

Adventist HealthCare, Inc. and Controlled Entities

Financial Statements and
Supplementary Information

December 31, 2013 and 2012



Adventist HealthCare, Inc. and Controlled Entities

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Independent Auditors' Report

Board of Trustees
Adventist HealthCare, Inc. and Controlled Entities

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Adventist HealthCare, Inc. and controlled entities (collectively, the "Corporation"), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Adventist HealthCare, Inc. and controlled entities as of December 31, 2013 and 2012, and the results of its operations, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating and combining information presented on pages 42 to 49 is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual companies 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 as a whole.

ParenteBeard LLC

Wilkes-Barre, Pennsylvania
April 29, 2014

Adventist HealthCare, Inc. and Controlled Entities

Consolidated Balance Sheets

December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 58,692,102	\$ 19,965,512
Short-term investments	128,642,187	155,416,945
Assets whose use is limited	3,950,514	5,722,017
Patient accounts receivable, net of estimated allowances of \$92,434,000 in 2013 and \$104,455,000 in 2012	127,698,502	138,952,125
Other receivables, net of estimated allowance for doubtful collections of \$2,288,000 in 2013 and \$2,350,000 in 2012	12,781,149	9,124,293
Inventories	12,172,222	12,781,870
Prepaid expenses and other current assets	<u>6,251,940</u>	<u>3,306,192</u>
Total current assets	350,188,616	345,268,954
Property and Equipment, Net	392,164,649	382,975,709
Assets Whose Use is Limited		
Under trust indentures and capital lease purchase financing facilities, held by trustees and banks	7,045,353	9,843,484
Professional liability trust fund	8,835,811	6,122,473
Deferred compensation fund	164,057	164,057
Cash and Cash Equivalents Temporarily Restricted for Capital Acquisition	2,978,828	2,650,934
Investments and Investments in Unconsolidated Subsidiaries	9,926,599	9,533,604
Land Held for Healthcare Development	84,805,542	76,230,174
Deferred Financing Costs, Net	2,622,135	3,374,836
Intangible Assets, Net	5,408,550	5,693,334
Deposits and Other Noncurrent Assets	<u>7,448,871</u>	<u>5,562,034</u>
Total assets	<u>\$ 871,589,011</u>	<u>\$ 847,419,593</u>

See notes to consolidated financial statements

Adventist HealthCare, Inc. and Controlled Entities

Consolidated Balance Sheets

December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 83,688,817	\$ 75,480,655
Accrued compensation and related items	31,922,897	30,866,740
Interest payable	2,222,769	3,043,488
Due to third party payors	21,919,784	26,873,945
Estimated self-insured professional liability	1,202,986	1,241,672
Current maturities of long-term obligations	22,925,596	38,270,987
Long-term debt subject to short-term remarketing and repayment arrangements	<u>41,985,000</u>	<u>-</u>
Total current liabilities	205,867,849	175,777,487
Construction Payable	116,254	124,101
Long-Term Obligations, Net		
Bonds payable	221,015,919	231,407,570
Notes payable	18,916,729	23,435,834
Capital lease obligations	16,348,680	15,183,624
Derivative Financial Instruments	16,103,581	28,169,723
Deferred Compensation	164,057	164,057
Other Liabilities	12,310,883	5,520,386
Estimated Self-Insured Professional Liability	<u>8,121,925</u>	<u>6,023,754</u>
Total liabilities	<u>498,965,877</u>	<u>485,806,536</u>
Net Assets		
Unrestricted	365,618,832	353,330,451
Temporarily restricted	6,662,881	7,941,185
Permanently restricted	<u>341,421</u>	<u>341,421</u>
Total net assets	<u>372,623,134</u>	<u>361,613,057</u>
Total liabilities and net assets	<u>\$ 871,589,011</u>	<u>\$ 847,419,593</u>

See notes to consolidated financial statements

Adventist HealthCare, Inc. and Controlled Entities

Consolidated Statements of Operations

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Unrestricted Revenues		
Net patient service revenue	\$ 664,929,799	\$ 660,197,337
Provision for doubtful collections	(43,172,646)	(46,135,114)
Net patient service revenue less provision for doubtful collections	621,757,153	614,062,223
Other revenue	<u>37,990,928</u>	<u>33,937,871</u>
Total unrestricted revenues	<u>659,748,081</u>	<u>648,000,094</u>
Expenses		
Salaries and wages	277,034,762	280,362,629
Employee benefits	58,644,334	56,654,101
Contract labor	29,565,999	26,663,188
Medical supplies	93,404,087	96,729,115
General and administrative	121,185,271	107,141,577
Building and maintenance	35,047,777	32,879,596
Insurance	5,147,729	5,149,118
Interest	8,365,613	9,782,884
Depreciation and amortization	<u>31,059,309</u>	<u>31,178,340</u>
Total expenses	<u>659,454,881</u>	<u>646,540,548</u>
Income from operations	<u>293,200</u>	<u>1,459,546</u>
Other Income (Expense)		
Investment income	2,786,060	2,310,413
Loss on extinguishment of debt	(707,292)	-
Other income	<u>1,673,660</u>	<u>799,959</u>
Total other income	<u>3,752,428</u>	<u>3,110,372</u>
Revenues in excess of expenses from continuing operations	4,045,628	4,569,918
Change in net unrealized gains and losses on investments other than trading securities	(2,896,072)	395,380
Change in net unrealized gain (loss) on derivative financial instruments	8,450,548	(555,316)
Net assets released from restriction for purchase of property and equipment	3,243,024	4,008,780
Other unrestricted net asset activity	<u>(82,046)</u>	<u>(210,000)</u>
Increase in unrestricted net assets from continuing operations	12,761,082	8,208,762
(Loss) income from discontinued operations	<u>(472,701)</u>	<u>2,298,650</u>
Increase in unrestricted net assets	<u>\$ 12,288,381</u>	<u>\$ 10,507,412</u>

