Advontist Behavioral

Adventist HealthCare, Inc. and Controlled Entities

Financial Statements and Supplementary Information

December 31, 2011 and 2010

ParenteBeard

CONFIDENCE THROUGH CLARITY

Adventist HealthCare, Inc. and Controlled Entities

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ParenteBeard

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, 2011 and 2010, 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 financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2011 and 2010, and the results of their operations, changes in net assets, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 2 to the consolidated financial statements, the Corporation adopted new authoritative accounting guidance related to the reporting and disclosures of the allowance for doubtful collections, provision for doubtful collections, and net patient service revenue in 2011.

ParenteBeard LLC

Wilkes-Barre, Pennsylvania
April 19, 2012

Adventist HealthCare, Inc. and Controlled Entities

Consolidated Balance Sheets

December 31, 2011 and 2010

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	$ 15,166,805	$ 32,366,183
Short-term investments	167,409,546	164,424,244
Assets whose use is limited	4,583,523	10,176,978
Patient accounts receivable, net of estimated allowances of $92,534,000 in 2011 and $87,024,000 in 2010	129,749,725	121,738,350
Other receivables, net of estimated allowance for doubtful collections of $2,766,000 in 2011 and $2,675,000 in 2010	8,315,618	11,370,728
Inventories	12,216,675	11,502,900
Prepaid expenses and other current assets	3,685,259	4,085,293
Total current assets	341,127,151	355,664,676
Property and Equipment, Net	390,200,632	379,358,364
Assets Whose Use is Limited		
Under trust indentures and capital lease purchase financing facilities, held by trustees and banks	15,695,442	4,393,189
Professional liability trust fund	8,990,494	10,873,593
Deferred compensation fund	164,057	1,769,687
Cash and Cash Equivalents Temporarily Restricted for Capital Acquisition	2,514,087	2,401,581
Investments and Investments in Unconsolidated Subsidiaries	10,737,019	8,999,453
Land Held for Healthcare Development	73,187,614	63,695,713
Deferred Financing Costs, Net	3,870,269	4,214,161
Intangible Assets, Net	5,979,535	6,307,009
Deposits and Other Noncurrent Assets	6,992,385	8,029,018
Total assets	$ 859,458,685	$ 845,706,444

See notes to consolidated financial statements

Adventist HealthCare, Inc. and Controlled Entities

Consolidated Balance Sheets
December 31, 2011 and 2010

	2011	2010
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$ 81,619,982	$ 76,820,946
Accrued compensation and related items	34,294,188	34,313,828
Interest payable	2,508,920	1,018,146
Due to third party payors	19,611,070	20,416,870
Estimated self-insured professional liability	1,860,185	1,265,100
Current maturities of long-term obligations	18,420,042	36,462,427
Total current liabilities	158,314,387	170,297,317
Construction Payable	197,857	1,664,302
Long-Term Obligations, Net		
Bonds payable	236,612,788	243,507,996
Notes payable	48,889,925	35,342,069
Capital lease obligations	19,259,096	16,464,957
Derivative Financial Instruments	27,839,846	18,554,996
Deferred Compensation	164,057	1,769,687
Other Liabilities	8,153,150	12,034,637
Estimated Self-Insured Professional Liability	7,086,125	8,956,524
Total liabilities	506,517,231	508,592,485
Net Assets		
Unrestricted	342,823,039	327,126,511
Temporarily restricted	9,776,994	9,646,027
Permanently restricted	341,421	341,421
Total net assets	352,941,454	337,113,959
Total liabilities and net assets	$ 859,458,685	$ 845,706,444

See notes to consolidated financial statements

Adventist HealthCare, Inc. and Controlled Entities

Consolidated Statements of Operations
Years Ended December 31, 2011 and 2010

	2011	2010
Unrestricted Revenues		
Net patient service revenue	$ 759,058,738	$ 746,035,851
Provision for doubtful collections	(37,981,741)	(30,527,785)
Net patient service revenue less provision for doubtful collections	721,076,997	715,508,066
Other revenue	39,604,098	39,224,727
Total unrestricted revenues	760,681,095	754,732,793
Expenses		
Salaries and wages	328,703,262	332,148,833
Employee benefits	66,938,101	66,400,095
Contract labor	24,285,444	21,861,051
Medical supplies	113,328,285	115,215,279
General and administrative	113,666,146	105,809,208
Building and maintenance	40,920,193	41,753,585
Insurance	6,276,544	5,870,548
Interest	12,548,031	9,075,200
Depreciation and amortization	33,234,503	33,006,310
Total expenses	739,900,509	731,140,109
Income from operations	20,780,586	23,592,684
Other (Expense) Income		
Investment income	4,288,708	4,775,018
Loss on extinguishment of debt	(1,285,000)	-
Other (expense) income	(6,951,389)	543,683
Total other (expense) income	(3,947,681)	5,318,701
Revenues in excess of expenses from continuing operations	16,832,905	28,911,385
Change in net unrealized gains and losses on investments other than trading securities	(557,711)	896,239
Change in net unrealized loss on derivative financial instruments	(2,786,621)	(4,187,491)
Transfer from unconsolidated subsidiary	-	1,741
Net assets released from restriction for purchase of property and equipment	2,066,669	4,356,320
Other unrestricted net asset activity	2,286	29,965
Increase in unrestricted net assets from continuing operations	15,557,528	30,008,159
Income from discontinued operations	139,000	32,475,492
Increase in unrestricted net assets	$ 15,696,528	$ 62,483,651

See notes to consolidated financial statements

Adventist HealthCare, Inc. and Controlled Entities

Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2011 and 2010

	2011	2010
Unrestricted Net Assets		
Revenues in excess of expenses from continuing operations	$ 16,832,905	$ 28,911,385
Change in net unrealized gains and losses on investments other than trading securities	(557,711)	896,239
Change in net unrealized loss on derivative financial instruments	(2,786,621)	(4,187,491)
Transfer from unconsolidated subsidiary	-	1,741
Net assets released from restriction for purchase of property and equipment	2,066,669	4,356,320
Other unrestricted net asset activity	2,286	29,965
Increase in unrestricted net assets from continuing operations	15,557,528	30,008,159
Income from discontinued operations	139,000	32,475,492
Increase in unrestricted net assets	15,696,528	62,483,651
Temporarily Restricted Net Assets		
Restricted gifts and donations	5,438,196	6,429,331
Net assets released from restriction for purchase of property and equipment	(2,066,669)	(4,356,320)
Net assets released from restriction used for operations	(3,085,874)	(3,662,005)
Change in value of beneficial interest in trusts and charitable gift annuity obligation	(88,213)	113,304
Change in discount of pledges receivable and provision for doubtful pledges	(66,327)	(120,454)
Donor restricted investment income	2,762	26,707
Other temporarily restircted net asset activity	(2,908)	-
Increase (decrease) in temporarily restricted net assets	130,967	(1,569,437)
Permanently Restricted Net Assets		
Other permanently restricted net asset activity	-	25
Increase in net assets	15,827,495	60,914,239
Net Assets, Beginning	337,113,959	276,199,720
Net Assets, Ending	$ 352,941,454	$ 337,113,959

See notes to consolidated financial statements

Adventist HealthCare, Inc. and Controlled Entities

Consolidated Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Increase in net assets	$ 15,827,495	$ 60,914,239
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for doubtful collections	37,981,741	31,786,516
Depreciation and amortization	33,234,503	34,565,992
Gain on sale of property and equipment	-	(29,384,473)
Gain on derivative financial instrument termination	-	(1,006,962)
Loss on extinguishment of debt	1,285,000	3,155,409
Restricted contributions and grants	(2,939,713)	(2,956,307)
Earnings recognized from unconsolidated subsidiaries and affiliates	(3,479,857)	(7,085,830)
Amortization of bond discounts	9,790	9,790
Amortization of physician income guarantees	1,208,211	1,226,185
Change in net unrealized gains and losses on investments other than trading securities	557,711	(896,239)
Change in net unrealized loss on derivative financial instruments	9,284,850	4,598,806
Change in value of beneficial interest in trusts and charitable gift annuity	88,213	(113,304)
Change in discount on pledges receivable and provision for doubtful pledges	72,384	126,746
Changes in assets and liabilities:		
Patient accounts receivable, net	(45,932,449)	(45,433,540)
Other receivables, net	2,368,603	(1,510,159)
Inventories, prepaid expenses and other current assets	(313,741)	(968,223)
Accounts payable and accrued expenses	4,799,036	(8,569,582)
Accrued compensation and related items	(19,640)	1,479,378
Interest payable	1,490,774	(173,531)
Estimated self-insured professional liability	(1,275,314)	664,011
Due to third party payors	(805,800)	2,251,584
Other noncurrent assets and liabilities	(3,346,188)	7,482,813
Net cash provided by operating activities	50,095,609	50,163,319

See notes to consolidated financial statements

Adventist HealthCare, Inc. and Controlled Entities

Consolidated Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Cash Flows from Investing Activities		
Purchase of property and equipment	$ (42,089,576)	$ (36,662,933)
Payments to physicians under income guarantees	(201,081)	(427,204)
Increase in investments and investments in unconsolidated subsidiaries	(4,595,550)	(52,608,990)
Net additions to land held for healthcare development	(9,491,901)	(2,997,500)
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	2,895,265	6,569,713
(Increase) decrease in trustee held funds and restricted cash	(4,038,642)	11,818,334
Net cash used in investing activities	(57,521,485)	(6,237,154)
Cash Flows From Financing Activities		
Payment of financing costs	(1,560,784)	(1,058,900)
Proceeds from issuance of bonds	117,185,000	-
Proceeds from capital lease facility	10,000,000	-
Repayments on long-term obligations, net	(138,337,431)	(47,395,396)
Change in short-term financing	-	(18,000,000)
Proceeds from restricted contributions and grants	2,939,713	2,956,307
Net cash used in financing activities	(9,773,502)	(63,497,989)
Net decrease in cash and cash equivalents	(17,199,378)	(19,571,824)
Cash and cash equivalents, beginning	32,366,183	51,938,007
Cash and cash equivalents, ending	$ 15,166,805	$ 32,366,183
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 11,797,692	$ 13,213,577
Supplemental Disclosure of Noncash Investing and Financing Activities		
Capital lease obligation incurred for equipment	$ 2,547,043	$ 362,938
Construction payable for property and equipment	$ 197,857	$ 1,664,302

See notes to consolidated financial statements

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 339-bed acute care hospital located in Rockville, Maryland. Washington Adventist Hospital (WAH) is a 271-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 107-bed psychiatric hospital with 63 residential treatment rooms and 16 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 59 residential treatment rooms. ABH – Anne Arundel offers 30 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 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. In November 2011, Adventist Healthcare, Inc. contracted with Medical Faculty Associates, Inc. (MFA) to employ the AMG employees, through a wholly owned affiliate of MFA, in exchange for certain economic support to facilitate the growth by MFA of the AMG practices.

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 2011 and 2010 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 19, 2012, 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.

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 $5,093,938 and $8,915,506 as of December 31, 2011 and 2010, respectively. These undercharges 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 2011 and 2010.

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 receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. In evaluating the collectability of patient accounts receivable, the Corporation analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful collections and provision for doubtful collections. For patient accounts receivable associated with services provided to patients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for doubtful collections and provision for doubtful collections, if necessary. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Corporation records a provision for doubtful collections in the period of service on the basis of its past experience, which indicates that many patients are unable to pay the portion of their bill for which they are financially responsible. The difference between the billed rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful collections.

