedges are reported in the accompanying consolidated statements of operations as an unrealized gain or loss on cash flow derivative financial instruments and the ineffective portion of the change in fair value is reported as a component of interest expense. For the interest rate swaps not designated as cash flow hedges, changes in fair value are reported as a component of other non-operating income.

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Estimated Self-Insured Professional Liability

The provision for estimated self-insured professional liability includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose, including the purchase of capital renovations and equipment, providing health education to the community, and designation for the furtherance of programs provided by specific operating departments. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

Revenues in Excess of Expenses from Continuing Operations

The consolidated statements of operations include the determination of revenues in excess of expenses from continuing operations. Revenues in excess of expenses from continuing operations is the Corporation's performance indicator. Changes in unrestricted net assets which are excluded from the determination of revenues in excess of expenses from continuing operations, consistent with industry practice, include income from discontinued operations, unrealized gains and losses on investments other than trading securities, the effective portion of the unrealized (loss) gain on derivative financial instruments, transfers with unconsolidated subsidiaries, contributions of long-lived assets (including contributions which by donor restriction were to be used for the purpose of acquiring such long-lived assets), changes in minority interest, and other unrestricted net asset activity.

Net Patient Service Revenue

The Corporation reports net patient service revenue at the estimated net realizable amounts from patients, third party payors, and others for services rendered, including an estimate for retroactive adjustments that may occur as a result of 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, review and investigations. Allowances for the excess of charges over anticipated patient or third party payor payments are included in the determination of net patient service revenue as reported in the consolidated statements of operations, whereas net uncollectible accounts are reported as an operating expense. Certain of the health care services provided by the Corporation are reimbursed by third party payors on the basis of the lower of cost or charges, with costs subject to certain imposed limitations.

Patient accounts receivable are reported at net realizable value and include charges for accounts due from Medicare, Medicaid, CareFirst, other commercial and managed care insurers, and self-paying patients (Note 16). Patient accounts receivable also includes management's estimate of the impact of certain undercharges to be recouped or overcharges to be paid back for inpatient and outpatient services in subsequent years rates as discussed above. Deducted from patient accounts receivable are estimates of uncollectible accounts related to patients and allowances for the excess of charges over the payments to be received from third party payors.

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Income Taxes

The Corporation accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined there were no tax uncertainties that met the recognition threshold in 2010 or 2009.

The Corporation's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.

The Corporation's federal Exempt Organization Business Income Tax Returns for 2007, 2008 and 2009 remain subject to examination by the Internal Revenue Service.

Charity Care

The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Such patients are identified based on financial information obtained from the patient (or their guarantor) and subsequent analysis which includes the patient's ability to pay for services rendered. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as a component of net patient service revenue or patient accounts receivable. Charges foregone, based on established rates, were \$29,575,891 and \$26,963,670 in 2010 and 2009, respectively.

Donor Restricted Gifts

Unconditional promises to give cash and other assets 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 or when the underlying conditions have been substantially met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations as net assets released from restrictions. Restricted funds to be used for capital acquisitions have been reported as noncurrent assets in the accompanying consolidated balance sheets, while other restricted cash and investments are included with the cash and cash equivalents of unrestricted net assets.

Investment income that is earned on donor restricted net assets and subject to similar restrictions is reported as temporarily restricted net assets. Gifts, grants, and bequests not restricted by donors are reported as other operating income.

Advertising Costs

The Corporation expenses advertising costs as they are incurred.

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Reclassifications

Certain amounts relating to 2009 have been reclassified to conform to the 2010 reporting format.

2. Adoption of Accounting Standards

Charity Care

The Corporation will be required to adopt amended guidance related to health care entities which requires that direct and indirect costs be used as the measurement for charity care disclosure purposes. The guidance was also amended to require disclosure of the method used to identify or determine such costs. The amended guidance is effective for fiscal years beginning after December 15, 2010. Adoption of the amended guidance will revise disclosure in the notes to the Corporation's consolidated financial statements but will not impact amounts reported in the primary consolidated financial statements.

Insurance Claims

The Corporation will be required to adopt amended guidance which clarifies that health care entities may not net insurance recoveries against a related claim liability. In addition, the amount of the claim liability should be determined without consideration of insurance recoveries and estimated insurance recoveries, if any, should be measured and presented separately within the balance sheet. The amended guidance is effective for fiscal years beginning after December 15, 2010. The Corporation has not completed the process of evaluating the impact, if any, of this amended guidance on its consolidated financial statements.

3. Discontinued Operations

Effective November 30, 2010, the Corporation sold the operating assets of its five wholly-owned subsidiary nursing homes and its wholly-owned dialysis center to an unrelated third party, and discontinued the operations of these facilities. The Board of Trustees approved the plan of sale of these facilities in July 2010.

Concurrent with this sale, the nursing homes also entered into agreements to redeem their fixed rate revenue bonds and pay off their notes payable to the U.S. Department of Housing and Urban Development ("HUD"). The redemption of these revenue bonds and payoff of the HUD notes payable resulted in a loss on early extinguishment of debt of which is comprised primarily of unamortized deferred financing costs and prepayment penalties associated with the payoff of the HUD notes payable.

Effective November 30 2010, Glade Valley Nursing & Rehabilitation Center also sold certain operating assets to the same unrelated third party. The Corporation recognized earnings of \$3,790,459 related to its 50% ownership interest in Glade during 2010. These earnings are included in income from discontinued operations in the consolidated statement of operations.

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

3. Discontinued Operations (Continued)

The following amounts related to discontinued operations are included in income from discontinued operations in the accompanying consolidated statement of operations:

	<u>2010</u>	<u>2009</u>
Total unrestricted revenues	\$ 59,803,329	\$ 61,718,233
Total expenses	57,393,500	58,645,470
Investment income (loss)	437,011	(660,955)
Net gain on sale of investment in unconsolidated subsidiary	3,399,588	-
Net gain on sale of substantially all tangible and intangible assets	26,229,064	-
Revenues in excess of expenses	32,475,492	2,411,808

4. Investments

Short-Term Investments

The Corporation's short-term investments at December 31, 2010 and 2009 are comprised of the following:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 31,980,927	\$ 41,225,419
Marketable certificates of deposit	726,613	1,942,553
Exchange traded fund	50,300,000	-
Options and futures	4,475,500	-
U.S. government securities – mortgage backed securities	75,728,384	66,894,553
Corporate bonds - other	1,212,820	-
Total	<u>\$ 164,424,244</u>	<u>\$ 110,062,525</u>

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

4. Investments (Continued)

Assets Whose Use is Limited

The composition of assets whose use is limited at December 31, 2010 and 2009 is set forth in the following tables:

	<u>2010</u>	<u>2009</u>
Under trust indentures, held by trustees:		
Cash and cash equivalents	\$ 3,033,057	\$ 15,317,285
U.S. government securities:		
U.S. treasury notes	2,221,022	2,350,864
Mortgage backed securities	8,050,988	7,943,689
Total	13,305,067	25,611,838
Less funds held for current liabilities	8,911,878	7,832,024
Noncurrent portion of assets held under trust indentures	<u>\$ 4,393,189</u>	<u>\$ 17,779,814</u>
Professional liability trust fund:		
Cash and cash equivalents	\$ 132,698	\$ 1,008,436
Equity mutual funds:		
Large cap value	871,869	751,245
Growth	565,860	494,907
Small cap growth	227,521	181,169
Balanced	5,552,738	3,391,236
Corporate bonds and other debt securities:		
High quality	2,667,733	2,775,225
Multi sector	2,120,274	1,490,886
Total	12,138,693	10,093,104
Less funds held for current liabilities	1,265,100	1,386,644
Noncurrent portion of professional liability trust fund	<u>\$ 10,873,593</u>	<u>\$ 8,706,460</u>
Deferred compensation fund:		
Equity mutual funds:		
Large cap value	\$ 1,139,249	\$ 834,085
Growth	301,147	220,480
Mid cap value	190,865	139,739
Small cap value	14,405	10,546
Other	124,021	90,800
Total	<u>\$ 1,769,687</u>	<u>\$ 1,295,650</u>

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

4. Investments (Continued)

The indenture requirements of certain tax exempt financings provide for the establishment and maintenance of various accounts with a trustee (Note 10). These arrangements require the trustee to control the payment of interest and the ultimate repayment of respective debt to bondholders.

The composition of trustee held funds at December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Debt service reserve fund	\$ 4,332,192	\$ 10,364,476
Construction fund	-	516,333
Principal and interest funds	8,911,878	7,832,024
Lease facility escrow	60,997	6,899,005
Total	<u>\$ 13,305,067</u>	<u>\$ 25,611,838</u>

Unrestricted investment income and gains and losses for investments, assets whose use is limited, and cash and cash equivalents are comprised of the following in 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Investment income (loss):		
Interest and dividends, net	\$ 4,019,832	\$ 3,012,405
Interest on trustee held funds	130,322	183,142
Net realized gains (losses) on sale of investments	624,864	(9,180,739)
Total	<u>\$ 4,775,018</u>	<u>\$ (5,985,192)</u>
Other changes in unrestricted net assets:		
Change in net unrealized gains and losses on investments other than trading securities	<u>\$ 896,239</u>	<u>\$ 2,410,087</u>

5. Fair Value Measurements and Financial Instruments

Fair Value Measurements

The Corporation measures its short-term investments, assets whose use is limited, investments, beneficial interest in trusts, and derivative financial instruments at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America.

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

5. Fair Value Measurements and Financial Instruments (Continued)

The levels of the fair value hierarchy are as follows:

Level 1 – Fair value is based on unadjusted quoted prices in active markets that are accessible to the Corporation for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 – Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 – Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

The fair value of the Corporation's financial instruments was measured using the following inputs at December 31:

	2010		
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets:			
Cash and cash equivalents	\$ 35,245,357	\$ -	\$ -
Marketable certificates of deposit	-	726,613	-
Options and futures	4,475,500	-	-
Exchange traded fund	50,300,000	-	-
Equity mutual funds:			
Large cap value	2,011,118	-	-
Growth	923,691	-	-
Mid cap value	190,865	-	-
Small cap growth	227,521	-	-
Small cap value	14,405	-	-
Balanced	5,552,738	-	-
Other	124,021	-	-
U.S. government securities:			
U.S. treasury notes	-	2,221,022	-
Mortgage backed securities	-	84,161,742	-
Corporate bonds and other debt securities:			
High quality	-	2,667,733	-
Multi sector	-	2,120,274	-
Other	-	1,347,350	-
Beneficial interest in trusts	-	-	1,502,808
Total	\$ 99,065,216	\$ 93,244,734	\$ 1,502,808
Liabilities:			
Derivative financial instruments	\$ -	\$ 18,554,996	\$ -

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

5. Fair Value Measurements and Financial Instruments (Continued)

	2009		
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets:			
Cash and cash equivalents	\$ 57,887,082	\$ -	\$ -
Marketable certificates of deposit	-	2,242,321	-
Equity mutual funds:			
Large cap value	1,585,329	-	-
Growth	1,092,111	-	-
Mid cap value	139,739	-	-
Small cap growth	181,169	-	-
Small cap value	10,546	-	-
Balanced	3,391,236	-	-
Other	90,801	-	-
U.S. government securities:			
U.S. treasury notes	-	2,350,864	-
Mortgage backed securities	-	74,838,242	-
Corporate bonds and other debt securities:			
High quality	-	2,775,225	-
Multi sector	-	1,490,886	-
Other	-	255,638	-
Beneficial interest in trusts	-	-	1,399,437
Total	\$ 64,378,013	\$ 83,953,176	\$ 1,399,437
Liabilities:			
Derivative financial instruments	\$ -	\$ 8,148,622	\$ -

The following table presents the fair value measurements for beneficial interest in trusts that have unobservable inputs at December 31, 2010 and 2009:

Balance, January 1, 2009	\$ 1,212,239
Increase in value, included in changes in temporarily restricted net assets	187,198
Balance, December 31, 2009	1,399,437
Increase in value, included in changes in temporarily restricted net assets	103,371
Balance, December 31, 2010	\$ 1,502,808

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

5. Fair Value Measurements and Financial Instruments (Continued)

The following represents a reconciliation of the assets included in the fair value table within the accompanying consolidated balance sheets at December 31:

	<u>2010</u>	<u>2009</u>
Short-term investments (Note 4)	\$ 164,424,244	\$ 110,062,525
Assets whose use is limited (Note 4)		
Current	10,176,978	9,218,668
Under trust indentures, held by trustees	4,393,189	17,779,814
Professional liability trust fund	10,873,593	8,706,460
Deferred compensation fund	1,769,687	1,295,650
Investments held by Foundation (Note 7)	672,259	1,268,072
Beneficial interest in trusts	1,502,808	1,399,437
	<u>\$ 193,812,758</u>	<u>\$ 149,730,626</u>

Beneficial interest in trusts are included in deposits and other noncurrent assets in the accompanying consolidated balance sheets.

The Corporation did not have any financial assets or financial liabilities measured at fair value on a non-recurring basis.

Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, patient accounts receivable, accounts payable and accrued expenses, construction payable, accrued compensation and related items, and due to third party payors approximate their related fair values due to the short-term nature of these instruments. Fair values of the variable rate long-term debt are considered to approximate their carrying amounts in the consolidated balance sheets. The fair value of the Corporation's remaining long-term obligations was approximately \$20,874,018 and \$26,226,000 as of December 31, 2010 and 2009, respectively, and are estimated based on market data provided by the Corporation's financial consultants. In addition to the variable rate debt, the carrying values of the Corporation's HUD mortgages payable also approximate fair value based on similar terms available to the Corporation.

Assets whose use is limited and investments are valued at fair value, which are the amounts reported in the consolidated balance sheets, based on quoted market prices, if available (equity securities and mutual funds), or estimated using quoted market prices of similar securities (corporate bonds, government bonds, U.S. government securities, and other).

Beneficial interest in trusts are valued at fair value, which are the amounts reported in the consolidated balance sheets. The fair value takes into consideration the underlying principal for these assets and the estimated present value of future cash flows. The discount rate used to estimate the present value of future cash flows is based on the rate of return for U.S. Treasury securities with similar maturity horizons. These assets are deemed to be measured with Level 3 inputs as disclosed above.