See notes to consolidated financial statements

Adventist HealthCare, Inc. and Controlled EntitiesConsolidated Statements of Changes in Net Assets
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Unrestricted Net Assets		
Revenues in excess of expenses from continuing operations	\$ 4,045,628	\$ 4,569,918
Change in net unrealized gains and losses on investments other than trading securities	(2,896,072)	395,380
Change in net unrealized loss on derivative financial instruments	8,450,548	(555,316)
Net assets released from restriction for purchase of property and equipment	3,243,024	4,008,780
Other unrestricted net asset activity	<u>(82,046)</u>	<u>(210,000)</u>
 Increase in unrestricted net assets from continuing operations	 12,761,082	 8,208,762
 (Loss) income from discontinued operations	 <u>(472,701)</u>	 <u>2,298,650</u>
 Increase in unrestricted net assets	 <u>12,288,381</u>	 <u>10,507,412</u>
Temporarily Restricted Net Assets		
Restricted gifts and donations	6,132,245	8,680,029
Net assets released from restriction for purchase of property and equipment	(3,243,024)	(4,008,780)
Net assets released from restriction used for operations	(4,290,355)	(6,613,695)
Change in value of beneficial interest in trusts and charitable gift annuity obligation	237,254	106,075
Change in discount of pledges receivable and provision for doubtful pledges	(146,325)	(16,886)
Donor restricted investment income	<u>31,901</u>	<u>17,448</u>
 Decrease in temporarily restricted net assets	 <u>(1,278,304)</u>	 <u>(1,835,809)</u>
Permanently Restricted Net Assets		
Other permanently restricted net asset activity	<u>-</u>	<u>-</u>
 Increase in net assets	 11,010,077	 8,671,603
 Net Assets, Beginning	 <u>361,613,057</u>	 <u>352,941,454</u>
 Net Assets, Ending	 <u>\$ 372,623,134</u>	 <u>\$ 361,613,057</u>

See notes to consolidated financial statements

Adventist HealthCare, Inc. and Controlled Entities

Consolidated Statements of Cash Flows

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities		
Increase in net assets	\$ 11,010,077	\$ 8,671,603
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for doubtful collections	47,796,874	51,208,518
Depreciation and amortization	36,092,319	36,467,510
Loss on extinguishment of debt	707,292	-
Restricted contributions and grants	(2,246,168)	(5,985,585)
Earnings recognized from unconsolidated subsidiaries and affiliates	(2,695,156)	(3,026,134)
Amortization of bond discounts	-	9,790
Amortization of physician income guarantees	94,483	156,138
Gain on sale of interest in unconsolidated subsidiaries	(1,855,239)	(3,090,298)
Net realized loss on investments other than trading securities	903,233	1,561,074
Change in net unrealized gains and losses on investments other than trading securities	2,896,072	(395,380)
Change in net unrealized (gain) loss on derivative financial instruments	(8,450,548)	555,316
Change in value of beneficial interest in trusts and charitable gift annuity	(237,254)	(106,075)
Change in discount on pledges receivable and provision for doubtful pledges	146,325	16,886
Changes in assets and liabilities:		
Patient accounts receivable, net	(36,543,251)	(60,410,918)
Other receivables, net	(3,389,526)	(885,133)
Inventories, prepaid expenses and other current assets	(2,336,100)	(186,128)
Accounts payable and accrued expenses	6,203,378	(6,139,327)
Accrued compensation and related items	1,056,157	(3,427,448)
Interest payable	(820,719)	534,568
Estimated self-insured professional liability	2,059,485	(1,680,884)
Due to third party payors	(4,954,161)	7,262,875
Other noncurrent assets and liabilities	1,378,995	(1,338,663)
Net cash provided by operating activities	<u>46,816,568</u>	<u>19,772,305</u>

See notes to consolidated financial statements

Adventist HealthCare, Inc. and Controlled EntitiesConsolidated Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	\$ (34,507,464)	\$ (24,526,941)
Payments to physicians under income guarantees	(16,667)	(79,680)
Decrease in investments and investments in unconsolidated subsidiaries	25,381,710	10,392,031
Net additions to land held for healthcare development	(7,502,447)	(3,042,560)
Proceeds from sale of interest in unconsolidated subsidiaries	2,003,649	5,842,152
Distributions from investments in unconsolidated subsidiaries	262,586	2,555,418
Decrease in trustee held funds and restricted cash	1,013,310	6,801,791
	<u>(13,365,323)</u>	<u>(2,057,789)</u>
Net cash used in investing activities		
Cash Flows From Financing Activities		
Payment of financing costs	(191,318)	(166,398)
Proceeds from issuance of bonds	40,797,600	-
Repayments on long-term obligations, net	(37,577,105)	(18,734,996)
Proceeds from restricted contributions and grants	2,246,168	5,985,585
	<u>5,275,345</u>	<u>(12,915,809)</u>
Net cash provided by (used in) financing activities		
Net increase in cash and cash equivalents	38,726,590	4,798,707
Cash and cash equivalents, beginning	<u>19,965,512</u>	<u>15,166,805</u>
Cash and cash equivalents, ending	<u>\$ 58,692,102</u>	<u>\$ 19,965,512</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	<u>\$ 11,591,903</u>	<u>\$ 11,521,995</u>
Supplemental Disclosure of Noncash Investing and Financing Activities		
Capital lease obligation incurred for equipment	<u>\$ 9,306,779</u>	<u>\$ 3,841,370</u>
Construction payable for property and equipment	<u>\$ 116,254</u>	<u>\$ 124,101</u>