The Corporation's allowance for doubtful collections for self-pay patients decreased from 69% of self pay accounts receivable at December 31, 2010 to 65% of self pay accounts receivable at December 31, 2011. In addition, the Corporation's self-pay account writeoffs, net of recoveries, increased from $28,474,128 in 2010 to $34,474,114 in 2011 which was the result of both increased services provided to self pay patients and negative trends experienced in the collection of amounts from self pay patients in 2011. The Corporation does not maintain a material allowance for doubtful collections from third party payors, nor did it have significant writeoffs from third-party payors.

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.

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 2011 or 2010.

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 certain intangible assets over a period not to exceed 40 years. Amortization of these intangible assets was $310,317 and $313,866 in 2011 and 2010, respectively. Accumulated amortization of intangible assets was $1,996,586 and $1,686,269 as of December 31, 2011 and 2010, respectively.

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 $596,280 and $380,641 in 2011 and 2010, respectively. Accumulated amortization of deferred financing costs was $2,541,457 and $2,564,158 at December 31, 2011 and 2010, 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, 2011 and 2010 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 has entered into 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. Prior to September 1, 2011, management had designated two of the interest rate swap agreements as cash flow hedges. On September 1, 2011, management de-designated one of the interest rate swap agreements as a cash flow hedge as a result of the refunding of the Series 2005 bonds (Note 11). 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.

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, including costs associated with litigating or settling claims. Anticipated insurance recoveries associated with reported claims are reported separately in the Corporation's consolidated balance sheets at net realizable value.

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 gain (loss) 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), 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. Net patient service revenue reported in the consolidated statements of operations is reduced both by (1) estimated allowances for the excess of charges over anticipated patient or third party payor payments and (2) a provision for doubtful collections. 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, 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 doubtful collections related to patients and allowances for the excess of charges over the payments to be received from third party payors.

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. The Corporation recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of these established rates for the services rendered. For uninsured patients that do not qualify for charity care, the Corporation recognizes revenues on the basis of its standard rates, discounted in accordance with the Corporation's policy. On the basis of historical experience, a significant portion of the Corporation's uninsured patients will be unable to pay for the services provided. Thus, the Corporation records a significant provision for doubtful collections related to uninsured patients in the period the services are provided. Patient service revenues, net of contractual allowances and discounts (but before the provision for doubtful collections), recognized in 2011 and 2010 from these major payor sources, are as follows:

	Patient Service Revenues (Net of Contractual Allowances and Discounts)				
	Medicare	Medicaid	Other Third Party Payors	Self Pay and Other	Total
December 31, 2011	$ 211,300,605	$ 31,139,889	$ 401,266,797	$ 115,351,447	$ 759,058,738
December 31, 2010	$ 211,514,624	$ 68,351,064	$ 359,364,784	$ 106,805,379	$ 746,035,851

During February 2012, the Corporation received approximately $11.5 million in cash from Medicaid as an advance on patient claim balances.

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 2011 or 2010.

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 2008, 2009, and 2010 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.

The Corporation maintains records to identify and monitor the level of charity care it provides. The costs associated with the charity care services provided are estimated by applying a cost-to-charge ratio to the amount of gross uncompensated charges for the patients receiving charity care. The level of charity care provided by the Corporation amounted to approximately $16,919,000 in 2011 and $17,932,000 in 2010. In accordance with the reimbursement methodology set forth by the HSCRC, the Corporation received cash payments from the state wide uncompensated care pool which totaled $1,074,807 and $1,497,655 for 2011 and 2010, respectively. The funds were received by the Corporation because charity care was provided in excess of the statewide average and are included in net patient service revenue in the accompanying consolidated statements of operations.

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 statements 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.

Reclassifications

Certain amounts relating to 2010 have been reclassified to conform to the 2011 reporting format.

2. Adoption of Accounting Standards

Charity Care

In August 2010, the Financial Accounting Standards Board (FASB) issued amended disclosure guidance relating to the measurement of charity care provided. The guidance requires that direct and indirect costs be used as the basis of measurement for charity care disclosure purposes. The guidance also requires disclosure of the method used to identify or determine such costs. The adoption of the amended guidance revised the disclosure in the notes to the Corporation's consolidated financial statements but did not impact amounts reported in the consolidated financial statements.

Insurance Claims

In August 2010, the FASB issued Accounting Standards Update 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries,* which amended guidance relating to the presentation of insurance claims and related insurance recoveries. The guidance 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 adoption of the amended guidance did not have an impact on the Corporation's consolidated financial statements.

Net Patient Service Revenue and Allowance for Doubtful Collections

In July 2011, the FASB issued Accounting Standards Update No. 2011-07 (ASU 2011-07) to amend and expand existing authoritative accounting guidance. In issuing ASU 2011-07, the FASB's objective was to provide financial statement users with greater transparency about a health care entity's net patient service revenues and related allowance for doubtful collections.

ASU 2011-07 requires health care entities to make the following changes to its existing accounting practices:

- Change the presentation of their statement of operations by reclassifying the provision for doubtful collections from an operating expense to a deduction from patient service revenues, net of contractual allowances and discounts;

- Disclose its policies for recognizing its provision for doubtful collections by major payor source of revenue, and provide qualitative and quantitative information about significant changes in the health care entities' allowance for doubtful collections; and

- Disclose, by major payor source, its policy for collectability in determining the timing and amount of patient service revenue, net of contractual allowances and discounts, to be recognized, and its patient service revenue, net of contractual allowances and discounts.

Upon adoption, ASU 2011-07 requires retrospective application to the requirements of presenting the provision for doubtful collections in the statement of operations, and prospective application of the disclosure requirements.

The Corporation elected to adopt ASU 2011-07 for the year ended December 31, 2011. Accordingly, the Corporation reclassified its provision for doubtful collections in the consolidated statements of operations for the year ended December 31, 2010, decreasing total unrestricted revenues and total expenses by $30,527,785. No other reclassifications or modifications have been made to the Corporation's 2010 consolidated financial statements as a result of adopting ASU 2011-07.

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 statements of operations.

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

	2011	2010
Total unrestricted revenues	$ -	$ 59,803,329
Total expenses	-	57,393,500
Investment income	-	437,011
Net gain on sale of investment in unconsolidated subsidiary	-	3,399,588
Net gain on sale of substantially all tangible and intangible assets	139,000	26,229,064
Income from discontinued operations	$ 139,000	32,475,492

4. Investments

Short-Term Investments

The Corporation's short-term investments at December 31, 2011 and 2010 are comprised of the following:

	2011	2010
Cash and cash equivalents	$ 8,822,744	$ 31,980,927
Marketable certificates of deposit	728,231	726,613
CBAM Intrepid Fund Ltd.	16,402,937	-
CBAM Resolute Fund Ltd.	34,444,018	-
U.S. government securities -- Mortgage backed securities	107,011,616	75,728,384
Exchange traded fund	-	50,300,000
Options and futures	-	4,475,500
Corporate bonds - other	-	1,212,820
Total	$ 167,409,546	$ 164,424,244

Assets Whose Use is Limited

The composition of assets whose use is limited at December 31, 2011 and 2010 is set forth in the following tables:

	2011	2010
Under trust indentures and capital lease purchase financing facilities, held by trustees and banks:		
Cash and cash equivalents	$ 9,221,439	$ 3,033,057
U.S. government securities:		
U.S. treasury notes	2,886,702	2,221,022
Mortgage backed securities	6,310,639	8,050,988
Total	18,418,780	13,305,067
Less funds held for current liabilities	2,723,338	8,911,878
Noncurrent portion of assets held under trust indentures and capital lease purchase financing facilities	$ 15,695,442	$ 4,393,189

	2011	2010
Professional liability trust fund:		
Cash and cash equivalents	$ 342,158	$ 132,698
Equity mutual funds:		
Balanced	3,961,235	5,552,738
Large cap value	731,902	871,869
Growth	-	565,860
Small cap growth	-	227,521
Corporate bonds and other debt securities:		
High quality	4,491,558	2,667,733
Multi sector	1,323,826	2,120,274
Total	10,850,679	12,138,693
Less funds held for current liabilities	1,860,185	1,265,100
Noncurrent portion of professional liability trust fund	$ 8,990,494	$ 10,873,593
Deferred compensation fund:		
Equity mutual funds:		
Large cap value	$ -	$ 1,139,249
Growth	164,057	301,147
Mid cap value	-	190,865
Small cap value	-	14,405
Other	-	124,021
Total	$ 164,057	$ 1,769,687

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. In addition, under the terms of the capital lease purchase financing facilities with two commercial banks, the Corporation is required to maintain funds in escrow accounts for the purpose of funding future purchases of property and equipment.

The composition of trustee held and escrow funds at December 31, 2011 and 2010 is as follows:

	2011	2010
Debt service reserve fund	$ 7,367,122	$ 4,332,192
Principal and interest funds	3,796,699	8,911,878
Lease facility escrow funds	7,254,959	60,997
Total	$ 18,418,780	$ 13,305,067

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 2011 and 2010:

	2011	2010
Investment income:		
Interest and dividends, net	$ 3,858,908	$ 4,019,832
Interest on trustee held funds	77,117	130,322
Net realized gains on sale of investments	352,683	624,864
Total	$ 4,288,708	$ 4,775,018
Other changes in unrestricted net assets:		
Change in net unrealized gains and losses on investments other than trading securities	$ (557,711)	$ 896,239

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.

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:

	2011			
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Assets:				
Cash and cash equivalents	$ 18,519,631	$ -	$ -	$ 18,519,631
Marketable certificates of deposit	-	728,231	-	728,231
Equity mutual funds:				
Large cap value	731,902	-	-	731,902
Growth	212,269	-	-	212,269
Balanced	3,961,235	-	-	3,961,235
Other	-	-		
CBAM Intrepid Fund Ltd.	-	16,402,937	-	16,402,937
CBAM Resolute Fund Ltd.	-	34,444,018	-	34,444,018
U.S. government securities:				
U.S. treasury notes	-	2,886,702	-	2,886,702
Mortgage backed securities	-	114,881,039	-	114,881,039
Corporate bonds and other debt securities:				
High quality	-	4,491,558	-	4,491,558
Multi sector	-	1,323,826	-	1,323,826
Other	-	84,948	-	84,948
Beneficial interest in trusts	-	-	1,406,743	1,406,743
Total	$ 23,425,037	$ 175,243,259	$ 1,406,743	$ 200,075,039
Liabilities:				
Derivative financial instruments	$ -	$ 27,839,846	$ -	$ 27,839,846

	2010			
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Assets:				
Cash and cash equivalents	$ 35,245,357	$ -	$ -	$ 35,245,357
Marketable certificates of deposit	-	726,613	-	726,613
Options and futures	4,475,500	-	-	4,475,500
Exchange traded fund	50,300,000	-	-	50,300,000
Equity mutual funds:				
Large cap value	2,011,118	-	-	2,011,118
Growth	923,691	-	-	923,691
Mid cap value	190,865	-	-	190,865
Small cap growth	227,521	-	-	227,521
Small cap value	14,405	-	-	14,405
Balanced	5,552,738	-	-	5,552,738
Other	124,021	-	-	124,021
U.S. government securities:				
U.S. treasury notes	-	2,221,022	-	2,221,022
Mortgage backed securities	-	84,161,742	-	84,161,742
Corporate bonds and other debt securities:				
High quality	-	2,667,733	-	2,667,733
Multi sector	-	2,120,274	-	2,120,274
Other	-	1,347,350	-	1,347,350
Beneficial interest in trusts	-	-	1,502,808	1,502,808
Total	$ 99,065,216	$ 93,244,734	$ 1,502,808	$ 193,812,758
Liabilities:				
Derivative financial instruments	$ -	$ 18,554,996	$ -	$ 18,554,996