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

5. Fair Value Measurements and Financial Instruments (Continued)

The Corporation measures its derivative financial instruments at fair value based on proprietary models of an independent third party valuation specialist. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the derivative financial instrument, and considers the credit risk of the Corporation and counterparty. The method used to determine the fair value calculates the estimated future payments required by the derivative financial instrument and discounts these payments using an appropriate discount rate. The value represents the estimated exit price the Corporation would pay to terminate the agreement.

6. Property and Equipment and Accumulated Depreciation and Amortization

Property and equipment and accumulated depreciation and amortization at December 31, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Land and improvements	\$ 15,927,874	\$ 18,750,752
Buildings and improvements	434,045,317	443,131,063
Office furniture and equipment	221,864,495	206,126,827
Equipment under capital leases	<u>34,337,512</u>	<u>45,318,076</u>
Total	706,175,198	713,326,718
Less accumulated depreciation and amortization	<u>(387,443,753)</u>	<u>(390,660,658)</u>
	318,731,445	322,666,060
Construction in progress	<u>60,626,919</u>	<u>78,987,093</u>
	<u>\$ 379,358,364</u>	<u>\$ 401,653,153</u>

Interest incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. During 2010 and 2009, the Corporation incurred interest expense of approximately \$10,368,000 and \$11,237,000, respectively, of which approximately \$1,293,000 was capitalized in 2010 and \$1,780,000 in 2009. Investment earnings of approximately \$82,000 and \$119,000 were offset against capitalized interest in 2010 and 2009, respectively.

Depreciation expense, including amortization of equipment under capital leases, was \$32,354,784 in 2010 and \$31,783,822 in 2009. Accumulated amortization of equipment under capital lease as of December 31, 2010 and 2009 was \$20,474,353 and \$30,097,788, respectively.

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

6. Property and Equipment and Accumulated Depreciation and Amortization (Continued)

Construction in progress as of December 31, 2010 consists primarily of major renovation and expansion projects of clinical facilities and costs related to the implementation of a new clinical information system. Purchase commitments related to these and other miscellaneous projects were approximately \$1,604,000 at December 31, 2010. The cost of these projects is expected to be funded through transfers from the Corporation's related foundations as well as proceeds from long-term debt.

7. Investments and Investments in Unconsolidated Subsidiaries

The Corporation's investments and investments in unconsolidated subsidiaries includes the following at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Investment in information technology company	\$ -	\$ 2,736,160
Investment in healthcare joint ventures	2,621,060	2,247,021
Capital balance in group purchasing organization	802,567	665,521
Investments held by foundations	672,259	1,268,072
Other investments	<u>4,903,567</u>	<u>4,079,286</u>
Total	<u>\$ 8,999,453</u>	<u>\$ 10,996,060</u>

Investment in Information Technology Company

Pursuant to an agreement dated May 4, 2001, the Corporation outsourced its information technology function through a series of transactions with PHNS, Inc. (PHNS), a third party provider of information technology, medical record coding, and transcription services to health care providers. This was accomplished through a transaction whereby the Corporation sold its information technology and telephony assets and transferred the ownership of its information technology function to PHNS. In addition, the Corporation engaged PHNS to provide information technology services over a ten-year period. Effective January 1, 2005, the contract has been amended to extend the service agreement through December 31, 2014. On February 8, 2011, PHNS changed its name from PHNS, Inc. to Anthelio Healthcare Solutions (Anthelio). The Corporation is still obligated to purchase information technology services from Anthelio through 2014. Purchased services for information technology support is determined annually based upon a mutually agreed-upon budget.

In connection with the sale of these assets, the Corporation received 336,553 shares of common stock. The initial carrying value of the common stock was estimated by management through comparison with publicly traded companies considered by management to be similar to PHNS (which is not publicly traded) at or near the time of sale. No revision of the PHNS common stock was recognized during 2009 because in the opinion of management, the fair value of the PHNS common stock remained consistent. At December 31, 2009, the fair value of the Corporation's investment in PHNS' common stock was \$2,736,160, which represents an investment of approximately 2% of PHNS' total stock outstanding. During 2010, the Corporation sold their shares of common stock for \$2,567,209 and recognized a loss of \$168,951 on sale.

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

7. Investments and Investments in Unconsolidated Subsidiaries (Continued)

For the period May 2001 through August 2006, the Corporation entered into capital lease agreements with PHNS for the acquisition of information services equipment. Effective August 11, 2006, AHC amended the service agreement to exclude purchases and financing of information technology capital expenditures through PHNS. Cumulative amortization of information technology assets under capital lease amounted to \$14,613,432 and \$25,933,277 as of December 31, 2010 and 2009, respectively. Amortization of \$2,925,749 and \$3,795,289 has been recognized in 2010 and 2009, respectively. In addition, the Corporation wrote off fully depreciated information technology assets under the capital lease of \$14,245,594 during 2010.

Investment in Healthcare Joint Ventures

The Corporation recognized earnings of \$4,865,585 and \$1,398,457 during 2010 and 2009, respectively, related to its 50% ownership interest in three separate healthcare joint ventures. A brief description of these joint ventures is presented below:

Maryland Regional Cancer Care, LLC (MRCC) – MRCC holds an investment in a joint venture, Chesapeake Potomac Regional Cancer Center, which provides outpatient radiation oncology services to patients in Maryland.

Glade Valley Nursing & Rehabilitation Center, Inc. (Glade) – Glade is organized for the purpose of operating a 124 comprehensive bed nursing facility in Walkersville, Maryland, and is managed by ASLS. Glade sold certain operating assets to an unrelated third party on November 30, 2010. The Corporation recognized earnings of \$3,790,459 related to its 50% interest in Glade during 2010. These earnings are included in income from discontinued operations in the consolidated statement of operations. (Note 3)

Germantown Outpatient Imaging (GOI) – This organization provides radiology and other imaging services to patients on an outpatient basis in Germantown, Maryland.

Summarized financial information related to these joint ventures is presented below:

	2010	2009
Net revenue	\$ 19,450,790	\$ 17,601,041
Revenues in excess of expenses	9,719,960	2,898,192
Total assets	8,035,808	13,371,975
Total liabilities	2,782,756	9,359,781

Capital Balance in Group Purchasing Organization

The Corporation is a partner in Premier, Inc. (Premier), a health care system group purchasing organization. Partners are required to maintain capital accounts with Premier. The Corporation maintains approximately 0.6% and 0.5% of the total capital of Premier at December 31, 2010 and 2009, respectively. Excess earnings after expenses associated with the purchasing program are credited to partners' capital accounts based on partners' pro rata volume of purchases. Premier's board establishes a required capital balance every six months. Capital balances in excess of the required capital balance are distributed semi-annually. The Corporation recognized earnings of \$1,354,490 in 2010 and \$1,307,325 in 2009, which are included in other revenue in the accompanying consolidated statements of operations.

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

7. Investments and Investments in Unconsolidated Subsidiaries (Continued)

Investments Held by Foundations

The Foundations also hold marketable debt and equity securities for funds not required to be expended in less than 90 days. These marketable securities are subject to credit and market risks.

Other Investments

On January 1, 2007, the Corporation paid \$3,000,000 to purchase a 10% membership interest in InforMed, LLC (InforMed), which is a provider of chronic disease and medical management, clinical claims data warehousing and analysis, network management, and third party administration based in Annapolis, Maryland. The Corporation accounts for this investment in InforMed on the cost basis method of accounting.

Summarized financial information for InforMed for 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Net revenue	\$ 22,997,301	\$ 18,484,703
Net income	2,007,417	1,158,393
Total assets	8,056,036	5,977,498
Total liabilities	4,103,263	3,218,826

In addition to the investment in InforMed, the Corporation holds investments in other healthcare providers in the area which are accounted for under the equity method of accounting. These investments totaled \$1,903,567 and \$1,079,286 as of December 31, 2010 and 2009, respectively.

8. Land Held for Healthcare Development

On February 25, 2002, the Corporation purchased 209 acres of land in Clarksburg, Maryland for approximately \$20,000,000. Concurrent with this purchase, the Corporation entered into a sale agreement with an unrelated third party to be used for residential construction for the sale of 91 acres for \$16,000,000.

On December 27, 2004, the Corporation purchased an additional adjacent parcel of land in Clarksburg Maryland for \$8,000,000. The purchase price and the related closing costs were financed under a line of credit with a commercial bank. Total costs capitalized related to the above parcels of land and improvements on this land were \$39,406,014 and \$38,463,725 as of December 31, 2010 and 2009, respectively.

In July 2006, the Corporation purchased a parcel of land near the Calverton-White Oak area of Silver Spring for approximately \$11,000,000. The Corporation plans to build a replacement hospital for Washington Adventist Hospital. The cost of the land will continue to be reported as land held for healthcare development until such time as the Maryland Health Care Commission approves the Corporation's plan for constructing the new facility. As of December 31, 2010 and 2009, the Corporation had total costs capitalized related to this land and land improvements of \$24,084,654 and \$22,029,443, respectively.

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

8. Land Held for Healthcare Development (Continued)

On December 29, 2008, the Corporation participated in a group purchase of 5.31 acres of property located in Boyds, Maryland. The parcel was purchased by Cabin Branch Management, LLC, a Maryland Limited Liability Company of which the Corporation is a voting member. The Corporation does not maintain control of this Limited Liability Company and, therefore, the operation of it is not included in the consolidated financial statements at December 31, 2010 and 2009. The Corporation contributed \$205,045 of the total contracted sales price of \$735,000.

9. Short-Term Financing

The Corporation has a \$3,000,000 unsecured line of credit with a commercial bank, with interest at LIBOR plus 1.50% (1.76% at December 31, 2010). There were no borrowings outstanding under this line of credit as of December 31, 2010 or 2009.

In December 2009, the Corporation entered into a \$25,000,000 unsecured line of credit with a commercial bank, with interest at one-month LIBOR plus 3.00% (3.24% at December 31, 2009). This line of credit expired on January 10, 2010. Borrowings under this line of credit were \$18,000,000 at December 31, 2009. There were no borrowings outstanding under this line of credit as of December 31, 2010.

10. Long Term Obligations

Long term obligations as of December 31, 2010 and 2009 are comprised of the following:

	<u>2010</u>	<u>2009</u>
Fixed rate revenue bonds	\$ 20,880,000	\$ 25,455,000
Variable rate revenue bonds	231,025,000	236,895,000
Notes payable	-	28,154,325
Secured lines of credit	36,000,000	36,000,000
Unsecured lines of credit	20,000,000	20,000,000
Capital lease purchase financing facility	8,595,867	12,916,324
Other long term liabilities	<u>15,493,592</u>	<u>17,654,131</u>
Total obligations	331,994,459	377,074,780
Less current maturities	36,462,427	207,057,284
Less bond discount	<u>217,010</u>	<u>226,800</u>
Noncurrent portion of long term obligations, net	<u>\$ 295,315,022</u>	<u>\$ 169,790,696</u>

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

10. Long Term Obligations (Continued)

Fixed Rate Revenue Bonds

Fixed rate revenue bonds consist of the Maryland Health and Higher Educational Facilities Authority Refunding Revenue Bonds, Series 2003A, Adventist HealthCare, Inc. with a par amount of \$22,925,000 and Montgomery County, Maryland Economic Development Revenue Bonds, Series 1993 Springbrook Adventist Nursing and Rehabilitation Center, Inc. with a par amount of \$5,105,000. These bonds bear interest at fixed coupon rates ranging from 5% to 5.75%. Both of the above issues are subject to trust indentures which impose various covenants on the Support Center, SGAH, WAH, HRMC, ABH, and ARHM (collectively, the "Obligated Group") which include restrictions on the transfer or disposition of property, the incurrence of additional liabilities, and the achievement of certain pre-established financial indicators. Management believes it has complied with the required covenants for the years ending December 31, 2010 and 2009. Debt service reserve funds are required on both of the above series. In conjunction with the ASLS asset sale (Note 3), the outstanding debt associated with the Montgomery County, Maryland Economic Development Revenue Bonds, Series 1993 Springbrook Adventist Nursing and Rehabilitation Center, Inc. was defeased.

Fixed rate revenue bonds consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
Series 2003A, Adventist HealthCare, Inc.	\$ 20,880,000	\$ 21,925,000
Series 1993, Springbrook Adventist Nursing & Rehabilitation Center, Inc.	-	3,530,000
Total	<u>\$ 20,880,000</u>	<u>\$ 25,455,000</u>

Variable Rate Revenue Bonds

Variable rate revenue bonds consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
Maryland Health and Higher Educational Facilities Authority Revenue Bonds		
Series 2003B, Adventist HealthCare, Inc.	\$ 33,370,000	\$ 34,355,000
Series 2004A, Adventist HealthCare, Inc.	30,340,000	35,220,000
Series 2005A, Adventist HealthCare, Inc.	78,000,000	78,000,000
Maryland Health and Higher Educational Facilities Authority Revenue Refunding		
Series 2004B, Adventist HealthCare, Inc.	29,985,000	29,990,000
Series 2005B, Adventist HealthCare, Inc.	59,330,000	59,330,000
Total	<u>\$ 231,025,000</u>	<u>\$ 236,895,000</u>

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

10. Long Term Obligations (Continued)

These bonds, with the exception of the 2004B Series Debt, bear interest at a variable rate based on the SIFMA index (0.34% at December 31, 2010), and reset weekly. At December 31, 2010, the tax-exempt rates on the bonds above ranged from 0.31% to 0.43%. The 2004B taxable bonds referenced above bear interest at a variable rate based on the LIBOR index (0.26% at December 31, 2010). The rate on the 2004B bonds at December 31, 2010 was 0.26%. The Corporation's Series 2003B, 2004 and 2005 bonds are subject to an Amended and Restated Master Trust Indenture that imposes various covenants on the Obligated Group which include restrictions on the transfer or disposition of property, the incurrence of additional liabilities, and the achievement of certain pre-established financial indicators. Management believes it has complied with the required covenants for the years ending December 31, 2010 and 2009. Of the bonds noted above, debt service reserve funds are only required on the Series 2003B issue. The payment of principal and interest on the bonds are secured by separate irrevocable direct-pay letters of credit, with expiration dates ranging from September 2012 to December 2014. The letters of credit related to the Series 2005A and 2005B bonds were expected to expire in 2010 and, therefore, were classified as current as of December 31, 2009. As the letters of credit were renewed in 2010, the outstanding debt has been classified as noncurrent as of December 31, 2010.