See notes to consolidated financial statements

Adventist HealthCare, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2013 and 2012

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 331-bed acute care hospital located in Rockville, Maryland. Washington Adventist Hospital (“WAH”) is a 252-bed acute care hospital with 32 acute rehabilitation beds located in Takoma Park, Maryland. Adventist Behavioral Health (“ABH”) is comprised of two separate facilities located in Maryland. ABH - Rockville is a 106-bed psychiatric hospital with 54 residential treatment rooms and 32 group home beds for adolescents. ABH - Eastern Shore is the region’s only acute care and residential mental health resource for children and adolescents, which has 15 acute care psychiatric beds and 32 residential treatment rooms. 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 Choice Nursing (“ACN”), Adventist Home Assistance (“AHA”) and the AHC Benefit business unit. 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. Effective January 28, 2014, the Corporation entered into an affiliation agreement with an unrelated third party for the future sale of HRMC pending state regulatory review. See Note 2 for further details.

Adventist Rehabilitation Hospital of Maryland, Inc. (“ARHM”) is comprised of two outpatient sites in Maryland. ARHM - Rockville is a 55-bed rehabilitation facility and ARHM - Takoma Park is a 32-bed rehabilitation facility. ARHM is tax-exempt under Section 501(c)(3) of the Internal Revenue Code.

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

Adventist HealthCare, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2013 and 2012

Adventist Medical Group (“AMG”), formerly known as Adventist Physician Services, Inc., is a not-for-profit entity that provides physician professional health services to further provide necessary services to the communities it serves. AMG is tax-exempt under Section 501(c)3 of the Internal Revenue Code. Adventist Healthcare, Inc. is 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. Effective November 30, 2010, the Corporation sold the operating assets of its five wholly-owned subsidiary nursing homes, its wholly owned dialysis center, and it’s one affiliated nursing home. See Note 2 for further details.

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. Effective December 3, 2012, AMSI was legally dissolved and all remaining assets and liabilities were transferred to the parent AHC in 2013.

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 2013 and 2012 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 29, 2014, the date the consolidated financial statements were issued.

Adventist HealthCare, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2013 and 2012

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 consolidated 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 Service 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.

In April 2014, Adventist Healthcare entered into a Global Budget Revenue Agreement with the HSCRC for Shady Grove Adventist Hospital, Washington Adventist Hospital and Shady Grove Emergency Center, retroactive to July 1, 2013. This agreement sets a fixed amount of revenue for each entity for the period July 1, 2013 through June 30, 2014. Total revenue per the Global Budget Revenue Agreement, and the amount of that revenue recognized in 2013, are as follows:

	Total Approved Revenue July 1, 2013- June 31, 2014	Revenue Recognized July 1, 2013- December 21, 2013
Shady Grove Adventist Hospital	\$ 376,588,970	\$ 185,035,009
Washington Adventist Hospital	254,864,218	122,757,511
Shady Grove Emergency Center	13,839,618	7,324,110

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.

Adventist HealthCare, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2013 and 2012

The Corporation reported net undercharges of \$1,195,648 and \$6,987,996 as of December 31, 2013 and 2012, respectively. These price variances 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 as actual patient charges deviate from the Total Approved Global Budget Revenue Agreement amounts reflected above, 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 2013 and 2012.

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.

Adventist HealthCare, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2013 and 2012

The Corporation's allowance for doubtful collections for self-pay patients as a percentage of self-pay accounts receivable was 67% and 64% at December 31, 2012 and 2013, respectively. In addition, the Corporation's self-pay account writeoffs, net of recoveries, increased from \$38,639,959 in 2012 to \$49,368,811 in 2013 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 2013. 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 assets set aside for 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 from continuing operations 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.

Adventist HealthCare, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2013 and 2012

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 from continuing operations 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 2013 or 2012.

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 \$284,784 and \$286,201 in 2013 and 2012, respectively. Accumulated amortization of intangible assets was \$2,567,571 and \$2,282,787 as of December 31, 2013 and 2012, 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 \$603,359 and \$661,831 in 2013 and 2012, respectively. Amortization for HRMC was \$37,783 in 2013 and 2012 and is included in (loss) income from discontinued operations in the consolidated statements of operations. Accumulated amortization of deferred financing costs was \$3,627,563 and \$3,203,288 at December 31, 2013 and 2012, respectively.

Adventist HealthCare, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
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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 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. These advances are subject to periodic adjustment.

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, 2013 and 2012 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 two interest rate swap agreements, which are considered derivative financial instruments, to manage its interest rate exposure on certain long-term obligations (Note 10). The interest rate swap agreements are reported at fair value in the accompanying consolidated balance sheets. One of the interest rate swap agreements is designated as a cash flow hedge. The related effective changes in fair value for the cash flow hedge is 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 swap not designated as a cash flow hedge, 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.

Adventist HealthCare, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
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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 15). 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 earlier. The Corporation also deducts from patient accounts receivable an estimated allowance for doubtful collections related to patients and allowances for the excess of charges over the payments to be received from third party payors.