The following table presents the fair value measurements for beneficial interest in trusts that have unobservable inputs at December 31, 2011 and 2010:

Balance, January 1, 2010	$ 1,399,437
Increase in value, included in changes in temporarily restricted net assets	103,371
Balance, December 31, 2010	1,502,808
Decrease in value, included in changes in temporarily restricted net assets	(96,065)
Balance, December 31, 2011	$ 1,406,743

During 2011, the Corporation invested in the CBAM Resolute Fund, Ltd. and the CBAM Intrepid Fund, Ltd. (collectively, the "Funds"). These funds are valued based on the net asset value per share of the funds which is based on the fair value of their underlying assets derived principally from or corroborated by observable market data by correlation or other means. In regards to the Funds, there are no unfunded purchase commitments or restrictions on the sale of the investments. Furthermore, the Corporation has no plans to sell the Funds or a portion of the amounts currently owned. In regards to redemption, the shares of the Funds can be redeemed on the last business day of each calendar month provided that written notice of redemption is provided five business days prior. Partial redemptions of the Funds must be at least $200,000 and the Corporation cannot redeem a portion of the Funds if it would result in the Corporation holding amounts whose net asset value would be less than the minimum initial subscription amount required. There are no known existing or potential restrictions on redemption as of December 31, 2011. The following represents the investment strategies of the Funds:

Fund	Investment Strategy	Fair Value at December 31, 2011
CBAM Resolute Fund, Ltd	To create an alternative source of income by harnessing risk premiums in global option markets. In pursuit of this objective, the fund will employ its option income strategy which utilizes actively-managed option-based investment structures to create absolute return profiles. This market-neutral strategy is designed to have minimal correlation to underlying market returns over an extended period of time and may be applied in a range of global markets including equities (both individual stocks and baskets of stocks), commodities, interest rates, foreign currencies and other markets where options are traded. The fund may trade and invest in the underlying instruments, related instruments (e.g. futures, forwards and exchange-traded funds or notes), and long and short call options and put options on the underlying or related instruments. The fund will seek to capitalize on a combination of systemic risk premium in global option markets and yields from active cash management.	$ 34,444,018
CBAM Intrepid Fund, Ltd	To reshape expected distribution of long-term global equity returns by implementing an active combination of three strategies: trend, income and structure. The objective of the fund is to capture a significant proportion of upside equity returns while avoiding a significant proportion of downside equity returns thus reducing the volatility of returns. The trend strategy is designed to provide directional exposure to equity risk premium. The income strategy will utilize actively-managed option-based investment structures designed to harness systemic risk premiums in global markets. The structure strategy is designed to capture returns from lower probability events across global equity and equity volatility markets.	16,402,937
	Total	$ 50,846,955

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

	2011	2010
Short-term investments (Note 4)	$ 167,409,546	$ 164,424,244
Assets whose use is limited (Note 4)		
Current	4,583,523	10,176,978
Under trust indentures, held by trustees	15,695,442	4,393,189
Professional liability trust fund	8,990,494	10,873,593
Deferred compensation fund	164,057	1,769,687
Investments held by foundations (Note 7)	1,825,234	672,259
Beneficial interest in trusts	1,406,743	1,502,808
Total	$ 200,075,039	$ 193,812,758

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 $79,482,508 and $20,874,018 as of December 31, 2011 and 2010, 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), net asset value (CBAM Resolute Fund, Ltd. and CBAM Intrepid Fund, Ltd. investments) 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.

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, 2011 and 2010 consist of the following:

	2011	2010
Land and improvements	$ 15,945,562	$ 15,927,874
Buildings and improvements	439,753,671	434,045,317
Office furniture and equipment	219,050,283	196,955,370
Computer software and hardware	81,702,484	24,909,125
Equipment under capital leases	34,133,560	34,337,512
Total	790,585,560	706,175,198
Less accumulated depreciation and amortization	(419,554,061)	(387,443,753)
	371,031,499	318,731,445
Construction in progress	19,169,133	60,626,919
	$ 390,200,632	$ 379,358,364

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 2011 and 2010, the Corporation incurred interest expense of approximately $13,517,000 and $10,368,000, respectively, of which approximately $969,000 was capitalized in 2011 and $1,293,000 in 2010. Investment earnings of approximately $47,000 and $82,000 were offset against capitalized interest in 2011 and 2010, respectively.

Depreciation expense, including amortization of equipment under capital leases, was $32,327,906 in 2011 and $32,354,784 in 2010. Accumulated amortization of equipment under capital lease as of December 31, 2011 and 2010 was $23,812,407 and $20,474,353, respectively.

Construction in progress as of December 31, 2011 consists primarily of major renovation and expansion projects of clinical facilities. Purchase commitments related to these and other miscellaneous projects were approximately $679,000 at December 31, 2011. 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, 2011 and 2010:

	2011	2010
Investment in healthcare joint ventures	$ 3,031,819	$ 2,621,060
Capital balance in group purchasing organization	766,888	802,567
Investments held by foundations	1,825,234	672,259
Other investments	5,113,078	4,903,567
Total	$ 10,737,019	$ 8,999,453

Investment in Healthcare Joint Ventures

The Corporation recognized earnings of $1,320,566 and $4,865,585 during 2011 and 2010, respectively, related to its 50% ownership interest in four 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 statements of operations in 2010. (Note 3)

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

Shady Grove Medical Building, LLC (SGMB) – SGMB is organized for the purpose of developing and constructing a cancer care center on the campus of Shady Grove Adventist Hospital.

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

	2011	2010
Net revenue	$ 7,549,343	$ 19,450,790
Revenues in excess of expenses	1,581,002	9,719,960
Total assets	8,352,651	8,035,808
Total liabilities	2,213,397	2,782,756

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 0.5% and 0.6% of the total capital of Premier at December 31, 2011 and 2010, 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 $1,538,003 in 2011 and $1,354,490 in 2010, which are included in other revenue in the accompanying consolidated statements of operations.

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 2011 and 2010 is as follows:

	2011	2010
Net revenue	$ 23,032,884	$ 22,997,301
Net income	3,968,795	2,007,417
Total assets	9,720,465	8,056,036
Total liabilities	4,658,950	4,103,263

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 $2,113,078 and $1,903,567 as of December 31, 2011 and 2010, 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 $40,993,368 and $39,406,014 at December 31, 2011 and 2010, 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, 2011 and 2010, the Corporation had total costs capitalized related to this land and land improvements of $29,195,032 and $24,084,654, respectively.

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, 2011 and 2010. The Corporation contributed $205,045 of the total contracted sales price of $735,000.

During 2011, Winchester Homes, Inc. and the Corporation created a new entity, Cabin Branch Commons, LLC (Cabin Branch), the purpose of which was to acquire a certain parcel of property known as the "Concordia Property", which was in default with Wachovia Bank. The Corporation paid $2,294,169 as its initial capital contribution to Cabin Branch. Cabin Branch purchased the note from Wachovia related to the Concordia Property, foreclosed on the Concordia Parcel, and purchased the Concordia Parcel at the foreclosure sale. The Corporation then paid Cabin Branch $500,000 for construction rights for certain active adult units on the Concordia Parcel. Total costs capitalized related to the above parcel of land were $2,794,169 at December 31, 2011.

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% (1.79% at December 31, 2011). There were no borrowings outstanding under this line of credit as of December 31, 2011 or 2010.

10. Long Term Obligations

Long term obligations as of December 31, 2011 and 2010 are comprised of the following:

	2011	2010
Fixed rate revenue bonds	$ 76,985,000	$ 20,880,000
Variable rate revenue bonds	166,965,000	231,025,000
Note payable	15,000,000	-
Secured lines of credit	36,000,000	36,000,000
Unsecured line of credit	-	20,000,000
Capital lease purchase financing facilities	13,442,580	8,595,867
Other long term liabilities	14,996,491	15,493,592
Total obligations	323,389,071	331,994,459
Less current maturities	18,420,042	36,462,427
Less bond discount	207,220	217,010
Noncurrent portion of long term obligations, net	$ 304,761,809	$ 295,315,022

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%. 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 in 2010.

In September 2011, the Series 2003B, 2004A and a portion of the Series 2005B bonds (all variable rate revenue bonds) were refunded in conjunction with the issuance of the Series 2011A fixed rate revenue bonds, bearing interest at fixed coupon rates ranging from 5% to 6.25%.

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

	2011	2010
Series 2003A, Adventist HealthCare, Inc.	$ 19,780,000	$ 20,880,000
Series 2011A, Adventist HealthCare, Inc.	57,205,000	-
Total	$ 76,985,000	$ 20,880,000

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, 2011 and 2010. Debt service reserve funds are required on both of the above series.

Variable Rate Revenue Bonds

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

	2011	2010
Maryland Health and Higher Educational Facilities Authority Revenue Bonds		
Series 2003B, Adventist HealthCare, Inc.	$ -	$ 33,370,000
Series 2004A, Adventist HealthCare, Inc.	-	30,340,000
Series 2005A, Adventist HealthCare, Inc.	78,000,000	78,000,000
Series 2011B, Adventist HealthCare, Inc.	59,980,000	-
Maryland Health and Higher Educational Facilities Authority Revenue Refunding		
Series 2004B, Adventist HealthCare, Inc.	28,985,000	29,985,000
Series 2005B, Adventist HealthCare, Inc.	-	59,330,000
Total	$ 166,965,000	$ 231,025,000

These bonds, with the exception of the 2004B Series Debt, bear interest at a variable rate based on the SIFMA index (0.10% at December 31, 2011), and reset weekly. At December 31, 2011, the tax-exempt rate on the 2005A bonds was 0.08%. The 2004B taxable bonds referenced above bear interest at a variable rate based on the LIBOR index (0.29% at December 31, 2011). The rate on the 2004B bonds at December 31, 2011 was 0.18%. The Corporation's Series 2004B, 2005 and 2011B 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, 2011 and 2010. The payment of principal and interest on the 2004B and 2005A bonds are secured by separate irrevocable direct-pay letters of credit, with expiration dates in December 2014.

In September 2011, the remaining portion of the Series 2004A and 2005B bonds (both variable rate revenue bonds) were refunded in conjunction with the issuance of the Series 2011B bond, a direct placement bond with a commercial bank. This bond bears interest at a variable rate that resets after two years. The next reset date on the Series 2011B bond will be in September 2013. The interest rate for the initial two year period is 67% of one month LIBOR plus a spread of 1.77% (1.93% at December 31, 2011). Subsequent to the Series 2011 bond issues, the bonds subject to the Amended and Restated Master Trust Indenture are secured by the unrestricted revenues of the Obligated Group as well as a mortgage in the facilities of Shady Grove Adventist Hospital, Adventist Behavioral Health, Adventist Rehabilitation Hospital of Maryland, Washington Adventist Hospital and Hackettstown Community Hospital. A loss on extinguishment of debt was recognized for $1,285,000 as a result of the debt refinancing noted above and is included in other income (expense) in the accompanying consolidated statements of operations. The loss was the result of the write-off of unamortized deferred financing costs on the refunded bonds.

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% (2.29% at December 31, 2011) and expires on December 31, 2013. The balance on the working capital line was $20,000,000 at December 31, 2011 and 2010.