Notes Payable

The Corporation is obligated under the following notes payable to the U.S. Department of Housing and Urban Development (HUD).

	2010	2009
Bradford Oaks Nursing & Rehabilitation Center, Inc.	\$ -	\$ 12,785,969
Shady Grove Adventist Nursing & Rehabilitation Center, Inc.	-	9,843,251
Sligo Creek Nursing & Rehabilitation Center, Inc.	-	5,525,105
Total	<u>\$ -</u>	<u>\$ 28,154,325</u>

The notes are secured by mortgages on each facility. The interest rate on the notes ranged from 5.45% to 5.95%. These notes were repaid during the current year in conjunction with the ASLS asset sale (Note 3).

Secured Lines of Credit

The Corporation has two secured lines of credit outstanding as follows:

- \$20,000,000 working capital line with a commercial bank that bears interest at LIBOR plus 2.00% (2.26% at December 31, 2010) and expires on December 31, 2013. The balance on the working capital line was \$20,000,000 at December 31, 2010 and 2009.
- \$16,000,000 line of credit that bears interest at LIBOR plus 1.00% (1.26% at December 31, 2010) and expires on June 30, 2011. The balance on the line of credit was \$16,000,000 at December 31, 2010 and 2009.

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

10. Long Term Obligations (Continued)

These lines of credit are secured by unrestricted revenues of the Obligated Group.

Unsecured Lines of Credit

The Corporation has one unsecured line of credit outstanding, which is a \$20,000,000 working capital line with a commercial bank that bears interest at LIBOR plus 1.00% (1.26% at December 31, 2010) and expires on January 31, 2011. The unsecured line of credit balance was \$20,000,000 at December 31, 2010 and 2009. In February 2011, this line of credit was refinanced into a three year term loan, and bears interest at an interest rate of LIBOR plus 2.50% with a floor of 4.25%. This loan is secured by unrestricted revenues of the Obligated Group.

Capital Lease Purchase Financing Facility

There are two capital lease purchase financing facilities with a commercial bank. The initial facility was established in June 2007 for \$12,000,000 and bears interest at a rate of 4.31%. The second facility was established in October 2008 for \$8,000,000 and bears interest at a rate of 3.85%. Both facilities have a five year repayment period. Under the terms of the agreements, the commercial bank deposited funds into escrow accounts for the purpose of funding future purchases of new or used medical or medical-related equipment. The commercial bank retains title to the equipment and is considered to be the owner; however, the Corporation is responsible for all related expenses, including but not limited to, insurance, maintenance, and taxes.

Other Long Term Liabilities

This category consists of several capital lease obligations and notes payable on various types of medical and IT equipment. The financed equipment serves as security on these leases. Interest rates on these other long term liabilities range from 4.8% to 5.5%.

Scheduled principal repayments of long term obligations at December 31, 2010 are as follows:

Years ending December 31:	
2011	\$ 36,462,427
2012	20,862,420
2013	20,261,605
2014	16,029,917
2015	15,594,336
Thereafter	<u>222,783,754</u>
Total	<u>\$ 331,994,459</u>

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

11. Derivative Financial Instruments

The Corporation has entered into four interest rate swap agreements, which are considered derivative financial instruments. The agreements were entered into in order to manage interest rate exposure. The principal objective of the swap agreements is to minimize the risks associated with financing activities by reducing the impact of changes in interest rates on its debt portfolio. The notional amount of the swap agreements is used to measure the interest to be paid or received and does not represent the amount of exposure to credit loss. Exposure to credit loss is limited to the receivable, if any, which may be generated as a result of the swap agreement. Losses related to credit risk are managed by diversification among various swap counterparties and by requiring collateral from the Corporation's swap counterparties at various ratings thresholds while the Corporation has no reciprocal requirement to post collateral.

Management has designated two of the interest rate swap agreements as cash flow hedges, which qualify for hedge accounting treatment under accounting principles generally accepted in the United States of America. These two interest rate swap agreements are reported at fair value in the consolidated balance sheets. The effective portion of the change in fair value of these derivatives is reported in the consolidated statements of operations and changes in net assets as an unrealized gain or loss on cash flow derivative financial instrument. The ineffective portion of the change in fair value is reported in the accompanying consolidated statements of operations as a component of interest expense. The two interest rate swap agreements not designated as cash flow hedges were terminated by the Corporation in February 2010 resulting in net cash to the Corporation of \$2,979,530. Changes in fair value of these interest rate swap agreements were reported as a component of other income in the accompanying consolidated statements of operations.

In February 2010, the Corporation sold an option to the swap counterparty to terminate one of the interest rate swap agreements designated as a cash flow hedge at an exercise price of \$3,000,000. The Corporation received cash of \$1,255,000 upon sale of this option. Since the option was not exercised by the counterparty on the exercise date in 2010, the Corporation recognized \$1,255,000 in other income in the accompanying consolidated statements of operations. In December 2010, the Corporation sold two separate options to the swap counterparties to terminate their remaining interest rate swap agreements designated as cash flow hedges, both at an exercise price of \$3,000,000. The option related to the interest rate swap agreement with a notional amount of \$59,330,000, as noted in the table below, has an exercise date of December 21, 2012 and the option related to the interest rate swap agreement with a notional amount of \$78,000,000, as noted in the table below, has an exercise date of December 1, 2013. The Corporation received cash of \$3,835,000 upon the sale of these options. The Corporation is uncertain as to whether these options will be exercised. If exercised, the Corporation's risk related to changes in interest rates on its debt portfolio would be impacted.

The net cash paid or received under the swap agreements is recognized as an adjustment to interest expense. The net cash paid under the interest rate swap agreements was \$4,583,641 in 2010 and \$3,975,532 in 2009, which is reported as a component of interest expense in the accompanying consolidated statements of operations.

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

11. Derivative Financial Instruments (Continued)

At December 31, 2010 and 2009, the Corporation's derivative financial instruments and related fair values are as follows:

	<u>2010</u>	<u>2009</u>
Agreement for the notional amount of \$59,330,000 requiring the Corporation to pay a fixed interest rate of 3.457% while receiving variable interest rates based upon 67% of LIBOR, maturing January 2021 and qualifying for cash flow hedge accounting treatment	\$ (6,931,033)	\$ (4,074,543)
Agreement for the notional amount of \$78,000,000 requiring the Corporation to pay variable interest rates based upon 67% of monthly LIBOR while receiving variable interest rates based upon 62.11% of the five-year ISDA rate, maturing January 2035; does not qualify for cash flow hedge accounting treatment	-	1,997,169
Agreement for the notional amount of \$78,000,000 requiring the Corporation to pay a fixed interest rate of 3.567% while receiving variable interest rates based upon 67% of LIBOR, maturing January 2035 and qualifying for cash flow hedge accounting treatment	<u>(11,623,963)</u>	<u>(6,071,248)</u>
Total	<u>\$ (18,554,996)</u>	<u>\$ (8,148,622)</u>

The fair value of the interest rate swap agreements is estimated to be the amount the Corporation would receive or pay to terminate the swap agreements at the reporting date and was based on information supplied by an independent third party valuation agent (Note 5). Additionally, the fair value reflects a credit risk assessment required under accounting principles generally accepted in the United States of America. To the extent that the interest rate swaps qualifying for cash flow hedge accounting treatment are effective in converting the variable interest rate to a fixed rate, the unrealized gain or loss on the derivative financial instruments is excluded from revenues in excess of expenses. Gains or losses resulting from hedge ineffectiveness are recognized in revenues in excess of expenses. Losses of \$377,414 and \$225,866 were recognized as of December 31, 2010 and 2009, respectively as a result of hedge ineffectiveness. Gains or losses resulting from interest rate swap agreements not qualifying for cash flow hedge accounting treatment are entirely recognized as a component of revenues in excess of expenses. The impact of swaps not qualifying for hedge accounting treatment on the consolidated statements of operations were gains of \$1,006,682 in 2010 and \$940,968 in 2009.

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

11. Derivative Financial Instruments (Continued)

On October 3, 2008, the counterparty for the Corporation's fixed pay swap maturing in January 2035, Lehman Brothers, Inc., commenced proceedings under Chapter 11 of the Bankruptcy Code. This action triggered an Event of Default under the ISDA Master Agreement in effect with said party and gave the Corporation the right to terminate the transaction. On October 16, 2008, the Corporation terminated this agreement and concurrently entered into an agreement with a new counterparty that assumed all existing terms and conditions of the original agreement. The termination of the original swap agreement resulted in a gain of \$472,023 which is included in unrestricted net assets in the consolidated balance sheet. This gain is being amortized over the remaining term of the 2005A Series Bonds, or through January 2035. As of December 31, 2010 and 2009, accumulated amortization of \$35,964 and \$20,979, respectively, is included in other changes in net assets and interest expenses in the consolidated statement of operations and changes in net assets.

12. Leases

The Corporation has entered into various operating leases primarily for office space as well as certain equipment items. Rental expense for operating leases was \$16,170,532 in 2010 and \$15,700,860 in 2009. Future minimum payments under non cancelable operating leases with initial terms of one year or more consist of the following during the years ending December 31:

Years ending December 31:	
2011	\$ 12,870,649
2012	12,799,373
2013	9,905,517
2014	8,599,524
2015	8,483,849
Thereafter	<u>69,058,510</u>
Total	<u>\$ 121,717,422</u>

The Corporation has also entered various sub-lease agreements with tenants that occupy space in the Corporation's buildings. The terms of these sub-leases vary and extend through 2024. Rental income was \$3,523,718 in 2010 and \$3,831,425 in 2009, which has been reported as a component of other operating revenue in the consolidated statements of operations. Future rent payments expected to be received by the Corporation during the years ending December 31 is as follows:

Years ending December 31:	
2011	\$ 2,956,402
2012	2,884,112
2013	2,342,832
2014	2,081,693
2015	1,933,588
Thereafter	<u>3,612,580</u>
Total	<u>\$ 15,811,207</u>

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

13. Retirement and Health Plans

Defined Contribution Retirement Plan

The Corporation sponsors a 401(a) defined contribution retirement plan, which covers substantially all full-time employees. After 12 months of full-time or regular part-time employment of at least 1,000 base hours, the Corporation will contribute a total of 2% of eligible employees' compensation, plus a matching employer contribution equal to 50% of employee contributions up to 6% of base salary. Retirement plan expense was \$8,632,700 in 2010 and \$8,129,123 in 2009.

ASLS participates in a contributory 403(b) tax deferred annuity retirement plan administered by an insurance company. Employer contributions are 100% matched to employee contributions up to 4% of base salary. Retirement plan expense was \$373,631 in 2010 and \$427,236 in 2009.

AHHS employees are covered by a separate defined contribution plan. Retirement plan expense was \$267,356 in 2010 and \$266,505 in 2009.

AMSI employees are covered by a 401(k) defined contribution plan. Retirement plan expense was \$20,454 in 2010 and \$31,917 in 2009.

Salary Deferral (457(b)) Plan

Employees who contribute the maximum allowable amount to the 403(b) retirement plan have an opportunity to contribute additional funds on a tax-deferred basis to a 457(b) retirement plan up to the maximum tax-sheltered opportunity. There are no employer contributions to this plan.

Employee Life and Health Benefit Program

The Corporation maintains a self-insurance employee program for its health insurance coverage. The Corporation accrues the estimated costs of incurred and reported and incurred but not reported claims, after consideration of its stop-loss insurance coverage, based upon data provided by the third-party administrator of the program, and historical claims experience. Beginning January 1, 2005, HRMC maintained its own self-insurance program for employee health care coverage.

Deferred Compensation Plan

The Corporation maintains the Adventist HealthCare, Inc. deferred compensation plan (the Plan). The Plan provides cash compensation and other benefits to eligible employees after termination of employment. Fund assets are invested in mutual funds and corporate bonds and other debt securities (Note 4) held by an irrevocable trust, subject to claims made by the employer's creditors in the event of bankruptcy or insolvency. It is the Corporation's policy to fund the Plan based on actuarially determined amounts sufficient to satisfy its obligations in the plan year.

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

13. Retirement and Health Plans (Continued)

AHC Executive Flex Benefit Program

The AHC Executive Flex Benefit Program (the Program) was implemented to provide additional benefits to eligible employees as defined by the Program. Plan documentation provides for a financial benefit floor equal to 5% of net salary. Funding for benefits earned under this Program are made on a quarterly basis based on actual benefits earned for the year.

14. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for betterments to plant facilities and purchases of equipment or to support operating programs sponsored by the Corporation and its affiliates.

Permanently restricted net assets have been restricted by donor to be maintained by the Corporation in perpetuity.

Net assets were released from donor restriction by satisfying their restricted purposes in the amount of \$8,018,325 in 2010 and \$6,878,817 in 2009.

15. Commitments and Contingencies

Litigation and Claims

The Corporation is subject to asserted and unasserted claims (in addition to litigation) encountered in the ordinary course of business. In the opinion of management and after consultation with legal counsel, the Corporation has established adequate reserves related to all known matters. The outcome of any potential investigative, regulatory or prosecutorial activity that may occur in the future cannot be predicted with certainty. However, any associated potential future losses resulting from such activity could have a material adverse effect on the Corporation's future financial position, results of operations and liquidity.

As part of the Corporation's ongoing corporate compliance efforts during 2003, it was discovered that the Medicare program had been billed for a non-covered procedure furnished to Medicare beneficiaries. The billing mistake, which appears to have occurred over a several year period, has been rectified. The Corporation has initiated discussions with the appropriate regulatory agencies regarding the billing error, and will refund any payments received from the Medicare program as a result of the error. After consultation with legal counsel, it has been estimated that the Corporation may have to refund \$2,400,000 to \$3,200,000 to the Medicare program related to this billing matter. The accompanying consolidated financial statements reflect a \$3,200,000 reserve to account for this potential exposure, which has been reported as a noncurrent liability on the consolidated balance sheets.