Adventist HealthCare, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
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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 2013 and 2012 from these major payor sources, are as follows:

	Patient Service Revenues (Net of Contractual Allowances and Discounts)				Total
	Medicare	Medicaid	Other Third Party Payors	Self Pay and Other	
December 31, 2013	<u>\$ 214,375,408</u>	<u>\$ 37,749,363</u>	<u>\$ 424,058,547</u>	<u>\$ 74,326,328</u>	<u>\$ 750,509,646</u>
December 31, 2012	<u>\$ 223,110,227</u>	<u>\$ 27,936,252</u>	<u>\$ 395,015,470</u>	<u>\$ 103,984,784</u>	<u>\$ 750,046,733</u>

Patient service revenues (net of contractual allowances and discounts) for HRMC were \$85,579,849 in 2013 and \$89,849,396 in 2012. These amounts have been classified in (loss) income from discontinued operations in the consolidated statements of operations.

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 2013 or 2012.

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 Returns of Income Tax and its Business Income Tax Returns for the years ended prior to December 31, 2010 no longer remain subject to examination by the Internal Revenue Service.

Adventist HealthCare, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2013 and 2012

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 \$22,016,000 in 2013 and \$14,040,000 in 2012. 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 \$1,433,374 and \$1,102,785 for 2013 and 2012, 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 2012 have been reclassified to conform to the 2013 reporting format.

Adventist HealthCare, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
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2. 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.

Effective November 30, 2010, Glade Valley Nursing & Rehabilitation Center also sold certain operating assets to the same unrelated third party.

Effective January 28, 2014, the Corporation entered into an affiliation agreement with an unrelated third party for the sale of HRMC. The sale of HRMC is pending state regulatory review which could span several months. The carrying value of property and equipment, net related to HRMC as of December 31, 2013 and 2012 was \$42,952,842 and \$45,479,206, respectively, and consists of the following:

	<u>2013</u>	<u>2012</u>
Land and improvements	\$ 2,275,448	2,275,448
Building and improvements	59,471,110	59,007,767
Office furniture and equipment	56,717,819	55,692,351
Computer software and hardware	5,004,371	4,838,474
Equipment under capital leases	19,332	19,332
Total	123,488,080	121,833,372
Less accumulated depreciation amortization	<u>(82,300,834)</u>	<u>(77,355,946)</u>
	41,187,246	44,477,426
Construction in progress	<u>1,765,596</u>	<u>1,001,780</u>
	<u>\$ 42,952,842</u>	<u>\$ 45,479,206</u>

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

	<u>2013</u>	<u>2012</u>
Total unrestricted revenues	\$ 88,338,366	\$ 89,834,298
Total expenses	89,259,233	88,927,963
Other non-operating income (loss)	448,166	(107,685)
Net gain on sale of substantially all tangible and intangible assets	-	1,500,000
Revenues (less than) in excess of expenses	(472,701)	2,298,650

Adventist HealthCare, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
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3. Investments

Short-Term Investments

The Corporation's short-term investments at December 31, 2013 and 2012 are comprised of the following:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 10,343,585	\$ 3,036,726
Marketable certificates of deposit	741,462	740,259
CBAM Intrepid Fund Ltd.	9,534,675	16,326,184
CBAM Resolute Fund Ltd.	20,618,514	35,128,531
U.S. government securities, mortgage-backed securities	87,403,951	100,185,245
Total	<u>\$ 128,642,187</u>	<u>\$ 155,416,945</u>

Assets Whose Use is Limited

The composition of assets whose use is limited at December 31, 2013 and 2012 is set forth in the following tables:

	<u>2013</u>	<u>2012</u>
Under trust indentures and capital lease purchase financing facilities, held by trustees and banks:		
Cash and cash equivalents	\$ 1,957,555	\$ 6,238,614
U.S. government securities:		
U.S. treasury notes	7,835,326	1,179,181
Mortgage-backed securities	-	6,906,034
Total	9,792,881	14,323,829
Less funds held for current liabilities	<u>2,747,528</u>	<u>4,480,345</u>
Noncurrent portion of assets held under trust indentures and capital lease purchase financing facilities	<u>\$ 7,045,353</u>	<u>\$ 9,843,484</u>
Professional liability trust fund:		
Cash and cash equivalents	\$ 3,009,063	\$ 676,322
Equity mutual funds:		
Balanced	6,181,718	6,687,823
Large cap value	848,016	-
Total	10,038,797	7,364,145
Less funds held for current liabilities	<u>1,202,986</u>	<u>1,241,672</u>
Noncurrent portion of professional liability trust fund	<u>\$ 8,835,811</u>	<u>\$ 6,122,473</u>

Adventist HealthCare, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
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Deferred compensation fund:

Equity mutual funds:

Growth

\$ 164,057 \$ 164,057

Total

\$ 164,057 \$ 164,057

The indenture requirements of certain tax exempt financings provide for the establishment and maintenance of various accounts with a trustee (Note 9). 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, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Debt service reserve fund	\$ 5,868,995	\$ 7,394,992
Principal and interest funds	2,904,428	4,480,345
Lease facility escrow funds	<u>1,019,458</u>	<u>2,448,492</u>
Total	<u>\$ 9,792,881</u>	<u>\$ 14,323,829</u>