- $16,000,000 line of credit that bears interest at LIBOR plus 1.75% (2.04% at December 31, 2011) and expires on June 30, 2013. The balance on the line of credit was $16,000,000 at December 31, 2011 and 2010.

These lines of credit are secured by Master Notes issued under the Amended and Restated Master Trust Indenture dated as of February 1, 2003.

Unsecured Line of Credit and Note Payable

The Corporation had a $20,000,000 unsecured line of credit outstanding with a commercial bank that bears interest at LIBOR plus 1.00% that expired on January 31, 2011. 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%. (4.25% at December 31, 2011). This new loan is secured by a Master Note issued under the Amended and Restated Master Trust Indenture dated as of February 1, 2003. The note payable balance was $15,000,000 at December 31, 2011. The unsecured line of credit balance was $20,000,000 at December 31, 2010.

Capital Lease Purchase Financing Facilities

There are three capital lease purchase financing facilities with two commercial banks. 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%. The third facility was established in February 2011 for $10,000,000 and bears interest at a rate of 3.47%. All facilities have a five year repayment period. Under the terms of the agreements, the commercial banks deposited funds into escrow accounts for the purpose of funding future purchases of new or used medical or medical-related equipment. The commercial banks retain title to the equipment and are 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 3.40% - 6.83%.

Scheduled principal repayments of long term obligations at December 31, 2011 are as follows:

Years ending December 31:	
2012	$ 18,420,042
2013	19,336,198
2014	22,954,532
2015	23,809,058
2016	18,534,233
Thereafter	220,335,008
Total	$ 323,389,071

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.

Prior to September 1, 2011, management had designated two of the interest rate swap agreements as cash flow hedges, which qualified 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.

On September 1, 2011, the Corporation refunded the Series 2005B variable rate revenue bonds with the proceeds of the Series 2011A and 2011B bond issues (Note 10). As a result, management de-designated the interest rate swap agreement with a notional amount of $59,330,000 as a cash flow hedge for financial reporting purposes and recognized a loss of approximately $5,970,000. This loss was primarily related to the reclassification of cumulative unrealized losses from net assets to other expense in the consolidated statements of operations. No formal designation has been made on the interest rate swap agreement related to the Series 2011 bonds.

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 in 2010 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 $4,620,487 in 2011 and $4,583,641 in 2010, which is reported as a component of interest expense in the accompanying consolidated statements of operations.

At December 31, 2011 and 2010, the Corporation's derivative financial instruments and related fair values are as follows:

	2011	2010
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	$ (7,407,411)	$ (6,931,033)
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	(20,432,435)	(11,623,963)
Total	$ (27,839,846)	$ (18,554,996)

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 $43,094 and $377,414 were recognized as of December 31, 2011 and 2010, 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 $95,523 in 2011 and $1,006,682 in 2010.

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 sheets. This gain is being amortized over the remaining term of the 2005A Series Bonds, or through January 2035. As of December 31, 2011 and 2010, accumulated amortization of $53,946 and $35,964, respectively, is included in other changes in net assets and interest expense in the consolidated statements 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 $16,277,212 in 2011 and $16,170,532 in 2010. 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:	
2012	$ 12,889,229
2013	11,279,048
2014	10,614,063
2015	10,421,875
2016	10,023,675
Thereafter	78,123,534
Total	$ 133,351,424

The Corporation has also entered into various sub-lease agreements with tenants that occupy space in the Corporation's buildings. The terms of these sub-leases vary and extend through 2020. Rental income was $4,142,061 in 2011 and $4,363,547 in 2010, 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:	
2012	$ 2,889,935
2013	2,288,166
2014	2,027,027
2015	1,878,922
2016	1,567,015
Thereafter	1,868,950
Total	$ 12,520,015

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 twelve 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 $8,451,397 in 2011 and $8,632,700 in 2010.

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 $3,514 in 2011 and $373,631 in 2010.

AHHS employees are covered by a separate defined contribution plan. Retirement plan expense was $287,662 in 2011 and $267,356 in 2010.

AMSI employees are covered by a 401(k) defined contribution plan. Retirement plan expense was $10,011 in 2011 and $20,454 in 2010.

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.

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 $5,152,543 in 2011 and $8,018,325 in 2010.

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, it was discovered, during 2003, 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. At the time of this discovery, the internal control environment was enhanced to prevent such billing errors from happening in the future. In conjunction with these efforts, the Corporation initiated discussions with the appropriate regulatory agencies regarding the potential billing errors, and agreed to refund any payments that proved to be the result of an error. In accordance with generally accepted accounting principles related to loss contingencies, the Corporation recorded a reserve of $3,200,000 to account for this potential exposure which was reflected as a noncurrent liability on the December 31, 2010 consolidated balance sheet. During 2011, through consultation with legal counsel, management determined that the reserve was no longer required. As a result, the reserve was brought into income during 2011.

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, 2011, management determined that the fully-funded professional liability reserve reported at December 31, 2011 and 2010 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 $8,946,310 and $10,221,624 at December 31, 2011 and 2010, respectively. The discount rate used in determining these liabilities was 2.5% and 3.0% at December 31, 2011 and 2010, 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.

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, 2011 and 2010, concentrations of gross receivables from third-party payors and others are as follows:

	2011	2010
Medicare	20 %	18 %
Medicaid	21	19
Other third party payers	41	44
Self-pay and others	18	19
	100 %	100 %

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

	2011	2010
Medicare	38 %	37 %
Medicaid	5	8
Other third party payers	47	49
Self-pay and others	10	8
	100 %	102 %

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.

17. Functional Expenses

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

	2011	2010
Hospital acute and ambulatory services	$ 598,480,933	$ 592,681,077
Home care services	14,598,518	13,662,643
Other health care services	99,298,313	101,689,891
Other, including general and administrative	26,327,310	21,880,874
Fundraising	1,195,435	1,225,624
Total	$ 739,900,509	$ 731,140,109

The Corporation also incurred management and general program expenses related to ASLS that were included in income from discontinued operations in the consolidated statements of operations. During 2010, expenses related to providing program services were approximately $48,434,000 and expenses related to management and general services were approximately $8,959,000. The Corporation incurred no such expenses during 2011.

ParenteBeard

Independent Auditors' Report
on Supplementary Information

Board of Trustees
Adventist HealthCare, Inc. and Controlled Entities

We have audited the consolidated financial statements of Adventist HealthCare, Inc. and Controlled Entities as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated April 19, 2012 which contained an unqualified opinion on those consolidated financial statements. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information presented on pages 43 to 54 is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual entities and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

ParenteBeard LLC

Wilkes-Barre, Pennsylvania
April 19, 2012

Adventist HealthCare, Inc. and Controlled Entities

Consolidating Schedule, Balance Sheet
December 31, 2011

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	Adventist Senior Living Services	Adventist Management Services, Inc.	Adventist HealthCare Inc. Foundations
Current Assets														
Cash and cash equivalents	$ 15,166,605	$ -	$ (73,448,071)	$ 82,286,786	$ (8,681,669)	$ 28,152,614	$ (7,456,469)	$ (1,120,993)	$ 5,587,759	$ 3,600,790	$ (18,853,428)	$ 1,972,325	$ 749,258	$ 2,386,903
Short term investments	167,409,546	-	167,409,546	-	-	-	-	-	-	-	-	-	-	-
Assets whose use is limited	4,583,523	-	2,860,609	-	1,722,914	-	-	-	-	-	-	-	-	-
Patient accounts receivable, net of estimated allowances of $92,534,000	129,749,725	-	334,427	53,651,788	47,985,021	9,352,552	6,519,411	-	9,400,078	2,096,838	856,473	(446,863)	-	-
Other receivables, net of estimated allowance for uncollectible accounts of $2,766,000	8,315,618	-	510,372	1,249,496	1,053,424	499,749	1,393,449	1,283,442	40,327	12,167	206,022	167,904	351,156	1,568,110
Due from third party payors	-	(2,193,623)	-	-	-	278,522	51,242	-	1,617,615	-	-	246,244	-	-
Inventories	12,216,675	-	-	5,513,959	4,226,676	2,086,353	140,175	-	104,013	21,540	-	-	123,959	-
Prepaid expenses and other current assets	3,665,259	-	1,689,314	567,897	731,617	350,143	158,920	-	71,957	55,591	53,443	-	8,377	-
Total current assets	341,127,151	(2,193,623)	99,356,197	143,269,926	47,037,983	40,719,933	797,728	142,449	16,821,749	5,786,926	(17,737,490)	1,939,610	1,230,750	3,955,013
Property and Equipment, Net	390,200,632	-	95,111,114	186,774,096	36,734,891	48,968,147	11,678,285	1,797,401	8,434,290	378,940	153,520	-	171,948	-
Assets Whose Use is Limited														
Under trust indenture and capital lease purchase financing facilities, held by trustees and banks	15,695,442	-	6,541,859	2,927,219	2,988,979	2,423,096	427,301	-	386,886	-	-	-	-	-
Professional liability trust fund	8,990,494	-	8,990,494	-	-	-	-	-	-	-	-	-	-	-
Deferred compensation fund	164,057	-	-	-	164,057	-	-	-	-	-	-	-	-	-
Cash and Cash Equivalents Temporarily Restricted for Capital Acquisition	2,514,087	-	-	539,268	-	983,111	-	519,699	179,631	-	-	-	-	292,378
Investments and Investments in Unconsolidated Subsidiaries	10,737,019	-	5,173,756	1,793,803	-	1,617,806	-	-	-	-	-	326,418	-	1,825,234
Land Held for Healthcare Development	73,187,614	-	54,963,356	-	18,224,258	-	-	-	-	-	-	-	-	-
Deferred Financing Costs, Net	3,670,269	-	1,369,631	1,059,600	798,356	485,012	86,731	-	72,939	-	-	-	-	-
Intangible Assets, Net	5,979,535	-	87,646	1,630,096	-	867,660	2,074,383	-	1,038,753	202,956	22,024	-	56,018	-
Deposits and Other Noncurrent Assets	6,992,385	-	850,437	1,730,042	5,506	1,334,869	27,674	5,054	32,000	71,390	6,887	-	19,075	2,909,449
Total assets	$ 859,458,685	$ (2,193,623)	$ 272,444,590	$ 339,724,049	$ 105,952,032	$ 97,399,638	$ 15,092,102	$ 2,464,603	$ 26,966,248	$ 6,438,212	$ (17,555,059)	$ 2,266,028	$ 1,477,791	$ 8,982,074