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

15. Commitments and Contingencies (Continued)

Insurance

The Corporation's primary coverage for professional liability is provided through a self-funded insurance retention trust (the "Trust") established on January 1, 1993. The Trust is funded based on actuarial estimates and provides coverage of \$2,000,000 per occurrence with no annual aggregate limitation. The Trust also provides general liability coverage up to \$1,000,000 per occurrence and \$3,000,000 in the aggregate. The Corporation also carries umbrella excess liability insurance on a claims made basis with a commercial carrier, with limits of \$20,000,000 per occurrence and in aggregate.

It is the Corporation's policy to accrue for the ultimate cost of uninsured asserted and unasserted malpractice claims, if any, when incidents occur. Based on a review of the Corporation's prior experience and incidents occurring through December 31, 2010, management determined that the fully-funded professional liability reserve reported at December 31, 2010 and 2009 is adequate in light of the program's excess umbrella policy currently in force and historical claims experience. The estimated professional liability for both asserted and unasserted claims was \$10,221,624 and \$9,557,613 at December 31, 2010 and 2009, respectively. The discount rate used in determining these liabilities was 3.0% and 3.5% at December 31, 2010 and 2009, respectively.

The Corporation is self-insured for unemployment and workers' compensation benefits. The liability for unemployment and worker's compensation claims payable is an estimate based on the Corporation's past experience and is included in the accompanying consolidated balance sheets. It is reasonably possible that the estimates used could change materially in the near term.

Remediation

Certain buildings, which were constructed prior to the passage of the Clean Air Act, contain encapsulated asbestos material. Current law requires that this asbestos be removed in an environmentally safe fashion prior to demolition and renovation of these buildings. At this time, the Corporation has no plans to demolish or renovate these buildings and, as such, cannot reasonably estimate the fair value of the liability for such asbestos removal.

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

16. Business and Credit Concentrations

The Corporation grants credit to patients, substantially all of whom are local residents. The Corporation generally does not require collateral or other security in extending credit; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits receivable under their health insurance programs, plans or policies.

At December 31, 2010 and 2009, concentrations of gross receivables from third-party payors and others are as follows:

	<u>2010</u>	<u>2009</u>
Medicare	18 %	20 %
Medicaid	19	19
Other third party payers	44	45
Self-pay and others	19	16
	<u>100 %</u>	<u>100 %</u>

Gross patient service revenue, by payor class, consisted of the following for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Medicare	38 %	37 %
Medicaid	5	8
Other third party payers	49	47
Self-pay and others	8	8
	<u>100 %</u>	<u>100 %</u>

The Corporation maintains its cash and cash equivalents with several financial institutions. Cash and cash equivalents on deposit with any one financial institution are insured up to \$250,000.

Adventist Healthcare, Inc and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2010 and 2009

17. Functional Expenses

A summary of the Corporation's operating expenses by function for the years ended December 31 is as follows:

	<u>2010</u>	<u>2009</u>
Hospital acute and ambulatory services	\$ 619,984,410	\$ 634,262,176
Home care services	13,712,770	13,570,542
Other health care services	104,830,435	102,400,702
Other, including general and administrative	21,914,655	19,743,945
Fundraising	<u>1,225,624</u>	<u>407,290</u>
Total	<u>\$ 761,667,894</u>	<u>\$ 770,384,655</u>

The Corporation also incurred management and general program expenses related to ASLS that were included in income from discontinued operations in the consolidated statement of operations. Such expenses related to providing program services were approximately \$48,434,000 in 2010 and \$50,898,000 in 2009, and expenses related to management and general services were approximately \$8,959,000 in 2010 and \$7,747,000 in 2009.

Independent Auditors' Report on Supplementary Information

Board of Trustees
Adventist Healthcare, Inc and Controlled Entities

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating and combining information presented on pages 40 through 54 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net assets, and cash flows of the individual entities. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

ParenteBeard LLC

Wilkes-Barre, Pennsylvania
April 27, 2011

Adventist HealthCare, Inc.

Consolidating Schedule - Balance Sheet Information
December 31, 2010

Assets	Consolidated Adventist HealthCare, Inc.	Eliminating Entries	Support Center	Shady Grove Adventist Hospital	Washington Adventist Hospital	Hackettstown Regional Medical Center	Adventist Behavioral Health Services	Lourie Center	Adventist Rehabilitation Hospital of Maryland	Adventist Home Health Services	Adventist Medical Group	Consolidated Adventist Senior Living Services	Consolidated Adventist Management Services, Inc.	Combined Adventist HealthCare Inc. Foundations
Current Assets:														
Cash and cash equivalents	\$ 32,366,183	\$ -	\$ (53,905,540)	\$ 52,871,462	\$ 6,047,444	\$ 32,146,417	\$ (4,262,453)	\$ (1,583,878)	\$ 6,216,414	\$ 3,532,942	\$ (11,793,744)	\$ 855	\$ 343,606	\$ 2,752,658
Short term investments	164,424,244	-	164,424,244	-	-	-	-	-	-	-	-	-	-	-
Assets whose use is limited	10,176,978	-	8,433,160	-	1,743,818	-	-	-	-	-	-	-	-	-
Patient accounts receivable, net of estimated allowances of \$87,023,000	121,738,350	-	297,035	46,778,865	42,688,765	10,806,768	6,714,073	-	8,640,594	2,124,451	678,509	3,031,290	-	-
Other receivables, net of estimated allowance for uncollectible accounts of \$2,704,000	11,370,728	(731,625)	1,803,912	1,432,441	1,015,585	557,411	2,091,218	1,852,549	25,700	18,791	92,407	1,054,709	364,874	1,732,756
Due from third party payors	11,502,900	(794,256)	-	4,878,379	4,223,155	1,994,818	128,737	-	685,519	-	-	-	-	-
Inventories	4,085,283	-	1,952,814	608,760	714,503	445,485	130,588	-	104,013	21,540	50,861	-	150,407	-
Prepaid expenses and other current assets	-	-	-	-	-	-	127,133	-	101,442	43,430	-	-	38,305	-
Total current assets	355,064,676	(1,525,881)	123,005,625	106,628,907	56,413,270	45,950,899	4,929,296	268,671	15,753,682	5,741,214	(10,973,967)	4,086,854	897,192	4,487,914
Property And Equipment, Net	379,358,364	-	80,087,603	190,306,886	36,195,680	49,987,742	11,924,248	1,891,670	8,290,143	345,899	116,749	-	211,744	-
Assets Whose Use is Limited	4,383,169	-	157	314,828	2,644,743	1,156,442	277,219	-	-	-	-	-	-	-
Under trust indenture, held by trustee	10,873,593	-	10,873,593	-	-	-	-	-	-	-	-	-	-	-
Professional liability trust fund	1,769,867	-	-	65,848	1,703,838	-	-	-	-	-	-	-	-	-
Deferred compensation fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash And Cash Equivalents Temporarily Restricted For Capital Acquisition	2,401,581	-	-	537,985	-	1,060,180	-	430,765	88,559	-	-	-	-	286,092
Investments And Investments In Unconsolidated Subsidiaries	8,999,453	-	4,766,419	1,568,988	-	1,665,369	-	-	-	-	-	326,418	-	672,259
Land Held For Healthcare Development	63,695,713	-	50,581,633	-	13,113,880	-	-	-	-	-	-	-	-	-
Deferred Financing Costs, Net	4,214,191	-	1,685,748	1,077,175	827,611	457,328	85,364	-	80,936	-	-	-	-	-
Intangible Assets, Net	6,307,009	-	107,152	1,772,532	-	887,660	2,190,315	-	1,070,962	211,932	24,836	-	61,620	-
Deposits And Other Noncurrent Assets	8,029,018	-	1,059,467	1,662,509	5,508	2,481,975	27,674	5,054	32,000	62,151	8,937	-	19,075	2,664,688
Total assets	\$ 845,708,444	\$ (1,525,881)	\$ 272,167,698	\$ 303,938,459	\$ 110,904,530	\$ 103,627,999	\$ 19,434,116	\$ 2,596,160	\$ 25,314,292	\$ 6,361,196	\$ (10,823,445)	\$ 4,413,272	\$ 1,189,631	\$ 8,110,933

Adventist HealthCare, Inc.

Consolidating Schedule - Balance Sheet Information
December 31, 2010

Liabilities And Net Assets	Adventist HealthCare, Inc.											Consolidated Adventist HealthCare Inc. Foundations	
	Consolidated Adventist HealthCare, Inc.	Eliminating Entries	Support Center	Shady Grove Adventist Hospital	Washington Adventist Hospital	Hackettstown Regional Medical Center	Adventist Behavioral Health Services	Lourie Center	Adventist Rehabilitation Hospital of Maryland	Adventist Home Health Services	Adventist Medical Group		Consolidated Adventist Senior Living Services
Current Liabilities													
Accounts payable and accrued expenses	\$ 76,820,946	\$ -	\$ 20,372,042	\$ 23,586,166	\$ 17,756,253	\$ 4,885,956	\$ 2,536,616	\$ 127,790	\$ 1,670,291	\$ 1,066,593	\$ 3,837,048	\$ 507,959	\$ 13,854
Accrued compensation and related items	34,313,828	(731,625)	3,972,458	11,852,853	8,468,337	3,158,462	2,790,458	363,060	1,493,868	1,071,315	1,021,490	187,116	-
Interest payable	1,018,146	-	1,018,146	-	-	-	-	-	-	-	-	-	-
Due to third party payors	20,416,870	(794,256)	-	11,186,213	7,128,749	(731,979)	2,081,566	-	-	-	1,546,577	-	-
Estimated professional self-insured liability	1,265,100	-	1,265,100	-	-	-	-	-	-	-	-	-	-
Short-term financing	36,462,427	-	8,061,188	20,135,176	4,222,254	2,489,395	619,409	58,251	877,764	-	-	-	-
Current maturities of long-term obligations	170,297,317	(1,525,881)	34,668,934	66,760,408	37,575,593	9,780,814	8,028,049	549,101	4,041,921	2,137,908	8,405,115	675,075	13,854
Total Current Liabilities	1,664,302	-	-	1,204,849	-	459,453	-	-	-	-	-	-	-
Construction Payable	243,507,996	6	223,945,000	-	19,562,990	-	-	-	-	-	-	-	-
Bonds payable	35,342,069	-	32,445,601	-	975,000	-	1,800,479	120,989	-	-	-	-	-
Notes payable	16,464,857	-	11,994,306	2,870,556	1,562,145	47,450	-	-	-	-	-	-	-
Capital lease obligation	-	(6)	(218,870,099)	129,817,583	46,195,690	32,431,413	5,845,262	-	4,380,157	-	-	-	-
Internal debt	18,554,996	-	18,554,996	-	-	-	-	-	-	-	-	-	-
Derivative Financial Instruments	1,769,887	-	-	65,849	1,703,838	-	-	-	-	-	-	-	-
Deferred Compensation	12,034,637	-	1,189,988	4,666,350	4,713,095	1,191,213	-	-	200,000	-	-	-	-
Other Liabilities	8,956,524	-	8,956,524	-	-	-	-	-	-	-	-	-	73,961
Estimated Self Insured Professional Liability	508,592,485	(1,525,881)	113,095,780	205,385,595	112,288,351	43,910,343	15,673,760	670,090	8,622,078	2,137,908	6,405,115	675,075	87,835
Total Liabilities	327,126,511	-	158,065,050	98,080,463	(2,002,789)	58,760,177	3,760,326	1,342,277	16,444,971	4,223,288	(1,991,843)	514,556	1,899,886
Net Assets (Deficit)	9,646,027	-	1,006,788	470,371	616,978	931,073	-	242,372	247,233	-	-	-	6,123,212
Unrestricted	341,421	-	-	-	-	-	-	341,421	-	-	-	-	-
Temporarily restricted	337,113,959	-	159,071,838	98,550,864	(1,363,821)	59,717,250	3,760,326	1,826,070	16,692,204	4,223,288	(1,991,843)	514,556	8,023,098
Permanently restricted	845,706,444	\$(1,525,881)	\$ 272,167,588	\$ 303,936,459	\$ 110,804,530	\$ 103,627,593	\$ 19,434,116	\$ 2,596,160	\$ 25,314,282	\$ 6,361,196	\$ 4,413,272	\$ 1,189,631	\$ 8,110,933
Total liabilities and net assets	\$ 845,706,444	\$ (1,525,881)	\$ 272,167,588	\$ 303,936,459	\$ 110,804,530	\$ 103,627,593	\$ 19,434,116	\$ 2,596,160	\$ 25,314,282	\$ 6,361,196	\$ 4,413,272	\$ 1,189,631	\$ 8,110,933

Adventist Healthcare, Inc.