Unrestricted investment income and gains and losses for investments, assets whose use is limited, and cash and cash equivalents are comprised of the following in 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Investment income:		
Interest and dividends, net	\$ 4,060,643	\$ 4,244,519
Interest on trustee held funds	55,008	156,496
Net realized losses on sale of investments	<u>(903,233)</u>	<u>(1,561,074)</u>
Total	<u>\$ 3,212,418</u>	<u>\$ 2,839,941</u>

Other changes in unrestricted net assets:

Change in net unrealized gains and losses on
investments other than trading securities

\$ (2,896,072) \$ 395,380

Investment income for HRMC was \$426,357 and \$529,529 in 2013 and 2012, respectively which is included in (loss) income from discontinued operations in the consolidated statements of operations. Included in these amounts are net realized losses on sale of investments \$376,774 and \$193,472, interest on trustee held funds of \$18,155 and \$21,124, and interest and dividends, net of \$784,977 and 701,877 in 2013 and 2012, respectively.

Adventist HealthCare, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
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4. 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.

Adventist HealthCare, Inc. and Controlled Entities

Notes to Consolidated Financial Statements

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

	Carrying Value	Fair Value	2013		
			Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Reported at Fair Value					
Assets:					
Cash and cash equivalents	\$ 15,412,901	\$ 15,412,901	\$ 15,412,901	\$ -	\$ -
Marketable certificates of deposit	741,462	741,462	-	741,462	-
Equity mutual funds:					
Large cap value	848,016	848,016	848,016		
Growth	212,848	212,848	212,848		-
Balanced	6,181,718	6,181,718	6,181,718		-
CBAM Intrepid Fund Ltd.	9,534,675	9,534,675	-	9,534,675	-
CBAM Resolute Fund Ltd.	20,618,514	20,618,514	-	20,618,514	-
U.S. government securities:					
U.S. treasury notes	7,835,326	7,835,326	-	7,835,326	-
Mortgage backed securities	88,139,586	88,139,586	-	88,139,586	-
Corporate bonds and other debt securities:					
Other	67,925	67,925	-	67,925	-
Beneficial interest in trusts	1,713,042	1,713,042	-	-	1,713,042
	<u>\$ 151,306,013</u>	<u>\$ 151,306,013</u>	<u>\$ 22,655,483</u>	<u>\$ 126,937,488</u>	<u>\$ 1,713,042</u>
Liabilities:					
Derivative financial instruments	\$ 16,103,581	\$ 16,103,581	\$ -	\$ 16,103,581	\$ -
Disclosed at Fair Value					
Cash and cash equivalents	\$ 58,692,102	\$ 58,692,102	\$ 58,692,102	\$ -	\$ -
Pledges receivable	3,185,497	3,100,002	-	-	3,100,002
Long-term debt, excluding capital leases (Note 9):					
Fixed rate revenue bonds	78,828,500	76,894,793	-	76,894,793	-
Variable rate revenue bonds	181,990,000	181,990,000	-	181,990,000	-
Note payable	8,750,000	8,750,000	-	-	8,750,000
Secured lines of credit	32,500,000	32,500,000	-	-	32,500,000

Adventist HealthCare, Inc. and Controlled Entities

Notes to Consolidated Financial Statements

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	2012				
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Reported at Fair Value					
Assets:					
Cash and cash equivalents	\$ 10,515,221	\$ 10,515,221	\$ 10,515,221	\$ -	\$ -
Marketable certificates of deposit	740,259	740,259		740,259	-
Equity mutual funds:			-		
Growth	212,357	212,357	212,357	-	-
Balanced	6,687,823	6,687,823	6,687,823	-	-
CBAM Intrepid Fund Ltd.	16,326,184	16,326,184	-	16,326,184	-
CBAM Resolute Fund Ltd.	35,128,531	35,128,531	-	35,128,531	-
U.S. government securities:					
U.S. treasury notes	1,179,181	1,179,181	-	1,179,181	-
Mortgage backed securities	108,112,698	108,112,698	-	108,112,698	-
Corporate bonds and other debt securities:					
Multi sector	77,923	77,923	-	77,923	-
Beneficial interest in trusts	1,506,265	1,506,265	-	-	1,506,265
	<u>\$ 180,486,442</u>	<u>\$ 180,486,442</u>	<u>\$ 17,415,401</u>	<u>\$ 161,564,776</u>	<u>\$ 1,506,265</u>
Liabilities:					
Derivative financial instruments	<u>\$ 28,169,723</u>	<u>\$ 28,169,723</u>	<u>\$ -</u>	<u>\$ 28,169,723</u>	<u>\$ -</u>
Disclosed at Fair Value					
Cash and cash equivalents	\$ 19,965,512	\$ 19,965,512	\$ 19,965,512	\$ -	\$ -
Pledges receivable	3,618,480	3,401,407	-	-	3,401,407
Long-term debt, excluding capital leases (Note 9):					
Fixed rate revenue bonds	75,830,000	86,136,498	-	86,136,498	-
Variable rate revenue bonds	160,990,000	160,990,000	-	160,990,000	-
Note payable	13,000,000	13,000,000	-	-	13,000,000
Secured lines of credit	35,500,000	35,500,000	-	-	35,500,000

Adventist HealthCare, Inc. and Controlled Entities

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The following table presents the fair value measurements for beneficial interest in trusts that have unobservable inputs at December 31, 2013 and 2012:

Balance, January 1, 2012	\$ 1,406,743
Increase in value, included in changes in temporarily restricted net assets	<u>99,522</u>
Balance, December 31, 2012	1,506,265
Increase in value, included in changes in temporarily restricted net assets	<u>206,777</u>
Balance, December 31, 2013	<u><u>\$ 1,713,042</u></u>