Adventist HealthCare, Inc. and Controlled Entities

Consolidating Schedule, Balance Sheet
December 31, 2011

Liabilities and Net 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	Adventist Senior Living Services	Adventist Management Services, Inc.	Adventist HealthCare Inc. Foundations
Current Liabilities														
Accounts payable and accrued expenses	$ 81,619,982	$ -	$ 17,208,837	$ 32,745,474	$ 18,970,685	$ 4,881,911	$ 2,897,405	$ 61,707	$ 1,502,113	$ 873,297	$ 441,004	$ 1,513,116	$ 498,582	$ 45,851
Accrued compensation and related items	34,294,188	-	3,808,895	12,159,997	8,394,049	3,201,911	2,829,156	389,925	1,680,394	1,161,260	694,005	-	176,596	-
Interest payable	2,508,920	-	2,501,277	-	3,491	-	4,152	-	-	-	-	-	-	-
Due to third party payors	19,611,070	(2,193,623)	-	12,152,677	7,039,783	257,428	1,740,893	-	-	-	-	613,912	-	-
Estimated self-insured professional liability	1,880,185	-	1,880,185	-	-	-	-	-	-	-	-	-	-	-
Current maturities of long-term obligations	18,420,042	-	6,422,085	6,714,107	4,667,469	39,845	515,000	61,536	-	-	-	-	-	-
Total Current Liabilities	158,314,387	(2,193,623)	31,599,279	63,772,255	39,075,477	8,381,095	7,986,606	513,168	3,182,507	2,034,557	1,135,009	2,127,028	675,178	45,851
Construction Payable	197,857	-	-	-	-	197,857	-	-	-	-	-	-	-	-
Long-Term Obligations, Net														
Bonds payable	236,612,788	8	218,195,000	-	18,417,780	-	-	-	-	-	-	-	-	-
Notes payable	48,889,925	-	31,003,326	16,000,000	541,667	-	1,285,479	59,453	-	-	-	-	-	-
Capital lease obligation	19,259,096	-	14,481,230	4,321,837	444,031	11,998	-	-	-	-	-	-	-	-
Internal debt	-	(8)	(212,958,990)	126,338,081	44,234,376	32,229,053	5,809,634	-	4,347,854	-	-	-	-	-
Derivative Financial Instruments	27,839,846	-	27,839,846	-	-	-	-	-	-	-	-	-	-	-
Deferred Compensation	164,057	-	-	-	164,057	-	-	-	-	-	-	-	-	-
Other Liabilities	8,153,150	-	189,998	4,702,056	1,830,530	1,164,437	-	-	200,000	-	-	-	-	66,129
Estimated Self Insured Professional Liability	7,086,125	-	7,086,125	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	506,517,231	(2,193,623)	117,435,814	215,134,229	104,707,918	41,984,440	15,081,719	572,621	7,730,361	2,034,557	1,135,009	2,127,028	675,178	111,980
Net Assets (Deficit)														
Unrestricted	342,823,039	-	154,190,780	124,301,604	559,963	54,512,331	10,384	1,332,270	19,033,148	4,403,655	(18,690,068)	139,000	802,613	2,227,359
Temporarily restricted	9,776,994	-	817,996	288,216	684,151	922,867	(1)	218,291	202,739	-	-	-	-	8,642,735
Permanently restricted	341,421	-	-	-	-	-	-	341,421	-	-	-	-	-	-
Total net assets (deficit)	352,941,454	-	155,008,776	124,589,820	1,244,114	55,435,198	10,383	1,891,982	19,235,887	4,403,655	(18,690,068)	139,000	802,613	8,870,094
Total liabilities and net assets	$ 859,458,685	$ (2,193,623)	$ 272,444,590	$ 339,724,049	$ 105,952,032	$ 97,399,638	$ 15,092,102	$ 2,464,603	$ 26,966,248	$ 6,438,212	$ (17,555,059)	$ 2,266,028	$ 1,477,791	$ 8,982,074

Adventist Healthcare, Inc. and Controlled Entities

Consolidating Schedule, Statement of Operations
Year Ended December 31, 2011

	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	Adventist Senior Living Services	Adventist Management Services, Inc.	Adventist HealthCare Inc. Foundations
Unrestricted Revenues														
Net patient service revenue	$ 759,058,738	$ (255,633)	$ 4,482,710	$ 336,796,132	$ 238,661,457	$ 86,796,535	$ 37,526,220	$ 539,134	$ 32,785,652	$ 15,100,444	$ 6,646,099	$ -	$ (1)	$ -
Provision for doubtful collections	(37,981,741)	-	(41,957)	(13,073,652)	(18,627,321)	(2,692,860)	(2,010,081)	100	(582,684)	(4,247)	(908,292)	-	(80,787)	-
Net patient service revenue less provision for doubtful collections	721,076,997	(255,633)	4,440,753	323,722,480	220,034,136	84,103,665	35,516,139	539,234	32,202,968	15,096,197	5,737,806	-	(80,788)	-
Other revenue	39,604,098	(9,919,937)	4,660,997	7,872,034	4,965,535	4,777,671	9,265,581	8,443,463	260,518	73,799	885,955	-	8,142,274	4,176,208
Total unrestricted revenues	760,681,095	(10,175,570)	9,101,750	331,594,514	224,999,671	88,881,336	44,781,720	8,982,697	32,463,506	15,169,996	6,623,761	-	8,061,506	4,176,208
Operating Expenses														
Salaries and wages	328,703,262	-	15,472,204	118,838,331	86,020,323	39,999,725	28,391,258	4,285,995	17,159,128	10,071,594	6,659,841	-	1,824,865	-
Employee benefits	68,938,101	-	2,870,380	23,381,029	17,089,259	10,492,176	8,501,014	815,056	2,928,082	1,899,445	884,804	-	349,067	-
Contract labor	24,285,444	(1,718,748)	91,770	7,509,831	10,500,708	1,882,041	889,542	351,984	1,087,938	398,460	2,687,415	-	674,485	-
Medical supplies	113,328,285	(68,728)	24,358	52,670,496	42,686,536	12,524,211	2,073,521	29,983	1,559,307	248,165	319,825	-	1,363,631	-
General and administrative	113,658,148	(8,847,097)	33,342,469	38,132,178	28,446,089	9,452,175	2,710,988	679,081	2,989,213	830,751	911,502	-	698,537	3,922,260
Building and maintenance	40,920,193	(1,760,773)	1,082,048	20,831,498	9,139,407	5,219,855	3,439,208	297,602	1,084,064	533,219	582,882	-	501,405	-
Insurance	6,276,544	-	59,174	2,763,581	2,000,293	510,762	215,711	21,688	117,134	118,983	459,152	-	12,098	-
Interest	12,548,031	-	1,237,134	6,674,742	2,731,991	1,368,808	325,023	8,959	203,086	-	290	-	-	-
Depreciation and amortization	33,234,603	-	4,789,639	14,499,696	6,684,233	5,140,126	1,070,837	124,838	544,082	131,116	37,808	-	62,151	-
IT depreciation	-	-	(4,073,630)	1,289,431	1,106,315	1,255,875	186,611	-	112,258	78,442	-	-	38,700	-
Allocation: IT services	-	9,775	(27,932,983)	11,423,854	10,790,410	2,760,319	1,189,751	-	1,328,695	345,845	-	-	86,334	-
AHC management fees	-	1	(23,204,787)	9,480,195	7,259,494	2,863,786	1,514,365	210,445	895,285	430,770	397,411	-	173,083	-
Total expenses	739,900,609	(10,175,570)	3,507,994	307,484,884	222,513,055	93,447,826	48,476,617	7,005,689	30,004,249	15,072,810	12,880,508	-	5,780,328	3,922,260
Income (loss) from operations	20,780,586	-	5,593,758	24,129,650	2,486,616	(4,566,492)	(3,694,897)	(22,872)	2,459,258	97,186	(6,256,747)	-	301,180	253,943
Other (Expense) Income														
Investment income (loss)	4,288,706	-	2,032,698	1,638,595	(8,667)	776,193	(21,002)	11,710	142,268	91,236	(443,305)	-	(517)	72,499
Loss on extinguishment of debt	(1,285,000)		(69,394)	(448,372)	(289,513)	(359,037)	(63,359)		(57,325)	-	-	-	-	-
Other (expense) income	(6,951,389)	-	(5,922,591)	(259,365)	(129,814)	(633,945)	3,101	-	(8,775)	-	-	-	-	-
Total other (expense) income	(3,947,681)	-	(3,959,267)	930,858	(427,994)	(217,789)	(81,260)	11,710	78,168	91,236	(443,305)	-	(517)	72,499
Revenue and gains in excess of (less than) expenses from continuing operations	16,832,905	-	1,634,469	25,060,508	2,058,622	(4,784,281)	(3,776,157)	(11,162)	2,535,426	188,422	(6,700,052)	-	300,663	326,447
Change in net unrealized gains and losses on investments other than trading securities	(557,711)	-	(310,669)	(130,141)	(15,044)	(75,918)	(2,417)	1,150	(13,760)	(8,059)	(148)	-	(3,511)	1,025
Change in net unrealized loss on derivative financial instrument														
Transfer from (to) unconsolidated subsidiary	(2,788,621)	-	(2,788,621)	-	-	-	-	-	-	-	-	-	-	-
Net assets released from restriction for purchase of property and equipment	-	-	(2,407,395)	-	112,477	312,196	(21)	-	-	-	-	1,991,845	(9,102)	-
Other unrestricted net asset activity	2,068,689	-	128,104	1,159,486	408,711	280,159	28,630	-	63,600	-	-	-	-	-
	2,268	-	(131,938)	131,279	(4)	(2)	23	5	2,911	4	3	(2)	7	-
Increase (decrease) in unrestricted net assets from continuing operations	15,557,528	-	(3,874,270)	26,221,111	2,682,762	(4,267,845)	(3,749,942)	(10,007)	2,588,177	180,367	(6,700,197)	1,991,843	288,057	327,473
Income from discontinued operations	139,000	-	-	-	-	-	-	-	-	-	-	139,000	-	-
Increase (decrease) in unrestricted net assets	$ 15,696,528	$ -	$ (3,874,270)	$ 26,221,111	$ 2,682,762	$ (4,267,845)	$ (3,749,942)	$ (10,007)	$ 2,588,177	$ 180,367	$ (6,700,197)	$ 2,130,843	$ 288,057	$ 327,473

Adventist Healthcare, Inc. and Controlled Entities

Consolidating Schedule, Statement of Changes in Net Assets
Year Ended December 31, 2011

	Consolidated Adventist HealthCare, Inc.	Eliminating Entries	Support Center	Shady Grove Adventist Hospital	Washington Adventist Hospital	Hackettstown Regional Medical Center	Adventist Behavioral Health Services	Loeris Center	Adventist Rehabilitation Hospital of Maryland	Adventist Home Health Services	Adventist Medical Group	Adventist Senior Living Services	Adventist Management Services, Inc.	Adventist HealthCare Inc. Foundations
Unrestricted Net Assets														
Revenues in excess of (less than) expenses from continuing operations	$ 16,832,905	$ -	$ 1,634,469	$ 25,060,508	$ 2,058,622	$ (4,784,281)	$ (3,776,157)	$ (11,162)	$ 2,535,426	$ 188,422	$ (6,700,052)	$ -	$ 300,663	$ 326,447
Change in net unrealized gains and losses on investments other than trading securities	(557,711)	-	(310,689)	(130,141)	(15,044)	(75,918)	(2,417)	1,150	(13,760)	(8,059)	(148)	-	(3,511)	1,026
Change in net unrealized loss on derivative financial instruments	(2,788,621)	-	(2,788,621)	-	-	-	-	-	-	-	-	-	-	-
Transfers from (to) unconsolidated subsidiary	-	-	(2,407,395)	-	112,477	312,196	(21)	-	-	-	-	1,991,845	(9,102)	-
Net assets released from restriction for purchase of property and equipment	2,066,669	-	128,104	1,159,465	406,711	280,159	28,630	-	63,600	-	-	-	-	-
Other unrestricted net asset activity	2,286	-	(131,938)	131,279	(4)	(2)	23	5	2,911	4	3	(2)	7	-
Increase (decrease) in unrestricted net from continuing operations	15,557,528	-	(3,874,270)	26,221,111	2,562,762	(4,267,846)	(3,749,942)	(10,007)	2,588,177	180,367	(6,700,197)	1,991,843	288,057	327,473
Income from discontinued operations	139,000	-	-	-	-	-	-	-	-	-	-	139,000	-	-
Increase (decrease) in unrestricted net assets	15,696,528	-	(3,874,270)	26,221,111	2,562,762	(4,267,846)	(3,749,942)	(10,007)	2,588,177	180,367	(6,700,197)	2,130,843	288,057	327,473
Temporarily Restricted Net Assets														
Restricted gifts and donations	5,438,196	-	179,320	1,395,942	745,572	265,953	74,819	169,049	23,018	-	-	-	-	2,584,423
Net assets released from restriction for purchase of property and equipment	(2,066,669)	-	(128,104)	(1,159,465)	(406,711)	(280,159)	(28,630)	-	(63,600)	-	-	-	-	-
Net assets released from restriction for use in operations	(3,085,874)	-	(179,015)	(418,631)	(273,688)	-	(46,289)	(193,130)	(1,007)	-	-	-	-	(1,974,114)
Change in value of beneficial interest in charitable remainder trusts and charitable gift annuities	(88,213)	-	(60,992)	-	-	-	-	-	-	-	-	-	-	(27,221)
Change in discount of pledges receivable and provision for doubtful pledges	(68,327)	-	-	-	-	-	-	-	-	-	-	-	-	(68,327)
Donor restricted investment income	2,762	-	-	-	-	-	-	-	-	-	-	-	-	2,762
Other temporarily restricted net assets	(2,908)		(1)	(1)	-	-	(1)	-	(2,905)	-	-	-		
Increase (decrease) in temporarily restricted net assets	130,967	-	(188,792)	(182,155)	65,173	(14,206)	(1)	(24,081)	(44,494)	-	-	-	-	519,523
Increase (decrease) in net assets	15,827,495	-	(4,063,062)	26,038,956	2,627,935	(4,282,052)	(3,749,943)	(34,088)	2,543,683	180,367	(6,700,197)	2,130,843	288,057	846,996
Net assets (deficit), beginning	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
Net assets (deficit), ending	$ 352,941,454	$ -	$ 155,008,776	$ 124,589,820	$ 1,244,114	$ 55,435,198	$ 10,383	$ 1,891,982	$ 19,235,887	$ 4,403,655	$ (18,690,068)	$ 139,000	$ 802,613	$ 8,870,094