Schedule of Consolidating Information, Statement of Operations
Year Ended December 31, 2010

	Consolidated Adventist Healthcare, Inc.	Eliminating Entries	Support Center	Shady Grove Adventist Hospital	Washington Adventist Hospital	Hackettstown Regional Medical Center	Adventist Behavioral Health Services	Lourie Center	Adventist Rehabilitation Hospital of Maryland	Adventist Home Health Services	Adventist Medical Group	Consolidated Adventist Senior Living Services	Consolidated Adventist Management Services, Inc.	Combined Adventist Healthcare Inc. Foundations
Unrestricted Revenues														
Net patient service revenue	\$ 746,035,851	\$ (68,753,479)	\$ 3,799,842	\$ 322,103,656	\$ 238,370,281	\$ 94,406,613	\$ 36,202,026	\$ 498,983	\$ 30,461,779	\$ 14,782,713	\$ 5,615,653	\$ 56,547,144	\$ -	\$ -
Other revenue	39,224,727	(12,201,849)	4,211,899	8,235,705	4,840,221	5,246,572	10,353,073	6,827,444	138,237	73,982	920,450	1,236,185	\$ -	\$ -
Total unrestricted revenues	785,260,578	(70,955,325)	8,011,541	330,339,261	243,210,502	99,653,185	46,555,099	7,027,427	30,600,016	14,866,675	6,236,043	59,803,329	6,282,710	3,640,115
Operating Expenses														
Salaries and wages	332,148,333	(26,841,839)	19,366,961	116,908,789	87,010,980	41,381,306	29,350,351	3,893,955	15,985,755	9,381,697	6,917,377	26,841,939	1,950,662	-
Employee benefits	86,400,095	(5,778,895)	2,058,864	23,007,090	17,900,877	9,891,137	6,821,139	771,811	2,947,804	1,784,341	700,524	2,979,245	427,156	-
Contract labor	21,861,051	(2,819,767)	98,891	6,118,432	12,092,542	1,533,856	1,279,715	573,585	640,670	286,252	1,062,368	256,978	738,399	-
Medical supplies	115,215,279	(6,916,265)	1,302	52,931,621	43,884,001	12,743,657	2,374,715	48,171	1,560,640	271,465	109,529	6,771,983	1,434,139	-
General and administrative	105,530,027	(18,161,493)	34,899,371	32,503,428	26,068,383	10,216,739	2,038,273	873,426	2,534,124	751,953	789,265	8,993,384	663,625	-
Building and maintenance	41,753,585	(4,325,974)	936,418	21,288,441	9,670,583	5,236,177	3,415,746	601,451	1,081,929	533,855	389,065	2,595,135	389,355	-
Insurance	5,870,548	(246,977)	39,335	2,515,937	1,679,186	492,307	113,342	101,692	1,016,929	115,050	805,382	245,977	10,307	-
Provision for uncollectible accounts	30,806,966	(133,823)	33,780	12,359,010	12,512,792	2,710,713	1,398,088	2	650,759	50,127	377,633	133,623	714,172	-
Interest	9,075,200	(2,631,735)	(666,748)	5,691,782	2,548,092	1,264,926	448,561	11,515	224,055	22,163	1,910,464	40,715	-	-
Depreciation and amortization	33,006,310	(1,559,682)	4,771,675	13,409,475	7,197,724	5,698,464	1,051,288	106,939	646,125	35,204	1,959,682	59,517	-	-
IT depreciation	-	(1)	(4,214,623)	1,280,429	1,103,169	187,439	187,439	-	107,951	85,643	-	84,325	44,747	-
Allocation: IT services	-	151,530	(27,750,772)	11,094,810	10,479,738	2,860,710	1,155,562	-	1,288,501	335,838	-	460,277	83,757	-
AHC management fees	-	(2,355)	(24,069,584)	8,951,348	7,005,591	2,851,887	1,489,006	178,523	844,949	414,493	283,991	1,834,596	187,585	-
Total expenses	761,657,894	(69,266,777)	5,504,869	308,090,592	239,153,656	97,914,800	51,122,544	7,047,888	28,615,954	14,159,663	11,780,096	57,393,500	6,774,419	3,376,688
Income (loss) from operations	23,592,684	(1,668,548)	2,506,672	22,248,669	4,056,844	1,738,385	(4,567,445)	(20,461)	1,984,062	697,012	(5,544,053)	2,409,829	(491,709)	263,427
Other Income (Expense)														
Investment income (loss)	4,775,018	(1,159,292)	2,024,385	1,697,430	146,704	1,127,677	94,674	(1,390)	205,330	124,550	279	437,011	63,649	23,031
Other income (expense)	543,683	(29,628,652)	151,785	655,357	338,976	(686,785)	30,246	-	26,104	-	-	29,629,652	28,000	-
Total other income (expense)	5,318,701	(30,786,944)	2,176,170	2,342,787	485,680	440,892	124,920	(1,380)	231,434	124,550	279	30,065,663	91,649	23,031
Revenue and gains in excess of (less than) expenses from continuing operations	29,911,385	(32,475,492)	4,682,842	24,591,456	4,542,524	2,179,277	(4,442,525)	(21,851)	2,215,496	821,542	(5,543,774)	32,475,492	(400,060)	286,458
Income from discontinued operations	32,475,492	32,475,492	-	-	-	-	-	-	-	-	-	-	-	-
Revenue and gains in excess of (less than) expenses	61,386,877	-	4,682,842	24,591,456	4,542,524	2,179,277	(4,442,525)	(21,851)	2,215,496	821,542	(5,543,774)	32,475,492	(400,060)	286,458
Change in net unrealized gains and losses on investments other than trading securities	896,239	-	841,109	(23,006)	37,290	(21,367)	5,203	1,064	(3,393)	(2,937)	(252)	56,012	(1,945)	6,461
Change in unrealized loss on derivative financial instrument	(4,187,491)	-	(4,187,491)	(5,266,415)	(4,802,363)	(1,618,962)	(665,895)	(9,978)	(325,640)	(35,816)	-	(48,551,415)	-	-
Transfer from (to) unconsolidated subsidiary	1,741	-	61,079,227	-	-	-	-	-	-	-	-	-	-	-
Net assets released from restriction for purchase of property and equipment	4,356,320	-	122,650	3,062,022	154,113	564,065	430,000	23,470	-	-	-	-	-	-
Other unrestricted net asset activity	29,965	-	-	29,965	-	-	-	29,965	-	-	-	-	-	-
Increase (decrease) in unrestricted net assets	\$ 52,833,651	\$ -	\$ 62,538,337	\$ 22,364,057	\$ (68,436)	\$ 1,103,013	\$ (4,474,217)	\$ 22,670	\$ 1,896,463	\$ 782,787	\$ (5,544,026)	\$ (16,017,911)	\$ (402,005)	\$ 282,919

Adventist Healthcare, Inc.

Consolidating Statement of Changes in Net Assets
Year Ended December 31, 2010

	Consolidated Adventist HealthCare, Inc.	Eliminating Entries	Support Center	Shady Grove Adventist Hospital	Washington Adventist Hospital	Hackettstown Regional Medical Center	Adventist Behavioral Health Services	Lourie Center	Adventist Rehabilitation Hospital of Maryland	Adventist Home Health Services	Adventist Medical Group	Consolidated Adventist Senior Living Services	Consolidated Adventist Management Services, Inc.	Combined Adventist HealthCare Inc. Foundations
Unrestricted Net Assets														
Revenues in excess of (less than) expenses	\$ 61,386,877	\$ -	\$ 4,682,842	\$ 24,591,456	\$ 4,542,524	\$ 2,179,277	\$ (4,442,525)	\$ (21,851)	\$ 2,215,466	\$ 821,542	\$ (5,543,774)	\$ 32,475,492	\$ (400,060)	\$ 286,459
Change in net unrealized gains and losses on investments other than trading securities	896,239	-	841,109	(23,006)	37,290	(21,367)	5,203	1,064	(3,393)	(2,937)	(252)	58,012	(1,945)	6,461
Change in unrealized loss on derivative financial instrument	(4,187,491)	-	(4,187,491)	(5,266,415)	(4,802,363)	(1,616,962)	(486,895)	(9,978)	(325,640)	(35,818)	-	(48,351,415)	-	-
Transfers from (to) unconsolidated subsidiary	1,741	-	61,078,227	-	-	-	-	-	-	-	-	-	-	-
Net assets released from restriction for purchase of property and equipment	4,356,320	-	122,650	3,062,022	154,113	564,065	430,000	23,470	-	-	-	-	-	-
Other unrestricted net asset activity	29,965	-	-	-	-	-	-	29,965	-	-	-	-	-	-
Increase (decrease) in unrestricted net assets	62,483,651	-	62,538,337	22,364,057	(68,436)	1,103,013	(4,474,217)	22,670	1,886,463	782,787	(5,544,026)	(16,017,911)	(402,005)	292,919
Temporarily Restricted Net Assets														
Restricted gifts and donations	6,429,331	-	43,903	1,420,039	630,889	589,359	480,532	197,337	83,515	-	-	-	-	2,983,657
Net assets released from restriction for purchase of property and equipment	(4,356,320)	-	(122,650)	(3,062,022)	(154,113)	(564,065)	(430,000)	(23,470)	-	-	-	-	-	-
Net assets released from restriction for use in operations	(3,662,005)	-	(67,476)	(276,391)	(412,140)	(413,697)	(50,532)	(216,496)	(1,948)	-	-	-	-	(2,223,325)
Change in value of beneficial interest in charitable remainder trusts and charitable gift annuities	113,304	-	66,170	-	-	-	-	-	-	-	-	-	-	47,134
Change in discount of pledges receivable and provision for doubtful pledges	(120,454)	-	-	-	-	-	-	-	-	-	-	-	-	(120,454)
Donor restricted investment income	26,707	-	-	-	-	11,033	-	-	-	-	-	-	-	15,674
(Decrease) increase in temporarily restricted net asset	(1,569,437)	-	(80,053)	(1,916,374)	64,736	(377,370)	-	(42,629)	81,567	-	-	-	-	702,686
Permanently Restricted Net Assets														
Permanently restricted gifts and donations	25	-	-	-	-	-	-	25	-	-	-	-	-	-
Increase (decrease) in net assets	60,914,239	-	62,458,284	20,445,683	(3,700)	725,643	(4,474,217)	(19,834)	1,968,030	782,787	(5,544,026)	(16,017,911)	(402,005)	995,605
Net assets (deficit), beginning	276,198,720	-	96,613,554	78,005,181	(1,380,121)	58,991,607	8,234,543	1,946,004	14,724,174	3,440,501	(6,445,845)	14,026,068	916,561	7,027,493
Net assets (deficit), ending	\$ 337,113,959	\$ -	\$ 159,071,838	\$ 98,550,864	\$ (1,383,821)	\$ 59,717,250	\$ 3,760,326	\$ 1,926,070	\$ 16,692,204	\$ 4,223,288	\$ (11,989,871)	\$ (1,991,843)	\$ 514,556	\$ 8,023,098

Adventist Healthcare, Inc.
 Schedule of Consolidating Information, Statement of Cash Flows
 Year Ended December 31, 2010