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

	<u>2013</u>	<u>2012</u>
Short-term investments (Note 3)	\$ 128,642,187	\$ 155,416,945
Assets whose use is limited (Note 3)		
Current portion	3,950,514	5,722,017
Under trust indentures, held by trustees	7,045,353	9,843,484
Professional liability trust fund	8,835,811	6,122,473
Deferred compensation fund	164,057	164,057
Investments held by foundations (Note 6)	955,049	1,711,201
Beneficial interest in trusts	<u>1,713,042</u>	<u>1,506,265</u>
Total	<u><u>\$ 151,306,013</u></u>	<u><u>\$ 180,486,442</u></u>

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

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value and for financial instruments disclosed at fair value. There have been no changes in methodologies used at December 31, 2013 and 2012.

Cash and cash equivalents: The carrying amounts approximate fair value because of the short maturity of these financial instruments.

Marketable certificates of deposit and equity Mutual Funds: Valued based on quoted market prices.

U.S. government securities, corporate bonds and other debt securities: Valued based on estimated quoted market prices of similar securities.

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Beneficial interest in trusts: Beneficial interest in trusts are valued based on the fair value of the trusts underlying assets which represents a proxy for discounted present value of future cash flows. Beneficial interest in trusts are included in deposits and other noncurrent assets in the accompanying consolidated balance sheet.

Pledges receivable: Valued based on the original pledge amount, adjusted by a discount rate that a market participant would demand and an evaluation of uncollectible pledges. Pledges receivables are included in prepaid and other current assets and deposits and other noncurrent assets in the accompanying consolidated balance sheet.

Long-term debt: The fair value of the fixed rate debt is estimated based on market data provided by the Corporation's financial consultants. Fair values of the remaining long-term debt are considered to approximate their carrying amounts in the consolidated balance sheets.

The Corporation is 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, 2013.

Adventist HealthCare, Inc. and Controlled Entities

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The following represents the investment strategies of the Funds and the Corporation's investments measured at fair value at December 31:

Fund	Investment Strategy	2013	2012
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.	\$ 20,618,514	\$ 35,128,531
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.	9,534,675	16,326,184
		\$ 30,153,189	\$ 51,454,715

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.

Adventist HealthCare, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
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5. Property and Equipment and Accumulated Depreciation and Amortization

Property and equipment and accumulated depreciation and amortization at December 31, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Land and improvements	\$ 16,754,017	\$ 16,317,221
Buildings and improvements	462,359,205	447,893,682
Office furniture and equipment	216,520,642	208,287,934
Computer software and hardware	105,257,358	88,887,771
Equipment under capital leases	23,016,022	23,072,291
	<u>823,907,244</u>	<u>784,458,899</u>
Less accumulated depreciation and amortization	<u>(451,063,074)</u>	<u>(415,697,434)</u>
	372,844,170	368,761,465
Construction in progress	<u>19,320,479</u>	<u>14,214,244</u>
	<u>\$ 392,164,649</u>	<u>\$ 382,975,709</u>

Interest incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. During 2013 and 2012, the Corporation incurred interest expense of approximately \$11,167,000 and \$12,394,000, respectively, of which approximately \$1,415,000 was capitalized in 2013 and \$1,204,000 in 2012. HRMC incurred interest expense of approximately \$1,388,000 in 2013 and \$1,407,000 in 2012 which is included in (loss) income from discontinued operations in the consolidated statements of operations. There were no amounts capitalized for HRMC in 2013 and 2012. Investment earnings of approximately \$26,500 and \$42,000 were offset against capitalized interest in 2013 and 2012, respectively.

Depreciation expense, including amortization of equipment under capital leases, was \$35,549,319 in 2013 and \$35,519,478 in 2012. Depreciation expense, including amortization of equipment under capital leases, for HRMC was \$4,995,227 in 2013 and \$5,251,388 in 2012 and is included in (loss) income from discontinued operations in the consolidated statements of operations. Accumulated amortization of equipment under capital lease as of December 31, 2013 and 2012 was \$15,782,485 and \$14,245,776, respectively.

Construction in progress as of December 31, 2013 consists primarily of major renovation and expansion projects of clinical facilities. Purchase commitments related to these and other miscellaneous projects were approximately \$2,257,000 at December 31, 2013. The cost of these projects is expected to be funded through transfers from the Corporation's related foundations and from operations.

Adventist HealthCare, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
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6. Investments and Investments in Unconsolidated Subsidiaries

The Corporation's investments and investments in unconsolidated subsidiaries includes the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Investment in healthcare entities	\$ 8,439,678	\$ 7,612,371
Capital balance in group purchasing organization	779,155	798,206
Investments held by foundations and other	<u>707,766</u>	<u>1,123,027</u>
Total	<u>\$ 9,926,599</u>	<u>\$ 9,533,604</u>

Investment in Healthcare Entities

The Corporation recognized earnings of \$1,037,529 and \$1,536,380 during 2013 and 2012, respectively, related to its ownership interest in the healthcare entities. A brief description of these investments is presented below:

Chesapeake Potomac Regional Cancer Center ("CPRCC") - CPRCC provides outpatient radiation oncology services to patients in Maryland. The Corporation has a 20% ownership interest in CPRCC.

Doctors Regional Cancer Center ("DRCC") - DRCC provides outpatient radiations oncology service to patients in Bowie and Lanham, Maryland. The Corporation has a 20% ownership interest in DRCC.