Adventist Healthcare, Inc. and Controlled Entities

Consolidating Schedule, Statement of Cash Flows

Year Ended December 31, 2011

	Consolidated Adventist HealthCare, Inc.	Eliminating Entries	Support Center	Shady Grove Adventist Hospital	Washington Adventist Hospital	Hackettstown Regional Medical Center	Adventist Behavioral Health	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
Cash Flows from Operating Activities														
Increase (decrease) in net assets	$ 15,827,495	$ -	$ (4,063,092)	$ 25,038,956	$ 2,627,935	$ (4,282,052)	$ (3,749,943)	$ (34,088)	$ 2,543,683	$ 180,367	$ (6,700,197)	$ 2,130,843	$ 288,057	$ 848,996
Adjustments to reconcile increase (decrease) in net assets to cash provided by (used in) operating activities:														
Provision for uncollectible accounts	37,981,741	-	41,958	13,073,651	18,627,321	2,692,860	2,010,081	(100)	552,664	4,247	908,292	-	60,767	-
Depreciation and amortization	33,234,503	-	4,759,839	14,499,596	6,864,233	5,140,125	1,070,637	124,838	544,082	131,116	37,806	-	62,151	-
Amortization allocation among affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain on sale of property and equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain on derivative financial instrument termination	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loss on extinguishment of debt	1,285,000	-	69,294	448,372	289,513	359,037	63,359	-	57,325	-	-	-	-	-
Restricted contributions and grants	(2,939,713)	-	(179,320)	(1,396,492)	(745,572)	(265,953)	(74,919)	(169,049)	(23,018)	-	-	-	-	(86,390)
Earnings recognized from unconsolidated subsidiaries and affiliates	(3,479,857)	(1,125,993)	(1,050,736)	(1,038,065)	-	(265,064)	-	-	-	-	-	-	-	-
Amortization of bond discounts	9,790	-		-	9,790	-	-	-	-	-	-	-	-	-
Amortization of physician income guarantees	1,208,211	-	-	185,882	107,019	915,310	-	-	-	-	-	-	-	-
Non cash transfers among affiliates	-		415,572	-	(112,477)	(312,197)	-	-	-	-	-	-	9,102	-
Cash transfers among affiliates	-	(2,726,825)	2,123,766	(131,910)	-	-	-	-	-	-	-	(1,991,845)	-	2,726,825
Change in net unrealized gains and losses on investments other than trading securities	557,711	223,446	310,889	1,837	13,047	6,141	1,128	-	870	-	-	-	-	353
Change in net unrealized loss of derivative financial instruments	9,284,850	-	9,284,850	-	-	-	-	-	-	-	-	-	-	-
Change in value of charitable remainder trusts and obligation to annuitants	86,213	-	60,932	-	-	-	-	-	-	-	-	-	-	27,221
Change in discount on pledges receivable and provision for doubtful pledges	72,384	-	-	-	-	-	-	-	-	-	-	-	-	72,384
Changes in assets and liabilities:														
Patient accounts receivable, net	(45,932,449)	-	(79,350)	(19,948,574)	(23,943,577)	(1,238,844)	(1,815,419)	-	(1,322,148)	23,365	(1,088,256)	3,478,153	-	-
Other receivables, net	2,369,603	(731,625)	1,293,640	76,362	(144,856)	57,682	697,769	589,207	(14,627)	6,624	(113,615)	888,805	(47,049)	(187,592)
Inventories, prepaid expenses and other current assets	(313,741)	-	263,500	(594,717)	(20,636)	3,807	(41,374)	-	29,485	(12,101)	(2,582)	-	58,376	2,500
Accounts payable and accrued expenses	4,799,036	-	(3,163,205)	9,159,308	1,214,432	(4,045)	360,789	(66,063)	(168,176)	(193,296)	(39,374)	(2,323,932)	(9,377)	31,997
Accrued compensation and related expenses	(19,840)	731,625	(365,663)	307,144	(74,286)	43,459	38,698	28,865	186,526	89,945	7,957	(1,021,490)	9,480	-
Interest payable	1,490,774	-	1,463,131	-	3,491	-	4,152	-	-	-	-	-	-	-
Estimated self-insured professional liability	(1,276,314)	-	(1,275,314)	-	-	-	-	-	-	-	-	-	-	-
Due to third party payors	(805,800)	-	-	958,464	(88,986)	710,865	(263,178)	-	(952,096)	-	-	(1,178,909)	-	-
Other noncurrent assets and liabilities	(3,346,188)	-	(851,982)	8,728	(2,882,568)	386,806	(2)	-	-	(9,241)	2,051	-	-	-
Net cash provided by (used in) operating activities	50,095,609	(3,629,372)	9,078,909	41,657,842	1,743,840	3,948,137	(1,698,222)	471,590	1,444,550	221,027	(6,987,918)	(20,375)	431,507	3,434,294
Cash Flows from Investing Activities														
Purchase of property and equipment	(42,089,576)	-	(17,622,819)	(11,632,161)	(7,158,792)	(4,043,829)	(698,141)	(30,570)	(652,464)	(153,179)	(71,766)	-	(25,855)	-
Payments to physicians under income guarantees	(201,081)	-	-	(19,299)	-	(181,782)	-	-	-	-	-	-	-	-
Decrease (increase) in investments and investments in unconsolidated subsidiaries	(4,595,550)	(223,446)	(3,218,776)	-	-	-	-	-	-	-	-	-	-	(1,153,328)
Net additions to land held for healthcare development	(9,491,901)	-	(4,381,523)	-	(5,110,378)	-	-	-	-	-	-	-	-	-
Proceeds from the sale of property and equipment, net of transaction costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net proceeds from derivative financial instrument transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Distributions from investments in unconsolidated subsidiaries	2,898,265	1,125,993	643,397	813,250	-	312,625	-	-	-	-	-	-	-	-
(Increase) decrease in trustee held funds and restricted cash	(4,038,642)	-	836,434	(2,616,712)	(338,379)	(1,195,728)	(151,210)	(86,933)	(480,828)	-	-	-	-	(6,286)
Net cash (used in) provided by investing activities	(57,521,495)	902,547	(23,743,287)	(13,453,922)	(12,605,549)	(5,108,714)	(849,351)	(119,503)	(1,133,292)	(153,179)	(71,766)	-	(25,855)	(1,159,614)
Cash Flows from Financing Activities														
Cash transfers among affiliates	-	2,726,825	(2,123,766)	131,910	-	-	-	-	-	-	-	1,991,845	-	(2,726,825)
Allocation of financing costs among affiliates	-		329,514	(272,506)	(31,633)	(21,089)	(4,284)							
Payment of financing costs	(1,560,764)	-	(92,344)	(594,000)	(358,797)	(391,738)	(71,041)	-	(52,884)	-	-	-	-	-
Proceeds from capital lease facility	10,000,000		5,000,000	5,000,000										
Proceeds from issuance of bonds	117,185,000		5,236,002	48,413,332	29,155,125	27,237,053	4,795,634	-	4,347,854					
Repayments of long-term obligations, net	(138,337,431)	-	(13,408,890)	(50,882,622)	(33,377,571)	(29,923,405)	(5,450,671)	(58,251)	(5,257,921)	-	-	-	-	-
Repayment of short term financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from restricted contributions and grants	2,939,713	-	179,320	1,396,492	745,572	268,953	74,919	169,049	23,018	-	-	-	-	86,390
Net cash (used in) provided by financing activities	(9,773,602)	2,726,825	(4,878,153)	1,211,604	(3,887,404)	(2,833,226)	(655,443)	110,798	(939,913)	-	-	1,991,845	-	(2,640,435)
Net increase (decrease) in cash and cash equivalents	(17,199,378)	-	(19,542,531)	29,415,324	(14,729,113)	(3,993,803)	(3,203,016)	462,885	(628,655)	67,848	(7,059,684)	1,971,470	405,652	(365,755)
Cash and cash equivalents, beginning	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	2,762,658
Cash and cash equivalents, ending	$ 15,166,805	-	$ (73,448,071)	$ 82,286,786	$ (8,681,669)	$ 28,152,614	$ (7,465,469)	$ (1,120,993)	$ 5,587,759	$ 3,600,790	$ (18,853,428)	$ 1,972,325	$ 749,258	$ 2,396,903
Supplemental Disclosure of Cash Flow Information														
Interest paid	$ 11,797,692	$ -	$ (224,840)	$ 8,698,573	$ 3,242,430	$ 1,550,323	$ 320,871	$ 8,989	$ 203,086	$ -	$ 290	$ -	$ -	$ -
Supplemental Disclosure of Noncash Investing and Financing Activities														
Capital lease obligation incurred for equipment	$ 2,547,043	-	$ 2,547,043	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Construction payable for property and equipment	$ 197,857	-	$ -	$ -	$ -	$ 197,857	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Adventist Healthcare, Inc. - Obligated Group
Combining Schedule, Balance Sheet
December 31, 2011