	Consolidated Adventist HealthCare, Inc.	Eliminating Entries	Support Center	Shady Grove Adventist Hospital	Washington Adventist Hospital	Hackettstown Regional Medical Center	Adventist Behavioral Health	Louise Center	Rehabilitation Hospital of Maryland	Adventist Home Health Services	Adventist Medical Group	Consolidated Adventist Senior Living Services	Consolidated Adventist Management Services, Inc.	Combined Adventist HealthCare, Inc. Foundations
Cash Flows From Operating Activities														
Increase (decrease) in net assets	\$ 80,914,239	\$ -	\$ 62,458,284	\$ 20,445,693	\$ (3,700)	\$ 725,643	\$ (4,474,217)	\$ (19,934)	\$ 1,988,030	\$ 782,787	\$ (5,544,026)	\$ (18,017,911)	\$ (402,005)	\$ 995,605
Adjustments to reconcile increase (decrease) in net assets to cash provided by (used in) operating activities:														
Provision for uncollectible accounts														
Depreciation and amortization	31,766,516	-	33,780	12,359,010	12,512,792	2,710,713	1,396,088	2	650,759	50,127	377,523	979,550	714,172	-
Amortization allocation among affiliates	34,565,992	-	4,771,675	13,409,475	7,187,187	5,598,464	1,051,288	106,939	646,125	129,889	35,204	1,559,882	59,517	-
Gain on sale of assets of Adventist Senior Living Services, Inc.	(29,384,473)	-	144,751	(96,128)	(68,622)	-	-	-	-	-	-	(29,384,473)	-	-
Gain on derivative financial instrument termination	3,155,409	-	(1,006,962)	(1,420,039)	(572,113)	(186,695)	(480,532)	(62,384)	(83,515)	-	-	3,155,409	-	-
Restricted contributions and grants	(2,995,307)	-	(1,689,381)	(629,221)	9,760	(750,926)	-	-	-	-	-	(3,806,402)	-	(94,025)
Earnings recognized from unconsolidated subsidiaries and affiliates	7,086,930	-	1,739	308,748	182,619	734,818	466,895	9,978	325,639	35,817	-	(2,100,000)	-	-
Amortization of physician income guarantees	1,226,185	-	(10,427,809)	5,286,416	4,802,363	1,618,962	466,895	9,978	325,639	35,817	-	(2,100,000)	-	-
Non cash transfers among affiliates	(689,239)	-	(50,651,415)	(221)	(809)	(812)	(195)	-	-	-	-	50,651,415	-	2,151,064
Cash transfers among affiliates	4,349,906	-	4,598,006	(1,574,749)	-	-	-	-	-	-	-	6,275	-	(1,415)
Change in net unrealized gains and losses on investments other than trading securities	1,479,378	-	(66,170)	704,680	1,764,916	(28,417)	11,000	(5,054)	(187,002)	-	(2,050)	474,988	-	(47,134)
Change in value of beneficial interest in trusts and charitable gift annuity	1,175,531	-	664,011	390,531	704,680	(933,031)	1,800,604	-	(187,002)	-	(2,050)	474,988	-	(47,134)
Change in discount on pledges receivable and provision for doubtful pledges	128,746	-	789,158	4,107,604	1,764,916	(28,417)	11,000	(5,054)	(187,002)	-	(2,050)	474,988	-	(47,134)
Changes in assets and liabilities:														
Other receivables, net	(45,433,540)	-	(138,462)	(21,779,363)	(21,836,629)	(5,218,456)	(659,946)	-	(2,861,033)	(554,454)	(500,408)	6,315,269	-	126,746
Inventories, prepaid expenses and other current assets	(1,510,159)	-	(98,576)	510,061	1,299,455	(131,414)	127,569	-	(14,651)	(5,673)	(82,407)	(65,230)	-	-
Accounts payable and accrued expenses	(965,232)	-	(68,521)	(4,964,166)	(114,475)	(71,865)	(22,864)	-	(51,602)	14,047	3,324	141,285	100,659	(173,570)
Deferred compensation and related expenses	(6,565,582)	-	5,299,680	(4,954,137)	(4,077,161)	(163,069)	258,258	-	(89,270)	35,145	245,405	(5,378,160)	(488,608)	33,196
Interest on long-term debt	1,479,378	-	949,369	1,260,687	200,665	(224,027)	276,131	-	273,871	111,521	152,824	(1,563,795)	(888)	4,731
Estimated self-insured professional liability	(175,531)	-	(45,187)	-	-	-	-	-	-	-	-	(1,563,795)	(888)	-
Due to third party payors	664,011	-	664,011	-	-	-	-	-	-	-	-	(128,344)	-	-
Other noncurrent assets and liabilities	2,251,584	-	813	4,107,604	704,680	(933,031)	1,800,604	-	(187,002)	-	(2,050)	474,988	-	(47,134)
	7,482,813	-	625,264	4,107,604	1,764,916	(28,417)	11,000	(5,054)	(187,002)	-	(2,050)	474,988	-	(47,134)
	50,163,319	(2,195,617)	14,035,697	28,088,005	1,697,675	5,679,789	(447,691)	(703,487)	1,705,891	599,016	(5,324,699)	3,973,741	75,208	2,981,800
Cash Flows From Investing Activities														
Purchase of property and equipment	(36,662,933)	-	(9,183,251)	(13,680,022)	(6,550,984)	(3,948,178)	(1,685,661)	(41,567)	(362,895)	(90,356)	(22,408)	(807,213)	(88,356)	-
Decrease (increase) in investments and investments in unconsolidated subsidiaries	(427,204)	-	(54,450,724)	(146,352)	(31,582)	(249,270)	-	-	-	-	-	-	-	-
Net additions to land held for healthcare development	(52,508,930)	-	(642,268)	(4,954,137)	(4,077,161)	(1,865,553)	-	-	-	-	-	-	-	610,626
Proceeds from the sale of property and equipment, net of transaction costs	61,256,896	-	6,814,530	742,143	(2,055,211)	-	-	-	-	-	-	61,256,896	-	-
Net proceeds from derivative financial instrument transactions	6,814,530	-	6,814,530	-	-	-	-	-	-	-	-	-	-	-
Distributions from investments in unconsolidated subsidiaries	6,869,713	-	1,700,275	742,143	-	127,295	-	-	-	-	-	4,000,000	-	-
(Increase) decrease in trustee held funds and restricted cash	11,819,354	-	(3,686,224)	5,011,635	2,819,032	319,147	1,752	90,288	407,619	-	-	6,623,856	-	231,031
	(6,237,154)	44,553	(69,749,683)	(9,272,395)	(5,819,745)	(2,584,453)	(1,683,909)	48,719	44,684	(90,356)	(22,408)	71,073,539	(88,356)	841,659
Cash Flows From Financing Activities														
Cash transfers among affiliates	(1,058,900)	-	50,651,415	-	-	-	-	-	-	-	-	(50,651,415)	-	(2,151,064)
Payment of financing costs	(47,985,396)	-	(1,058,900)	(3,176,916)	(3,606,704)	(2,396,898)	(224,873)	(55,140)	(1,186,159)	-	-	(33,656,456)	-	-
Repayments of long-term obligations, net	(18,000,000)	-	(18,000,000)	-	-	-	-	-	-	-	-	-	-	-
Repayment of short term financing	2,656,307	-	27,024	1,420,039	572,113	188,695	480,532	92,354	89,515	-	-	-	-	94,025
Proceeds from restricted contributions and grants	(63,497,989)	2,151,064	(38,081,895)	34,814,730	13,205,105	31,241,284	(2,386,512)	(968,334)	5,548,483	3,024,202	(6,446,637)	9,241,449	355,755	986,238
	(63,497,989)	2,151,064	(38,081,895)	34,814,730	13,205,105	31,241,284	(2,386,512)	(968,334)	5,548,483	3,024,202	(6,446,637)	9,241,449	355,755	986,238
Net cash (used in) provided by investing activities														
	(63,497,989)	2,151,064	(38,081,895)	34,814,730	13,205,105	31,241,284	(2,386,512)	(968,334)	5,548,483	3,024,202	(6,446,637)	9,241,449	355,755	986,238
Net cash (used in) provided by financing activities														
	(63,497,989)	2,151,064	(38,081,895)	34,814,730	13,205,105	31,241,284	(2,386,512)	(968,334)	5,548,483	3,024,202	(6,446,637)	9,241,449	355,755	986,238
Net increase (decrease) in cash and cash equivalents														
	(19,571,924)	-	(17,223,704)	18,056,732	(7,150,661)	905,133	(1,875,941)	(617,544)	667,931	508,680	(5,347,107)	(9,240,594)	(13,149)	1,796,420
Cash and cash equivalents, beginning														
	51,938,007	-	(38,081,895)	34,814,730	13,205,105	31,241,284	(2,386,512)	(968,334)	5,548,483	3,024,202	(6,446,637)	9,241,449	355,755	986,238
Cash and cash equivalents, ending														
	32,366,183	-	(55,305,600)	52,871,462	6,047,444	32,146,417	(4,262,453)	(1,583,878)	6,216,414	3,332,942	(11,793,744)	855	343,606	2,752,658
Supplemental Disclosure Of Cash Flow Information														
Interest paid														
	13,213,577	(721,281)	405,955	6,059,987	2,963,968	1,421,096	448,561	11,515	224,055	234,183	2,035,423	40,115	-	-
Supplemental Disclosure Of Noncash Investing And Financing Activities														
Capital lease obligation incurred for equipment														
	362,938	-	362,938	-	-	-	-	-	-	-	-	-	-	-
Construction payable for property and equipment														
	1,654,302	-	1,204,849	1,204,849	-	459,453	-	-	-	-	-	-	-	-

Adventist Healthcare, Inc. - Obligated Group
Schedule of Combining Information, Balance Sheet
December 31, 2010

Assets	Combined AHC Obligated Group	Eliminating Entries	Support Center	Shady Grove Adventist Hospital	Washington Adventist Hospital	Hackettstown Regional Medical Center	Adventist Behavioral Health	Adventist Rehabilitation Hospital of Maryland
Current Assets:								
Cash and cash equivalents	\$ 39,113,744	\$ -	\$ (53,905,540)	\$ 52,871,462	\$ 6,047,444	\$ 32,146,417	\$ (4,262,453)	\$ 6,216,414
Short-term investments	164,424,244	-	164,424,244	-	-	-	-	-
Assets whose use is limited	10,176,978	-	8,433,160	-	1,743,818	-	-	-
Patient accounts receivable, net of estimated allowances of \$80,552,000	115,906,100	-	297,035	46,778,865	42,668,765	10,806,768	6,714,073	8,640,594
Other receivables, net of estimated allowance for uncollectible accounts of \$1,269,000	6,986,267	-	1,803,912	1,492,441	1,015,585	557,411	2,091,218	25,700
Due from third party payors	11,330,953	(794,256)	-	4,878,379	4,223,155	1,994,818	128,737	665,519
Inventories	3,950,137	-	1,952,814	608,760	714,503	445,485	130,588	104,013
Prepaid expenses and other current assets							127,133	101,442
Total current assets	351,888,423	(794,256)	123,005,625	106,629,907	56,413,270	45,950,899	4,929,296	15,753,682
Property And Equipment, Net	376,792,302	-	80,087,603	190,306,886	36,195,680	49,987,742	11,924,248	8,290,143
Assets Whose Use Is Limited								
Under trust indenture, held by trustee	4,393,189	-	157	314,628	2,644,743	1,156,442	277,219	-
Professional liability trust fund	10,873,593	-	10,873,593	-	-	-	-	-
Deferred compensation fund	1,769,687	-	-	65,849	1,703,838	-	-	-
Cash And Cash Equivalents Temporarily Restricted For Capital Acquisition	1,684,724	-	-	537,985	-	1,060,180	-	86,559
Investments And Investments In Unconsolidated Subsidiaries	8,000,776	-	4,766,419	1,568,988	-	1,665,369	-	-
Land Held For Healthcare Development	63,695,713	-	50,581,833	-	13,113,880	-	-	-
Deferred Financing Costs	4,214,161	-	1,685,749	1,077,175	827,611	457,326	85,364	80,936
Intangible Assets, Net	6,008,621	-	107,152	1,772,532	-	867,660	2,190,315	1,070,962
Deposits And Other Noncurrent Assets	5,269,133	-	1,059,467	1,662,509	5,508	2,481,975	27,674	32,000
Total	\$ 834,590,322	\$ (794,256)	\$ 272,167,598	\$ 303,936,459	\$ 110,904,530	\$ 103,627,593	\$ 19,434,116	\$ 25,314,282

Adventist Healthcare, Inc. - Obligated Group
Schedule of Combining Information, Balance Sheet
December 31, 2010

	Combined AHC Obligated Group	Eliminating Entries	Support Center	Shady Grove Adventist Hospital	Washington Adventist Hospital	Hackettstown Regional Medical Center	Adventist Behavioral Health	Adventist Rehabilitation Hospital of Maryland
Liabilities And Net Assets								
Current Liabilities:								
Accounts payable and accrued expenses	\$ 70,787,324	\$ -	\$ 20,372,042	\$ 23,586,166	\$ 17,756,253	\$ 4,865,956	\$ 2,536,616	\$ 1,670,291
Accrued compensation and related items	31,736,424	-	3,972,458	11,852,853	8,468,337	3,158,452	2,790,458	1,493,866
Interest payable	1,018,146	-	1,018,146	-	-	-	-	-
Due to third party payors	18,870,293	(794,256)	-	11,186,213	7,128,749	(731,979)	2,081,566	-
Estimated self-insured professional liability	1,265,100	-	1,265,100	-	-	-	-	-
Short-term financing	-	-	-	-	-	-	-	-
Current portion of long-term obligations	36,404,176	-	8,061,188	20,135,176	4,222,254	2,488,385	619,409	877,764
Total current liabilities	160,081,463	(794,256)	34,688,934	66,760,408	37,575,593	9,780,814	8,028,049	4,041,921
Construction Payable	1,664,302	-	-	1,204,849	-	459,453	-	-
Long-Term Obligations, Net								
Bonds payable	243,507,990	-	223,945,000	-	19,562,990	-	-	-
Notes payable	35,221,080	-	32,445,601	-	975,000	-	1,800,479	-
Capital lease obligation	16,464,957	-	11,984,806	2,870,556	1,562,145	47,450	-	-
Internal debt	6	-	(218,670,099)	129,817,583	46,195,690	32,431,413	5,845,262	4,380,157
Derivative Financial Instruments	18,554,996	-	18,554,996	-	-	-	-	-
Deferred Compensation	1,769,687	-	-	65,849	1,703,838	-	-	-
Other Liabilities	11,960,656	-	1,189,998	4,666,350	4,713,095	1,191,213	-	200,000
Estimated Self Insured Professional Liability	8,956,524	-	8,956,524	-	-	-	-	-
Total liabilities	498,181,661	(794,256)	113,095,760	205,385,595	112,288,351	43,910,343	15,673,790	8,622,078
Net Assets (Deficit):								
Unrestricted	333,128,218	-	158,065,050	98,080,493	(2,002,799)	58,780,177	3,760,326	16,444,971
Temporarily restricted	3,280,443	-	1,006,788	470,371	618,978	937,073	-	247,233
TOTAL NET ASSETS	336,408,661	-	159,071,838	98,550,864	(1,383,821)	59,717,250	3,760,326	16,692,204
TOTAL LIABILITIES AND NET ASSETS	\$ 834,590,322	\$ (794,256)	\$ 272,167,598	\$ 303,936,459	\$ 110,904,530	\$ 103,627,593	\$ 19,434,116	\$ 25,314,282

Adventist Healthcare, Inc. - Obligated Group

Schedule of Combining Information, Statement of Operations
Year Ended December 31, 2010

	Combined AHC Obligated Group	Eliminating Entries	Support Center	Shady Grove Adventist Hospital	Washington Adventist Hospital	Hackettstown Regional Medical Center	Adventist Behavioral Health Services	Adventist Rehabilitation Hospital of Maryland
Unrestricted Revenues								
Net patient service revenue	\$ 725,343,897	\$ -	\$ 3,799,642	\$ 322,103,556	\$ 238,370,281	\$ 94,406,613	\$ 36,202,026	\$ 30,461,779
Other revenue	28,185,452	(4,840,255)	4,211,899	8,235,705	4,840,221	5,246,572	10,353,073	138,237
Total unrestricted revenues	753,529,349	(4,840,255)	8,011,541	330,339,261	243,210,502	99,653,185	46,555,099	30,600,016
Operating Expenses								
Salaries and wages	310,005,142	-	19,366,961	116,908,789	87,010,980	41,381,306	29,350,351	15,986,755
Employee benefits	62,626,261	(650)	2,058,864	23,007,090	17,900,877	9,891,137	6,821,139	2,947,804
Contract labor	19,681,492	(2,082,614)	98,891	6,118,432	12,092,542	1,533,856	1,279,715	640,670
Medical supplies	113,350,975	(144,280)	1,302	52,931,621	43,884,001	12,743,657	2,374,034	1,560,640
General and administrative	107,440,046	(822,272)	34,899,371	32,503,428	26,068,383	10,218,739	2,038,273	2,534,124
Building and maintenance	39,838,855	(1,790,439)	936,418	21,288,441	9,670,583	5,236,177	3,415,746	1,081,929
Insurance	4,941,799	-	39,335	2,515,937	1,679,186	492,307	113,342	101,692
Provision for uncollectible accounts	29,665,142	-	33,780	12,359,010	12,512,792	2,710,713	1,398,088	650,759
Interest	9,510,668	-	(666,748)	5,691,782	2,548,092	1,264,926	448,561	224,055
Depreciation and amortization	32,674,751	-	4,771,675	13,409,475	7,197,724	5,598,464	1,051,288	646,125
IT depreciation	(224,714)	-	(4,214,623)	1,280,429	1,103,169	1,310,921	187,439	107,951
Allocation: IT services	(1,051,452)	-	(27,750,773)	11,094,810	10,479,738	2,680,710	1,155,562	1,288,501
AHC management fees	(2,896,803)	-	(24,069,584)	8,981,348	7,005,591	2,851,887	1,489,006	844,949
Total expenses	725,562,162	(4,840,255)	5,504,869	308,090,592	239,153,658	97,914,800	51,122,544	28,615,954
Income (loss) from operations	27,967,187	-	2,506,672	22,248,669	4,056,844	1,738,385	(4,567,445)	1,984,062
Other Income (Expense)								
Investment income	5,286,200	-	2,024,385	1,687,430	146,704	1,127,677	94,674	205,330
Other income (expense)	515,683	-	151,785	655,357	338,976	(686,785)	30,246	26,104
Total other income	5,801,883	-	2,176,170	2,342,787	485,680	440,892	124,920	231,434
Revenue in excess (less than) expenses	33,769,070	-	4,682,842	24,591,456	4,542,524	2,179,277	(4,442,525)	2,215,496
Change in net unrealized gains and losses on investments other than trading securities	835,836	-	841,109	(23,006)	37,290	(21,367)	5,203	(3,393)
Change in unrealized loss on derivative financial instrument	(4,187,491)	-	(4,187,491)	-	-	-	-	-
Transfers from (to) unconsolidated subsidiaries	48,598,952	-	61,079,227	(5,266,415)	(4,802,363)	(1,618,962)	(466,895)	(325,640)
Net assets released from restriction for purchase of property and equipment	4,332,850	-	122,650	3,062,022	154,113	564,065	430,000	-
Increase (decrease) in unrestricted net assets	\$ 83,349,217	\$ -	\$ 62,538,337	\$ 22,364,057	\$ (68,436)	\$ 1,103,013	\$ (4,474,217)	\$ 1,886,463