Germantown Outpatient Imaging ("GOI") - This organization provides radiology and other imaging services to patients on an outpatient basis in Germantown, Maryland. The Corporation has a 50% ownership interest in GOI.

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. The Corporation has a 50% ownership interest in SGMB.

Riverside Health, Inc. ("RHI") - RHI is a Medicaid managed care organization providing health services to its members. The Corporation has a 20% ownership in RHI.

Summarized financial information related to these entities is presented below:

	<u>2013</u>	<u>2012</u>
Net revenue	\$ 24,504,023	\$ 21,563,981
Revenues in excess of expenses	60,095	3,836,294
Total assets	41,306,378	31,106,742
Total liabilities	21,594,521	11,351,062

Adventist HealthCare, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
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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% of the total capital of Premier at December 31, 2013 and 2012. 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 \$1,657,627 in 2013 and \$1,489,754 in 2012, which is included in other revenue in the accompanying consolidated statements of operations.

During 2013, the Corporation sold a portion of their investment in Premier and recognized a gain on the sale of \$1,855,239, which is included in other income in the accompanying consolidated statements of operations.

Investments Held by Foundations and Other

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.

The Corporation's investment in an entity that provides wellness initiatives services is reflected here and is accounted for under the equity method of accounting.

InforMed, LLC

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 accounted for this investment in InforMed on the cost basis method of accounting. During 2012, the Corporation sold its investment in InforMed and recognized a gain on the sale of \$3,090,298, which is included in other income in the accompanying consolidated statements of operations.

7. Land Held for Healthcare Development

Land - Clarksburg, Maryland

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 \$48,804,074 and \$42,332,391 at December 31, 2013 and 2012, respectively.

Adventist HealthCare, Inc. and Controlled Entities

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In May 2013, the Corporation entered into a Purchase and Sale Agreement (the "Sale Agreement") with an unrelated third party to sell 37.1 acres of the land located in Clarksburg, Maryland. The Sale Agreement also includes the sale of 10.7 acres owned by Cabin Branch Commons, LLC ("Cabin Branch") and the total purchase price of \$28,250,000 will be adjusted at the closing pursuant to certain costs outlined in the Sale Agreement and allocated amongst the sellers. The Corporation along with Cabin Branch are collectively responsible for the completion of certain infrastructure improvements to the property prior to the Closing. The acreage noted in the Sale Agreement is based on approximate amounts which will be finalized at the closing. Total costs capitalized relate to the parcel of land to be sold by the Corporation and improvements were \$21,612,000 at December 31, 2013.

Land - Silver Spring, Maryland

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, 2013 and 2012, the Corporation had total costs capitalized related to this land and land improvements of \$33,544,921 and \$30,898,569, respectively.

Land - Boyds, Maryland

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, 2013 and 2012. The Corporation contributed \$205,045 of the total contracted sales price of \$735,000.

Land - Concordia Property

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 Wells Fargo Bank (formerly known as 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, 2013 and 2012.

8. 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% (1.67% at December 31, 2013). There were no borrowings outstanding under this line of credit as of December 31, 2013 or 2012.

Adventist HealthCare, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
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9. Long Term Obligations

Long term obligations as of December 31, 2013 and 2012 are comprised of the following:

	<u>2013</u>	<u>2012</u>
Fixed rate revenue bonds	\$ 72,828,500	\$ 75,830,000
Variable rate revenue bonds	181,990,000	160,990,000
Secured lines of credit	32,500,000	35,500,000
Note payable	8,750,000	13,000,000
Capital lease purchase financing facilities	4,756,014	8,362,130
Other long term liabilities	<u>20,367,410</u>	<u>14,813,315</u>
Total obligations	321,191,924	308,495,445
Less current maturities	22,925,596	38,270,987
Less long-term debt subject to short-term remarketing and repayment agreements	41,985,000	-
Less bond discount	<u>-</u>	<u>197,430</u>
Noncurrent portion of long term obligations, net	<u>\$ 256,281,328</u>	<u>\$ 270,027,028</u>

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 the Series 2011A, Adventist HealthCare, Inc. with a par amount of \$57,205,000. The Series 2003A bear interest at fixed coupon rates ranging from 5.00% to 5.75%. The Series 2011A bear interest at fixed coupon rates ranging from 5.00% to 6.25%.

In June 2013, the Series 2003A bonds were refunded in conjunction with the issuance of the Series 2013 fixed rate revenue bonds, bearing interest at a rate of 3.21%. The Maryland Health and Higher Educational Facilities Authority Refunding Revenue Bonds, Series 2013, Adventist HealthCare, Inc. have a par amount of \$15,623,500. As a result of this refunding, a loss on extinguishment of debt was recognized in 2013 for approximately \$707,000 and is comprised of the remaining unamortized deferred financing costs and bond discount related to the Series 2003A bonds as well as the premium paid on the repayment of the Series 2003A.

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

	<u>2013</u>	<u>2012</u>
Series 2003A, Adventist HealthCare, Inc.	\$ -	\$ 18,625,000
Series 2011A, Adventist HealthCare, Inc.	57,205,000	57,205,000
Series 2013, Adventist HealthCare, Inc.	<u>15,623,500</u>	<u>-</u>
Total	<u>\$ 72,828,500</u>	<u>\$ 75,830,000</u>

Adventist HealthCare, Inc. and Controlled Entities

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The above bond 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, 2013 and 2012. Debt service reserve funds are required on the Series 2011A bonds and were required related for the Series 2003A bonds prior to the refunding.