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	$ 26,431,950	$ -	$ (73,448,071)	$ 82,286,786	$ (8,681,669)	$ 28,152,614	$ (7,465,469)	$ 5,587,759
Short-term investments	167,409,546	-	167,409,546	-	-	-	-	-
Assets whose use is limited	4,583,523	-	2,860,609	-	1,722,914	-	-	-
Patient accounts receivable, net of estimated allowances of $86,391,000	127,243,277	-	334,427	53,651,788	47,985,021	9,352,552	6,519,411	9,400,078
Other receivables, net of estimated allowance for uncollectible accounts of $1,028,000	4,746,817	-	510,372	1,249,496	1,053,424	499,749	1,393,449	40,327
Due from third party payors	-	(1,947,379)	-	-	-	278,522	51,242	1,617,615
Due from affiliates			-	-	-	-	-	-
Inventories	12,071,176	-	-	5,513,959	4,226,676	2,086,353	140,175	104,013
Prepaid expenses and other current assets	3,569,848	-	1,689,314	567,897	731,617	350,143	158,920	71,957
Total current assets	346,056,137	(1,947,379)	99,356,197	143,269,926	47,037,983	40,719,933	797,728	16,821,749
Property and Equipment, Net	387,700,823	-	95,111,114	186,774,096	36,734,891	48,968,147	11,678,285	8,434,290
Assets Whose Use is Limited								
Under trust indenture and capital lease purchase financing facilities, held by trustees and banks	15,695,442	-	6,541,959	2,927,219	2,988,979	2,423,098	427,301	386,886
Professional liability trust fund	8,990,494	-	8,990,494	-	-	-	-	-
Deferred compensation fund	164,057	-	-	-	164,057	-	-	-
Cash and Cash Equivalents Temporarily Restricted for Capital Acquisition	1,702,010	-	-	539,268	-	983,111	-	179,631
Investments and Investments in Unconcolidated Subsidiaries	8,585,367	-	5,173,756	1,793,803	-	1,617,808	-	-
Land Held for Healthcare Development	73,187,614	-	54,963,356	-	18,224,258	-	-	-
Deferred Financing Costs	3,870,269	-	1,369,631	1,059,600	796,356	485,012	86,731	72,939
Intangible Assets, Net	5,698,537	-	87,646	1,630,095	-	867,660	2,074,383	1,038,753
Deposits and Other Noncurrent Assets	3,980,530	-	850,437	1,730,042	5,508	1,334,869	27,674	32,000
Total assets	$ 855,631,280	$ (1,947,379)	$ 272,444,590	$ 339,724,049	$ 105,952,032	$ 97,399,638	$ 15,092,102	$ 26,966,248

Adventist Healthcare, Inc. - Obligated Group

Combining Schedule, Balance Sheet
December 31, 2011

Liabilities and Net 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 Liabilities								
Accounts payable and accrued expenses	$ 78,186,425	$ -	$ 17,208,837	$ 32,745,474	$ 18,970,685	$ 4,861,911	$ 2,897,405	$ 1,502,113
Accrued compensation and related items	31,872,402	-	3,606,895	12,159,997	8,394,049	3,201,911	2,829,156	1,680,394
Interest payable	2,508,920	-	2,501,277	-	3,491	-	4,152	-
Due to third party payors	19,243,402	(1,947,379)	-	12,152,677	7,039,783	257,428	1,740,893	-
Estimated self-insured professional liability	1,860,185	-	1,860,185	-	-	-	-	-
Current portion of long-term obligations	18,358,506	-	6,422,085	6,714,107	4,667,469	39,845	515,000	-
Total current liabilities	152,029,840	(1,947,379)	31,599,279	63,772,255	39,075,477	8,361,095	7,986,606	3,182,507
Construction Payable	197,857	-	-	-	-	197,857	-	-
Long-Term Obligations, Net								
Bonds payable	236,612,788	8	218,195,000	-	18,417,780	-	-	-
Notes payable	48,830,472	-	31,003,326	16,000,000	541,667	-	1,285,479	-
Capital lease obligation	19,259,096	-	14,481,230	4,321,837	444,031	11,998	-	-
Internal debt	-	(8)	(212,958,990)	126,338,081	44,234,376	32,229,053	5,809,634	4,347,854
Derivative Financial Instruments	27,839,846	-	27,839,846	-	-	-	-	-
Deferred Compensation	164,057	-	-	-	164,057	-	-	-
Other Liabilities	8,087,021	-	189,998	4,702,056	1,830,530	1,164,437	-	200,000
Estimated Self Insured Professional Liability	7,086,125	-	7,086,125	-	-	-	-	-
Total liabilities	500,107,102	(1,947,379)	117,435,814	215,134,229	104,707,918	41,964,440	15,081,719	7,730,361
Net Assets (Deficit)								
Unrestricted	352,608,210	-	154,190,780	124,301,604	559,963	54,512,331	10,384	19,033,148
Temporarily restricted	2,915,968	-	817,996	288,216	684,151	922,867	(1)	202,739
Total net assets	355,524,178	-	155,008,776	124,589,820	1,244,114	55,435,198	10,383	19,235,887
Total liabilities and net assets	$ 855,631,280	$ (1,947,379)	$ 272,444,590	$ 339,724,049	$ 105,952,032	$ 97,399,638	$ 15,092,102	$ 26,966,248

Adventist Healthcare, Inc. - Obligated Group
Combining Schedule, Statement of Operations
Year Ended December 31, 2011

	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	$ 736,773,063	$ (255,633)	$ 4,482,710	$ 336,796,132	$ 238,661,457	$ 86,796,525	$ 37,526,220	$ 32,765,652
Provision for doubtful collections	(37,008,535)	-	(41,957)	(13,073,652)	(18,627,321)	(2,692,860)	(2,010,081)	(562,664)
Net patient service revenue less provision for doubtful collections	699,764,528	(255,633)	4,440,753	323,722,480	220,034,136	84,103,665	35,516,139	32,202,988
Other revenue	27,519,671	(4,282,665)	4,660,997	7,872,034	4,965,535	4,777,671	9,265,581	260,518
Total unrestricted revenues	727,284,199	(4,538,298)	9,101,750	331,594,514	224,999,671	88,881,336	44,781,720	32,463,506
Operating Expenses								
Salaries and wages	305,880,967	-	15,472,204	118,838,331	86,020,323	39,999,725	28,391,258	17,159,126
Employee benefits	63,019,939	-	2,670,380	23,361,029	17,069,258	10,492,176	6,501,014	2,926,082
Contract labor	20,237,245	(1,674,583)	91,770	7,509,831	10,500,706	1,862,041	859,542	1,087,938
Medical supplies	111,374,498	(62,931)	24,356	52,670,498	42,585,536	12,524,211	2,073,521	1,559,307
General and administrative	111,983,088	(1,090,044)	33,342,489	38,132,178	26,446,089	9,452,175	2,710,988	2,989,213
Building and maintenance	39,065,338	(1,710,740)	1,062,048	20,831,498	9,139,407	5,219,855	3,439,206	1,084,064
Insurance	5,666,645	-	59,174	2,763,581	2,000,293	510,752	215,711	117,134
Interest	12,538,782	-	1,237,134	6,674,742	2,731,991	1,366,806	325,023	203,086
Depreciation and amortization	32,878,592	-	4,759,839	14,499,696	6,864,233	5,140,125	1,070,637	544,062
IT depreciation	(115,142)	-	(4,073,630)	1,299,431	1,105,315	1,255,875	185,611	112,256
Allocation: IT services	(441,954)	-	(27,932,983)	11,423,854	10,790,410	2,760,319	1,189,751	1,326,695
AHC management fees	(1,211,690)	-	(23,204,767)	9,460,195	7,259,494	2,863,768	1,514,355	895,285
Total expenses	700,876,308	(4,538,298)	3,507,994	307,464,864	222,513,055	93,447,828	48,476,617	30,004,248
Income (loss) from operations	26,407,891	-	5,593,756	24,129,650	2,486,616	(4,566,492)	(3,694,897)	2,459,258
Other (Expense) Income								
Investment income (loss)	4,557,085	-	2,032,698	1,636,595	(8,667)	775,193	(21,002)	142,268
Loss on extinguishment of debt	(1,285,000)		(69,394)	(446,372)	(289,513)	(359,037)	(63,359)	(57,325)
Other income (expense)	(6,951,389)	-	(5,922,591)	(259,365)	(129,814)	(633,945)	3,101	(8,775)
Total other (expense) income	(3,679,304)	-	(3,959,287)	930,858	(427,994)	(217,789)	(81,260)	76,168
Revenue in excess of (less than) expenses	22,728,587	-	1,634,469	25,060,508	2,058,622	(4,784,281)	(3,776,157)	2,535,426
Change in net unrealized gains and losses on investments other than trading securities	(548,169)	-	(310,889)	(130,141)	(15,044)	(75,918)	(2,417)	(13,760)
Change in net unrealized loss on derivative financial instrument	(2,786,621)	-	(2,786,621)	-	-	-	-	-
Transfers from (to) unconsolidated subsidiaries	(1,982,743)	-	(2,407,395)	-	112,477	312,196	(21)	-
Net assets released from restriction for purchase of property and equipment	2,066,669	-	128,104	1,159,465	406,711	280,159	28,630	63,600
Other unrestricted net asset activity	2,269		(131,938)	131,279	(4)	(2)	23	2,911
Increase (decrease) in unrestricted net assets	$ 19,479,992	$ -	$ (3,874,270)	$ 26,221,111	$ 2,562,762	$ (4,267,846)	$ (3,749,942)	$ 2,588,177