Adventist Healthcare, Inc. - Obligated Group
 Schedule of Combining Information, Statement of Cash Flows
 Year Ended December 31, 2010

	Combined AHC Obligated Group	Eliminating Entries	Support Center	Shady Grove Adventist Hospital	Washington Adventist Hospital	Hackettstown Regional Medical Center	Adventist Rehabilitation Hospital of Maryland
Cash Flows From Operating Activities							
Increase (decrease) in net assets	\$ 81,119,723	\$ -	\$ 62,458,284	\$ 20,445,683	\$ (3,700)	\$ 725,643	\$ (4,474,217)
Adjustments to reconcile increase (decrease) in net assets to cash provided by (used in) operating activities:							
Provision for uncollectible accounts							
Depreciation and amortization	29,665,142	-	33,780	12,359,010	12,512,792	2,710,713	1,398,088
Amortization allocation among affiliates	32,674,751	-	4,771,675	13,409,475	7,197,724	5,598,464	1,051,288
Gain on derivative financial instrument termination	(1,006,962)	-	(1,006,962)	(96,128)	(48,622)	-	-
Restricted contributions and grants	(2,769,918)	-	(27,024)	(1,420,039)	(572,113)	(186,695)	(480,532)
Earnings from investments and investments in unconsolidated subsidiaries	(3,279,428)	-	(1,699,281)	(829,221)	-	(750,926)	-
Amortization of bond discounts	9,790	-	-	308,748	9,790	734,818	-
Net organization transfer among affiliates	1,226,185	-	-	308,748	182,619	-	-
Non cash transfers among affiliates	2,052,466	-	(10,427,809)	5,268,416	4,802,363	1,616,962	466,895
Cash transfers among affiliates	(50,651,415)	-	(60,651,415)	(221)	(809)	(812)	(195)
Change in unrealized gains and losses on investments other than trading securities	(835,836)	7,310	(841,109)	-	-	-	-
Change in net unrealized loss on derivative financial instruments	4,598,906	-	4,598,906	-	-	-	-
Change in value of beneficial interest in trusts and charitable gift annuity	(66,170)	-	(66,170)	-	-	-	-
Changes in assets and liabilities:							
Patient accounts receivable, net	(60,693,889)	-	(138,462)	(21,779,363)	(21,836,629)	(3,218,456)	(659,946)
Other receivables, net	1,282,274	-	(508,776)	510,061	1,299,465	(131,414)	127,599
Inventories, prepaid expenses and other current assets	(1,252,375)	-	(98,561)	(893,108)	(114,475)	(71,965)	(22,864)
Accounts payable and accrued expenses	(3,127,500)	-	5,298,660	(4,954,439)	(4,407,181)	(163,068)	258,258
Accrued compensation and related expenses	2,743,236	-	949,399	1,280,997	206,865	(224,027)	276,131
Interest payable	664,011	-	(45,187)	-	-	-	-
Estimated self-insured professional liability	1,776,595	-	664,011	390,531	704,680	(933,031)	1,800,604
Due to third party payors	6,680,367	-	813	4,107,604	1,764,916	(28,417)	11,000
Other noncurrent assets and liabilities	50,784,866	7,310	14,035,687	28,086,005	1,697,675	5,679,789	(447,691)
Net cash provided by (used in) operating activities	(95,613,031)	-	(9,185,251)	(13,880,022)	(6,550,984)	(3,948,178)	(1,665,661)
Cash Flows From Investing Activities							
Purchase of property and equipment	(427,204)	-	(54,450,724)	(146,352)	(3,1562)	(249,270)	-
Payments to physicians under income guarantees	(53,271,481)	(7,310)	(842,269)	-	(2,055,211)	1,186,553	-
Decrease (increase) in investments and investments in unconsolidated subsidiaries	(2,997,500)	-	6,814,530	-	-	-	-
Net additions to land held for healthcare development	6,814,530	-	1,700,275	742,143	-	127,295	-
Net proceeds from derivative financial instrument transactions	2,569,713	-	(3,686,224)	5,011,835	2,819,032	319,147	-
Distributions from investments in unconsolidated subsidiaries	4,873,161	-	(59,749,683)	(6,272,396)	(6,818,745)	(2,564,453)	407,619
Decrease (increase) in trustee held funds and restricted cash	(78,051,812)	(7,310)	-	-	-	-	-
Net cash (used in) provided by investing activities	50,651,415	-	50,651,415	(1,756,877)	(3,037,591)	(2,210,203)	(1,082,644)
Cash Flows From Financing Activities							
Net organization transfer - cash transfer from ASLS	(1,058,900)	-	(1,058,900)	-	-	-	-
Payments of financing costs	(13,703,797)	-	(3,128,247)	(3,176,916)	(3,609,704)	(2,396,898)	(1,166,159)
Repayments of long-term obligations, net	(18,000,000)	-	(18,000,000)	-	-	-	-
Change in short-term financing	2,769,918	-	27,024	1,420,039	572,113	186,695	83,515
Proceeds from restricted contributions and grants	20,658,636	-	28,450,292	(1,756,877)	(3,037,591)	(2,210,203)	(1,082,644)
Net cash provided by (used in) financing activities	(6,628,510)	-	(17,223,704)	18,056,732	(7,158,661)	965,133	(1,875,941)
Net (decrease) increase in cash and cash equivalents	45,742,254	-	(36,681,836)	34,814,730	13,206,105	31,241,284	(2,388,512)
Cash and cash equivalents, beginning	\$ 39,113,744	\$ -	\$ (53,905,540)	\$ 52,871,462	\$ 6,047,444	\$ 32,146,417	\$ 6,216,414
Cash and cash equivalents, ending	\$ 11,235,418	\$ (378,204)	\$ 495,955	\$ 6,059,987	\$ 2,963,968	\$ 1,421,096	\$ 448,561
Supplemental Disclosure Of Cash Flow Information							
Interest paid	\$ 362,938	\$ -	\$ 362,938	\$ -	\$ -	\$ -	\$ -
Supplemental Disclosure Of Noncash Investing And Financing Activities							
Capital lease obligation incurred for equipment	\$ 1,664,302	\$ -	\$ -	\$ 1,204,849	\$ -	\$ 459,453	\$ -
Construction payable for property and equipment							

Adventist Healthcare, Inc. - Adventist Senior Living Services (*)

Schedule of Consolidating Information, Balance Sheet
December 31, 2010

	Consolidated Adventist Senior Living Services	Eliminating Entries	Adventist Senior Living Services	Silgo Creek Adventist Nursing & Rehab Center, Inc.	Shady Grove Adventist Nursing & Rehab Center, Inc.	Bradford Oaks Adventist Nursing & Rehab Center, Inc.	Springbrook Adventist Nursing & Rehab Center, Inc.	Fairland Adventist Nursing & Rehab Center, Inc.	Adventist Dialysis Services
Assets									
Current Assets									
Cash, cash equivalents and investments	\$ 855	\$ -	\$ -	(131)	\$ (1,363)	\$ 449	\$ 700	\$ 1,200	\$ -
Net patient accounts receivable, net of estimated allowances of \$4,747,000	3,031,290	-	2,563	386,811	650,515	696,978	476,481	881,424	(63,482)
Due from third party payors	-	(1,560,753)	-	77,713	251,312	460,881	394,932	375,915	-
Other receivables, net	1,054,709	-	3,533	187,917	161,656	335,461	178,504	122,139	65,499
Total current assets	4,086,854	(1,560,753)	6,096	652,310	1,062,120	1,493,769	1,050,617	1,380,678	2,017
Investments And Investments In Unconsolidated Subsidiaries	326,418	-	326,418	-	-	-	-	-	-
Total assets	\$ 4,413,272	\$ (1,560,753)	\$ 332,514	\$ 652,310	\$ 1,062,120	\$ 1,493,769	\$ 1,050,617	\$ 1,380,678	\$ 2,017
Liabilities And Net Assets									
Current Liabilities									
Accounts payable and accrued expenses	\$ 3,837,048	\$ -	\$ 20,819	\$ 347,243	\$ 974,621	\$ 912,082	\$ 577,687	\$ 370,924	\$ 633,672
Accrued compensation and related items	1,021,490	-	146,555	138,954	245,897	223,697	107,216	131,892	27,279
Due to third party payors	1,546,577	(1,560,753)	-	403,203	378,028	1,145,263	250,830	930,006	-
Total current liabilities	6,405,115	(1,560,753)	167,374	889,400	1,598,546	2,281,042	935,733	1,432,822	660,951
Total liabilities	6,405,115	(1,560,753)	167,374	889,400	1,598,546	2,281,042	935,733	1,432,822	660,951
Unrestricted Net (Deficit) Assets	(1,991,843)	-	165,140	(237,090)	(536,426)	(787,273)	(114,884)	(52,144)	(658,934)
Total liabilities and net (deficit) assets	\$ 4,413,272	\$ (1,560,753)	\$ 332,514	\$ 652,310	\$ 1,062,120	\$ 1,493,769	\$ 1,050,617	\$ 1,380,678	\$ 2,017

* -The operating assets of Adventist Senior Living Services were sold during 2010. See Note 3 to the consolidated financial statements for further discussion regarding this transaction.

Adventist Healthcare, Inc. - Adventist Senior Living Services (*)

Schedule of Consolidating Information, Statement of Operations

Year Ended December 31, 2010

	Consolidated Adventist Senior Living Services	Eliminating Entries	Adventist Senior Living Services	Sligo Creek Adventist Nursing & Rehab Center, Inc.	Shady Grove Adventist Nursing & Rehab Center, Inc.	Bradford Oaks Adventist Nursing & Rehab Center, Inc.	Springbrook Adventist Nursing & Rehab Center, Inc.	Fairland Adventist Nursing & Rehab Center, Inc.	Adventist Dialysis Services
Unrestricted Revenues									
Net patient service revenue	\$ 58,547,144	\$ -	\$ -	\$ 8,911,526	\$ 16,319,807	\$ 14,534,693	\$ 7,601,655	\$ 9,121,004	\$ 2,058,459
Other revenue	1,258,185	-	1,163,307	2,512	8,042	29,301	52,390	1,479	(846)
Total unrestricted revenues	59,803,329	-	1,163,307	8,914,038	16,327,849	14,563,994	7,654,045	9,122,483	2,057,613
Operating Expenses									
Salaries and wages	26,841,839	-	2,535,378	3,714,348	6,179,825	6,687,145	3,692,118	4,033,025	-
Employee benefits	5,779,245	-	508,508	806,468	1,391,202	1,442,232	745,079	885,463	-
Contract labor	256,878	-	11,932	25,683	39,315	21,232	74,093	61,679	-
Medical supplies	6,771,985	-	1,108	944,601	1,813,833	1,244,113	845,425	1,194,620	22,944
General and administrative	8,959,384	-	256,916	1,167,945	2,776,961	1,557,729	880,967	1,612,635	728,285
Building and maintenance	2,535,135	-	200,657	272,467	659,075	557,428	390,952	401,773	706,231
Insurance	245,877	-	2,350	39,279	70,947	67,975	30,739	33,900	52,783
Provision for bad debts	133,823	-	3	(31,345)	37,640	(2,338)	(56,104)	68,544	687
Interest	1,910,454	-	35,486	303,066	545,135	705,637	306,130	15,000	117,423
Depreciation and amortization	1,559,682	-	12,025	283,003	362,398	455,731	228,810	174,861	-
IT depreciation	84,325	-	12,507	27,934	9,378	17,709	9,019	42,854	42,854
Allocation: IT services	480,277	-	81,100	63,629	130,107	67,923	65,073	7,738	40
Allocation: Shared services	-	-	-	-	-	-	-	72,188	257
AHC management fees	1,834,596	-	(2,176,803)	613,063	1,112,307	999,828	523,411	623,662	139,128
Total operating expenses	57,393,500	-	1,481,167	8,211,585	15,146,679	13,822,637	7,735,712	9,185,088	1,810,632
Income (loss) from operations	2,409,829	-	(317,860)	702,453	1,181,170	741,357	(81,667)	(62,605)	246,981
Other Income									
Investment income	437,011	-	-	102,011	97,880	125,905	35,228	29,555	46,432
Other income	29,628,652	-	3,399,588	3,174,586	6,574,363	4,700,102	3,922,257	2,950,500	4,907,246
Total other income	30,065,663	-	3,399,588	3,276,607	6,672,243	4,826,007	3,957,485	2,980,055	4,953,678
Revenues in excess of expenses	32,475,492	-	3,081,728	3,979,060	7,853,413	5,567,364	3,875,818	2,917,450	5,200,659
Change in net unrealized gain and losses on investments other than trading securities	58,012	-	-	13,994	15,652	19,214	(2,902)	5,080	6,974
Transfers to affiliates	(48,551,415)	-	(2,113,894)	(7,984,356)	(8,909,588)	(10,260,213)	(5,629,871)	(6,104,848)	(7,548,645)
(Decrease) increase in unrestricted net assets	\$ (16,017,911)	\$ -	\$ 967,834	\$ (3,991,302)	\$ (1,040,523)	\$ (4,673,635)	\$ (1,756,955)	\$ (3,182,318)	\$ (2,341,012)

*-The operating assets of Adventist Senior Living Services were sold during 2010. See Note 3 to the consolidated financial statements for further discussion regarding this transaction.

Adventist Healthcare, Inc. - Adventist Senior Living Services (*)
 Schedule of Consolidating Information, Statement of Cash Flows
 For the Year Ended December 31, 2010

	Combined Adventist Senior Living Services	Eliminating Entries	Adventist Senior Living	Sligo Creek Adventist Rehabilitation Center, Inc.	Shady Grove Adventist Rehabilitation Center, Inc.	Bradford Oaks Adventist Nursing & Rehabilitation Center, Inc.	Springbrook Adventist Nursing & Rehabilitation Center, Inc.	Fairland Adventist Nursing & Rehabilitation Center, Inc.	Dialysis
Cash Flows From Operating Activities									
(Decrease) increase in net assets	\$ (16,017,911)	\$ -	\$ 967,854	\$ (3,991,302)	\$ (1,040,523)	\$ (4,673,635)	\$ (1,756,955)	\$ (3,182,318)	\$ (2,341,012)
Adjustments to reconcile (decrease) increase in net assets to cash provided by operating activities:									
Provision for uncollectible accounts	979,560	-	-	130,253	168,352	266,166	114,463	182,900	117,423
Depreciation and amortization	1,559,682	-	12,025	283,003	362,398	455,731	228,810	174,861	42,854
Gain on sale of assets of Adventist Senior Living Services, Inc.	(29,384,473)	-	-	(3,767,357)	(7,617,817)	(6,086,981)	(4,054,572)	(2,950,500)	(4,907,246)
Loss on extinguishment of debt	3,155,409	-	-	592,761	1,043,454	1,386,879	132,315	-	-
Earnings from investments and investments in unconsolidated affiliates	(3,806,402)	-	(3,806,402)	-	-	-	-	-	-
Change in unrealized losses (gains) on investments other than trading securities	6,275	-	-	-	-	-	6,275	-	-
Net organization transfer	50,651,415	-	2,113,894	7,984,356	8,909,588	10,260,213	5,629,871	8,204,848	7,548,645
Noncash transfer to affiliate	(2,100,000)	-	-	-	-	-	-	(2,100,000)	-
Changes in assets and liabilities:									
Patient accounts receivable, net	6,315,299	-	(2,566)	1,115,066	1,194,116	2,116,515	658,593	1,011,350	222,225
Other receivables, net	(950,420)	-	7,794	(182,038)	(155,522)	(327,856)	(175,688)	(120,327)	3,218
Inventories, prepaid expenses and other current assets	141,265	-	5,043	21,393	38,731	49,322	12,085	14,691	-
Accounts payable and accrued expenses	(5,379,190)	-	(157,592)	(980,411)	(1,329,197)	(992,096)	(647,958)	(1,264,736)	(7,200)
Accrued compensation and related expenses	(1,563,795)	-	(76,560)	(263,604)	(335,477)	(451,478)	(203,065)	(260,890)	27,279
Interest payable	(128,344)	-	-	(25,093)	(45,181)	(58,070)	-	-	-
Due to third party payors	474,989	-	-	(172,540)	300,363	417,021	-	502,973	-
Other noncurrent assets and liabilities	20,392	-	20,392	-	-	-	-	-	-
Net cash provided by (used in) operating activities	3,973,741	-	(916,135)	744,487	1,493,295	2,361,731	(628,665)	212,852	706,186
Cash Flows From Investing Activities									
Purchases of property and equipment	(807,213)	-	(7,402)	(101,075)	(114,178)	(229,282)	(21,644)	(322,940)	(10,692)
Decrease (increase) in investments and investments in unconsolidated subsidiaries	61,256,896	-	50,544	8,711,835	14,856,738	15,947,654	8,501,046	7,468,868	5,720,211
Proceeds from sale of property and equipment, net of transaction costs	4,000,000	-	4,000,000	-	-	-	-	-	-
Distributions from investments in unconsolidated subsidiaries	6,623,856	-	-	2,072,649	949,811	3,104,218	497,178	-	-
Net decrease (increase) in trustee-held funds	71,073,539	-	4,043,142	10,683,409	15,692,371	18,822,590	8,976,580	7,145,928	5,709,519
Net cash (used in) provided by investing activities	(807,213)	-	(7,402)	(101,075)	(114,178)	(229,282)	(21,644)	(322,940)	(10,692)
Cash Flows From Financing Activities									
Net organization transfer	(50,651,415)	-	(2,113,894)	(7,984,356)	(8,909,588)	(10,260,213)	(5,629,871)	(8,204,848)	(7,548,645)
Repayments of long-term obligations, net	(33,636,459)	-	-	(5,905,981)	(10,533,101)	(13,667,377)	(3,530,000)	-	-
Net cash (used in) provided by financing activities	(84,287,874)	-	(2,113,894)	(13,890,337)	(19,442,689)	(23,927,590)	(9,159,871)	(8,204,848)	(7,548,645)
Net (decrease) increase in cash and cash equivalents	(9,240,594)	-	1,013,113	(2,462,441)	(2,257,093)	(2,743,269)	(811,956)	(846,068)	(1,132,940)
Cash and cash equivalents, beginning	9,241,449	-	(1,013,113)	2,462,310	2,255,670	2,743,718	812,656	847,268	1,132,940
Cash and cash equivalents, ending	855	-	-	(131)	(1,363)	449	700	1,200	-
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION									
Interest paid	\$ 2,035,423	-	\$ 35,486	\$ 327,976	\$ 589,525	\$ 763,707	\$ 303,729	\$ 15,000	-
Supplemental Disclosure Of Noncash Investing And Financing Activities									
Capital lease obligation incurred for equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Construction payable for property and equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

* - The operating assets of Adventist Senior Living Services were sold during 2010. See Note 3 to the consolidated financial statements for further discussion regarding this transaction.

Adventist HealthCare, Inc. - Foundations
Schedule of Combining Information, Balance Sheet
December 31, 2010

	Combined Adventist HealthCare, Inc. Foundations	Eliminating Entries	Shady Grove Adventist Hospital Foundation, Inc.	Washington Adventist Hospital Foundation, Inc.	Hackettstown Community Hospital Foundation, Inc.	Potomac Ridge Foundation, Inc.
Assets						
Current Assets:						
Cash and cash equivalents	\$ 2,752,658	\$ -	\$ 1,513,438	\$ 875,925	\$ 74,768	\$ 288,527
Current portion pledges receivable, less allowance for doubtful pledges of \$28,000	1,727,156	-	1,358,583	49,835	270,686	48,052
Other receivables	5,600	-	-	-	5,600	-
Prepaid expenses and other current assets	2,500	-	-	-	2,500	-
Total current assets	4,487,914	-	2,872,021	925,760	353,554	336,579
Cash And Cash Equivalents Held For Capital Acquisitions	286,092	-	-	119,135	-	166,957
Investments	672,259	-	666,542	5,717	-	-
Beneficial Interest In Trusts	751,410	-	-	751,410	-	-
Noncurrent Portion Of Pledges Receivable	1,913,258	-	1,788,821	24,000	100,437	-
Total	\$ 8,110,933	\$ -	\$ 5,327,384	\$ 1,826,022	\$ 453,991	\$ 503,536
Liabilities And Net Assets						
Current Liabilities,						
Accounts payable and accrued expenses	\$ 13,854	\$ -	\$ 4,218	\$ 490	\$ 9,146	\$ -
Liability to Charitable Gift Annuitants	73,981	-	73,981	-	-	-
Total liabilities	87,835	-	78,199	490	9,146	-
Net Assets:						
Unrestricted	1,899,886	-	1,354,594	315,602	25,912	203,778
Temporarily restricted	6,123,212	-	3,894,591	1,509,930	418,933	299,758
Total net assets	8,023,098	-	5,249,185	1,825,532	444,845	503,536
Total	\$ 8,110,933	\$ -	\$ 5,327,384	\$ 1,826,022	\$ 453,991	\$ 503,536

Adventist HealthCare, Inc. - Foundations

Schedule of Combining Information, Statement of Operations
Year Ended December 31, 2010

	Combined Adventist HealthCare, Inc.	Eliminating Entries	Shady Grove Adventist Hospital Foundation, Inc.	Washington Adventist Hospital Foundation, Inc.	Hackettstown Adventist Hospital Foundation, Inc.	Potomac Ridge Foundation, Inc.
Changes in Unrestricted Net Assets:						
Unrestricted Revenues, Gains, And Other Support:						
Contributions, net	\$ 1,416,790	-	\$ 44,844	\$ 1,230,720	\$ 48,913	\$ 92,313
Investment income (loss)	23,031	-	14,399	6,957	118	1,557
Net assets released from restrictions	2,223,325	-	1,177,226	506,227	485,061	54,811
Total unrestricted revenues, gains, and other support	3,663,146	-	1,236,469	1,743,904	534,092	148,681
Expenses:						
General administrative expenses	481,855	-	132,511	183,012	165,931	401
In-kind gifts expended	743,769	-	-	742,641	-	1,128
Total expenses before transfers to the hospitals	1,225,624	-	132,511	925,653	165,931	1,529
Transfers to the hospital	2,151,064	-	1,122,523	596,725	362,710	69,106
Total expenses	3,376,688	-	1,255,034	1,522,378	528,641	70,635
Revenues (less than) in excess of expenses	286,458	-	(18,565)	221,526	5,451	78,046
Change in net unrealized gains (loss) on investments other than trading securities	6,461	-	12,463	(6,002)	-	-
Increase (decrease) in unrestricted net assets	292,919	-	(6,102)	215,524	5,451	78,046
Unrestricted net assets, beginning	1,606,967	-	1,360,696	100,078	20,461	125,732
Unrestricted net assets, ending	\$ 1,899,886	\$ -	\$ 1,354,594	\$ 315,602	\$ 25,912	\$ 203,778
Changes in Temporarily Restricted Net Assets:						
Contributions, net	\$ 2,983,657	\$ -	\$ 2,119,306	\$ 328,293	\$ 460,875	\$ 75,183
Net assets released from restrictions	(2,223,325)	-	(1,177,226)	(506,227)	(485,061)	(54,811)
Change in value of beneficial interest in trusts	47,134	-	9,934	37,200	-	-
Change in discount of pledges receivable and provision for doubtful pledges	(120,454)	-	(117,769)	(2,685)	-	-
Investment income and unrealized gain on investments	15,674	-	15,674	-	-	-
Increase (decrease) in temporarily restricted net assets	702,686	-	849,919	(143,419)	(24,186)	20,372
Temporarily restricted net assets, beginning	5,420,526	-	3,044,672	1,653,349	443,119	279,386
Temporarily restricted net assets, ending	\$ 6,123,212	\$ -	\$ 3,894,591	\$ 1,509,930	\$ 418,933	\$ 299,758

See notes to consolidated financial statements

Adventist HealthCare, Inc. - Foundations

Schedule of Combining Information, Statements of Cash Flows
Year Ended December 31, 2010

	Combined Adventist HealthCare, Inc. Foundations	Eliminating Entries	Shady Grove Adventist Hospital Foundation, Inc.	Washington Adventist Hospital Foundation, Inc.	Hackettstown Adventist Hospital Foundation, Inc.	Potomac Ridge Foundation, Inc.
Cash Flows From Operating Activities:						
Increase (decrease) in net assets	\$ 995,605	\$ -	\$ 843,817	\$ 72,105	\$ (18,735)	\$ 98,418
Adjustments to reconcile change in net assets to net cash provided by operating activities:						
Contributions restricted for long-term purposes	(94,025)	-	(38,995)	(55,030)	-	-
Transfers to Hospitals	2,151,064	-	1,122,523	596,725	362,710	69,106
Provision for doubtful pledges	84,182	-	63,535	6,071	14,576	-
Net change in unrealized gains and losses on investments other than trading securities	(14,815)	-	(20,817)	6,002	-	-
Change in beneficial interest in trusts	(47,134)	-	(9,934)	(37,200)	-	-
Change in discount in pledges receivable	42,564	-	54,234	-	(11,670)	-
Change in assets and liabilities:						
Prepaid expense and other assets	33,198	-	32,698	-	500	-
Pledge receivable, net	(226,476)	-	(218,656)	1,276	37,049	(46,145)
Other receivable	52,906	-	52,836	-	70	-
Accounts payable and accrued expenses	4,731	-	4,218	490	23	-
	<u>2,981,800</u>	-	<u>1,885,459</u>	<u>590,439</u>	<u>384,523</u>	<u>121,379</u>
Net cash provided by (used in) operating activities						
Cash Flows From Investing Activities:						
Net decrease in investments	610,628	-	(154)	610,782	-	-
Net decrease in restricted cash	<u>231,031</u>	-	-	<u>123,344</u>	-	<u>107,687</u>
Net cash used in investing activities	<u>841,659</u>	-	<u>(154)</u>	<u>734,126</u>	-	<u>107,687</u>
Cash Flows From Financing Activities:						
Contributions restricted for long-term purposes	94,025	-	38,995	55,030	-	-
Transfers to Hospitals	(2,151,064)	-	(1,122,523)	(596,725)	(362,710)	(69,106)
Net cash used in financing activities	<u>(2,057,039)</u>	-	<u>(1,083,528)</u>	<u>(541,695)</u>	<u>(362,710)</u>	<u>(69,106)</u>
Net decrease in cash and cash equivalents	1,766,420	-	801,777	782,870	21,813	159,960
Cash and cash equivalents, beginning	<u>986,238</u>	-	<u>711,661</u>	<u>93,055</u>	<u>52,955</u>	<u>128,567</u>
Cash and cash equivalents, ending	<u>\$ 2,752,658</u>	<u>\$ -</u>	<u>\$ 1,513,438</u>	<u>\$ 875,925</u>	<u>\$ 74,768</u>	<u>\$ 288,527</u>

See notes to consolidated financial statements