Adventist Healthcare, Inc. - Obligated Group

Combining Schedule, Statement of Cash Flows
Year Ended December 31, 2011

	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
Cash Flows from Operating Activities								
Increase (decrease) in net assets	$ 19,115,517	$ -	$ (4,083,062)	$ 26,038,956	$ 2,627,935	$ (4,282,052)	$ (3,749,943)	$ 2,543,683
Adjustments to reconcile increase (decrease) in net assets to cash provided by (used in) operating activities:								
Provision for uncollectible accounts	37,008,535	-	41,958	13,073,651	18,627,321	2,692,860	2,010,081	562,684
Depreciation and amortization	32,878,592	-	4,759,839	14,499,696	6,884,233	5,140,125	1,070,637	544,062
Amortization allocation among affiliates	-	-	-	-	-	-	-	-
Gain on derivative financial instrument termination	-	-	-	-	-	-	-	-
Loss on extinguishment of debt	1,285,000		69,394	446,372	289,513	359,037	63,359	57,325
Restricted contributions and grants	(2,684,274)	-	(179,320)	(1,395,492)	(745,572)	(265,953)	(74,919)	(23,018)
Earnings from investments and investments in unconsolidated subsidiaries	(2,353,884)	-	(1,050,735)	(1,038,065)	-	(265,064)	-	-
Amortization of bond discounts	9,790	-		-	9,790	-	-	-
Amortization of physician income guarantees	1,208,211	-	-	185,882	107,019	915,310	-	-
Net organization transfer among affiliates	-	-	-	-	-	-	-	-
Non cash transfers among affiliates	(9,102)	-	415,572	-	(112,477)	(312,197)	-	-
Cash transfers among affiliates	1,991,845	-	2,123,755	(131,910)	-	-	-	-
Change in unrealized gains and losses on investments other than trading securities	548,169	214,257	310,889	1,837	13,047	6,141	1,128	870
Change in net unrealized loss on derivative financial instruments	9,284,850	-	9,284,850	-	-	-	-	-
Change in value of charitable remainder trusts and obligation to annuitants	60,992	-	60,992	-	-	-	-	-
Changes in assets and liabilities:								
Patient accounts receivable, net	(48,345,712)	-	(79,350)	(19,948,574)	(23,943,577)	(1,238,644)	(1,815,419)	(1,322,148)
Other receivables, net	1,985,848	-	1,293,540	78,362	(144,858)	57,662	697,769	(14,627)
Inventories, prepaid expenses and other current assets	(359,934)	-	283,500	(594,717)	(20,635)	3,807	(41,374)	29,485
Accounts payable and accrued expenses	7,399,101	-	(3,163,205)	9,159,308	1,214,432	(4,045)	360,789	(168,178)
Accrued compensation and related expenses	135,978	-	(385,563)	307,144	(74,288)	43,459	38,698	186,528
Interest payable	1,490,774	-	1,483,131	-	3,491	-	4,152	-
Estimated self-insured professional liability	(1,275,314)	-	(1,275,314)	-	-	-	-	-
Due to third party payors	373,109	-	-	966,464	(88,966)	710,885	(263,178)	(952,096)
Other noncurrent assets and liabilities	(3,338,998)	-	(851,962)	8,728	(2,882,568)	386,806	(2)	-
Net cash provided by (used in) operating activities	56,389,113	214,257	9,078,909	41,657,642	1,743,840	3,948,137	(1,698,222)	1,444,550
Cash Flows from Investing Activities								
Purchase of property and equipment	(41,808,206)	-	(17,622,819)	(11,632,161)	(7,158,792)	(4,043,829)	(698,141)	(652,464)
Payments to physicians under income guarantees	(201,081)	-	-	(19,299)	-	(181,782)	-	-
Decrease (increase) in investments and investments in unconsolidated subsidiaries	(3,433,033)	(214,257)	(3,218,776)	-	-	-	-	-
Net additions to land held for healthcare development	(9,491,901)	-	(4,381,523)	-	(5,110,378)	-	-	-
Net proceeds from derivative financial instrument transactions	-	-	-	-	-	-	-	-
Distributions from investments in unconsolidated subsidiaries	1,769,272	-	643,397	813,250	-	312,625	-	-
Decrease (increase) in trustee held funds and restricted cash	(3,943,423)	-	836,434	(2,815,712)	(336,379)	(1,195,728)	(151,210)	(480,828)
Net cash (used in) provided by investing activities	(57,108,372)	(214,257)	(23,743,287)	(13,453,922)	(12,605,549)	(5,108,714)	(849,351)	(1,133,292)
Cash Flows from Financing Activities								
Net organization transfer - cash transfer from ASLS	-	-	-	-	-	-	-	-
Cash transfers among affiliates	(1,991,845)		(2,123,765)	131,910				
Allocation of financing costs among affiliates	-		329,514	(272,508)	(31,633)	(21,089)	(4,284)	-
Payments of financing costs	(1,560,784)	-	(92,344)	(594,000)	(358,787)	(391,738)	(71,041)	(52,664)
Proceeds from capital lease	10,000,000		5,000,000	5,000,000				
Repayments of long-term obligations, net	(138,279,180)	-	(13,408,890)	(50,882,622)	(33,377,871)	(29,923,405)	(5,450,671)	(5,257,921)
Change in short-term financing	-	-	-	-	-	-	-	-
Proceeds from bond issue	117,185,000		5,236,002	46,413,332	29,155,125	27,237,053	4,795,634	4,347,854
Proceeds from restricted contributions and grants	2,684,274	-	179,320	1,395,492	745,572	265,953	74,919	23,018
Net cash (used in) provided by financing activities	(11,982,535)	-	(4,878,153)	1,211,604	(3,887,404)	(2,833,226)	(855,443)	(939,913)
Net (decrease) increase in cash and cash equivalents	(12,681,794)	-	(19,542,531)	29,415,324	(14,729,113)	(3,993,803)	(3,203,016)	(628,655)
Cash and cash equivalents, beginning	39,113,744	-	(53,905,540)	52,871,462	6,047,444	32,146,417	(4,262,453)	6,216,414
Cash and cash equivalents, ending	$ 26,431,950	$ -	$ (73,448,071)	$ 82,286,786	$ (8,681,669)	$ 28,152,614	$ (7,465,469)	$ 5,587,759
Supplemental Disclosure of Cash Flow Information								
Interest paid	$ 11,788,443	$ -	$ (224,840)	$ 6,696,573	$ 3,242,430	$ 1,550,323	$ 320,871	$ 203,086
Supplemental Disclosure of Noncash Investing and Financing Activities								
Capital lease obligation incurred for equipment	$ 2,547,043	$ -	$ 2,547,043	$ -	$ -	$ -	$ -	$ -
Construction payable for property and equipment	$ 197,857	$ -	$ -	$ -	$ -	$ 197,857	$ -	$ -

Adventist HealthCare, Inc. - Foundations

Combining Schedule, Balance Sheet
December 31, 2011

	Combined Adventist HealthCare, Inc. Foundations	Eliminating Entries	Shady Grove Adventist Hospital Foundation, Inc.	Washington Adventist Hospital Foundation, Inc.	Hackettstown Community Hospital Foundation, Inc.	Adventist Behavioral Health Foundation, Inc.
Assets						
Current Assets						
Cash and cash equivalents	$ 2,386,903	$ -	$ 1,071,305	$ 961,365	$ 53,096	$ 301,137
Current portion pledges receivable, less allowance for doubtful pledges of $103,000	1,556,559	-	1,306,975	54,244	142,360	52,980
Other receivables	11,551	-	-	95	11,456	-
Prepaid expenses and other current assets	-	-	-	-	-	-
Total current assets	3,955,013	-	2,378,280	1,015,704	206,912	354,117
Cash and Cash Equivalents Held for Capital Acquisitions	292,378	-	-	140,441	-	151,937
Investments	1,825,234	-	1,819,517	5,717	-	-
Beneficial Interest in Trusts	716,337	-	-	716,337	-	-
Noncurrent Portion of Pledges Receivable	2,193,112	-	2,058,710	27,000	107,402	-
Total assets	$ 8,982,074	$ -	$ 6,256,507	$ 1,905,199	$ 314,314	$ 506,054
Liabilities and Net Assets						
Current Liabilities						
Accounts payable and accrued expenses	$ 45,851	$ -	$ 35,071	$ 301	$ 7,211	$ 3,268
Liability to Charitable Gift Annuitants	66,129	-	66,129	-	-	-
Total liabilities	111,980	-	101,200	301	7,211	3,268
Net Assets						
Unrestricted	2,227,359	-	1,427,000	446,285	31,115	322,959
Temporarily restricted	6,642,735	-	4,728,307	1,458,613	275,988	179,827
Total net assets	8,870,094	-	6,155,307	1,904,898	307,103	502,786
Total liabilities and net assets	$ 8,982,074	$ -	$ 6,256,507	$ 1,905,199	$ 314,314	$ 506,054

Adventist HealthCare, Inc. - Foundations

Combining Schedule, Statement of Operations
Year Ended December 31, 2011

	Combined Adventist HealthCare, Inc. Foundations	Eliminating Entries	Shady Grove Adventist Hospital Foundation, Inc.	Washington Adventist Hospital Foundation, Inc.	Hackettstown Adventist Hospital Foundation, Inc.	Adventist Behavioral Health Foundation Inc.
Changes In Unrestricted Net Assets						
Unrestricted Revenues, Gains, And Other Support						
Contributions, net	$ 2,202,094	$ -	$ 162,565	$ 1,921,954	$ 65,155	$ 52,420
Investment income	72,499	-	71,254	-	119	1,126
Net assets released from restrictions	1,974,114	-	1,071,835	171,701	587,799	142,779
Total unrestricted revenues, gains, and other support	4,248,707	-	1,305,654	2,093,655	653,073	196,325
Expenses						
General administrative expenses	473,231	-	103,231	199,543	170,232	225
In-kind gifts expended	722,204	-	131,043	591,161	-	-
Total expenses before transfers to the hospitals	1,195,435	-	234,274	790,704	170,232	225
Transfers to the hospitals	2,726,825	-	1,000,000	1,172,268	477,638	76,919
Total expenses	3,922,260	-	1,234,274	1,962,972	647,870	77,144
Revenues in excess of expenses	326,447	-	71,380	130,683	5,203	119,181
Change in net unrealized gains on investments other than trading securities	1,026	-	1,026	-	-	-
Increase in unrestricted net assets	327,473	-	72,406	130,683	5,203	119,181
Unrestricted net assets, beginning	1,899,886	-	1,354,594	315,602	25,912	203,778
Unrestricted net assets, ending	$ 2,227,359	$ -	$ 1,427,000	$ 446,285	$ 31,115	$ 322,959
Changes In Temporarily Restricted Net Assets						
Contributions, net	$ 2,584,423	$ -	$ 1,960,397	$ 156,324	$ 444,854	$ 22,848
Net assets released from restrictions	(1,974,114)	-	(1,071,835)	(171,701)	(587,799)	(142,779)
Change in value of beneficial interest in trusts	(27,221)	-	7,852	(35,073)	-	-
Change in discount of pledges receivable and provision for doubtful pledges	(66,327)	-	(65,460)	(867)	-	-
Investment income and unrealized gain on investments	2,762	-	2,762	-	-	-
Increase (decrease) in temporarily restricted net assets	519,523	-	833,716	(51,317)	(142,945)	(119,931)
Temporarily restricted net assets, beginning	6,123,212	-	3,894,591	1,509,930	418,933	299,758
Temporarily restricted net assets, ending	$ 6,642,735	$ -	$ 4,728,307	$ 1,458,613	$ 275,988	$ 179,827

Adventist HealthCare, Inc. - Foundations
Combining Schedule, Statements of Cash Flows
Year Ended December 31, 2011

	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	$ 846,996	$ -	$ 906,122	$ 79,366	$ (137,742)	$ (750)
Adjustments to reconcile change in net assets to net cash provided by operating activities:						
Contributions restricted for long-term purposes	(86,390)	-	(2,665)	(83,725)	-	-
Transfers to Hospitals	2,726,825	-	1,000,000	1,172,268	477,638	76,919
Provision for doubtful pledges	66,121	-	49,496	1,900	14,725	-
Net change in unrealized gains and losses on investments other than trading securities	353	-	353	-	-	-
Change in beneficial interest in trusts	27,221	-	(7,852)	35,073	-	-
Change in discount in pledges receivable	6,263	-	15,964	-	(9,701)	-
Change in assets and liabilities:						
Prepaid expense and other assets	2,500	-	-	-	2,500	-
Pledge receivable, net	(181,641)	-	(283,741)	(9,309)	116,337	(4,928)
Other receivable	(5,951)	-	-	(95)	(5,856)	-
Accounts payable and accrued expenses	31,997	-	30,853	(189)	(1,935)	3,268
Net cash provided by operating activities	3,434,294	-	1,708,530	1,195,289	455,966	74,509
Cash Flows from Investing Activities						
Net increase in investments	(1,153,328)	-	(1,153,328)	-	-	-
Net increase in restricted cash	(6,286)	-	-	(21,306)	-	15,020
Net cash (used in) provided by investing activities	(1,159,614)	-	(1,153,328)	(21,306)	-	15,020
Cash Flows from Financing Activities						
Contributions restricted for long-term purposes	86,390	-	2,665	83,725	-	-
Transfers to Hospitals	(2,726,825)	-	(1,000,000)	(1,172,268)	(477,638)	(76,919)
Net cash used in financing activities	(2,640,435)	-	(997,335)	(1,088,543)	(477,638)	(76,919)
Net (decrease) increase in cash and cash equivalents	(365,755)	-	(442,133)	85,440	(21,672)	12,610
Cash and cash equivalents, beginning	2,752,658	-	1,513,438	875,925	74,768	288,527
Cash and cash equivalents, ending	$ 2,386,903	$ -	$ 1,071,305	$ 961,365	$ 53,096	$ 301,137