Variable Rate Revenue Bonds

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

	<u>2013</u>	<u>2012</u>
Maryland Health and Higher Educational Facilities Authority Revenue Bonds		
Series 2005A, Adventist HealthCare, Inc.	\$ 78,000,000	\$ 78,000,000
Series 2011B, Adventist HealthCare, Inc.	52,005,000	55,005,000
Maryland Health and Higher Educational Facilities Authority Revenue Refunding Bonds		
Series 2004B, Adventist HealthCare, Inc.	26,985,000	27,985,000
Maryland Health and Higher Educational Facilities Authority Taxable Revenue Bonds		
Series 2013B, Adventist HealthCare, Inc.	25,000,000	-
Total	<u>\$ 181,990,000</u>	<u>\$ 160,990,000</u>

The Series 2005A Bonds bear interest at a variable rate based on the SIFMA index and reset weekly. At December 31, 2013, the tax-exempt rate on the 2005A bonds was 0.06%. The 2004B taxable bonds referenced above bear interest at a variable rate based on the LIBOR index. The rate on the 2004B bonds at December 31, 2013 was 0.12%. The Corporation's Series 2004B, 2005A 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, 2013 and 2012. The payment of principal and interest on the 2004B bonds are secured by a separate irrevocable direct-pay letter of credit with an expiration date in December 2014. As such, the entire outstanding balance of the 2004B bonds is shown as a component of long-term debt subject to short-term remarketing and repayment agreements in the consolidated balance sheet at December 31, 2013. The payment of principal and interest on the 2005A bonds are secured by a separate irrevocable direct-pay letter of credit with an expiration date in January 2015. Letters of credit are required to be maintained for the 2004B and 2005A bonds through their maturity dates.

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The Series 2011B bond is a direct placement bond with a commercial bank and bears interest at a variable rate that resets after two years. In September 2013, the interest rate for reset for two years through September 2015. The interest rate for the current two year period is 67% of one month LIBOR plus a spread of 1.77%. (1.94% at December 31, 2013).

In December 2013, the Corporation issued Series 2013B taxable revenue bonds in the amount of \$25,000,000 in order to fund certain capital expenditures. The Series 2013B bonds bear interest at a variable rate of 6-month LIBOR plus 3.00% (3.19% at December 31, 2013). The Series 2013B bonds are subject to the Amended and Restated Master Trust Indenture referred to above. In February 2014, the Series 2013B bonds were converted from taxable revenue bonds to tax-exempt revenue bonds and are now referred to as the Series 2014A bonds and bear interest at a fixed rate of 3.56%.

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 interest in the facilities of Shady Grove Adventist Hospital, Adventist Behavioral Health, Adventist Rehabilitation Hospital of Maryland, Washington Adventist Hospital, and Hackettstown Community Hospital.

Secured Lines of Credit

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

- \$20,000,000 line of credit with a commercial bank that bears interest at LIBOR plus 2.00% (2.17% at December 31, 2013). The amortization on the line extends to December 31, 2017, however the line is up for renewal at January 31, 2015. The balance on the working capital line was \$17,500,000 and \$19,500,000 at December 31, 2013 and 2012, respectively.
- \$16,000,000 line of credit that bears interest at LIBOR plus 1.75% (1.92% at December 31, 2013) and expires on June 30, 2014. As such, the entire outstanding balance is shown as a component of long-term debt subject to short-term remarketing and repayment agreements in the consolidated balance sheet at December 31, 2013. The balance on the line of credit was \$15,000,000 and \$16,000,000 at December 31, 2013 and 2012, respectively.

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

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, 2013). This new loan is secured by a Master Note issued under the Amended and Restated Master Trust Indenture dated as of February 1, 2003. In February 2012, the amortization of this note was amended and the term was extended for an additional year. This note expires in March 2015. The note payable balance was \$8,750,000 at December 31, 2013 and \$13,000,000 at December 31, 2012.

Adventist HealthCare, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
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Capital Lease Purchase Financing Facilities

There are two capital lease purchase financing facilities with two commercial banks. The first facility was established in October 2008 for \$8,000,000 and bears interest at a rate of 3.85% and was repaid during 2013. The second facility was established in February 2011 for \$10,000,000 and bears interest at a rate of 3.47%. Both 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, 2013 are as follows:

Years ending December 31:	
2014	\$ 64,910,596
2015	23,738,881
2016	17,721,067
2017	15,004,204
2018	11,214,969
Thereafter	<u>188,602,207</u>
Total	<u>\$ 321,191,924</u>

10. Derivative Financial Instruments

The Corporation has two 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. The two interest rate swap agreements are reported at fair value in the consolidated balance sheets.

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The interest rate swap agreement with a notional amount of \$78,000,000 was designated by the Corporation as a cash flow hedge, which qualifies it for hedge accounting treatment under accounting principles generally accepted in the United States of America. The effective portion of the change in fair value of the cash flow hedge 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.

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, had an exercise date of December 21, 2012 and the swap counterparty did not exercise this option. The other option related to the interest rate swap agreement with a notional amount of \$78,000,000, as noted in the table below, had an exercise date of December 1, 2013 and the swap counterparty did not exercise this option.

The net cash paid or received under the swap agreements is recognized as either an adjustment to interest expense or other income. The net cash paid under the interest rate swap agreements was \$4,536,085 in 2013 and \$4,611,952 in 2012. For 2013 and 2012, \$2,682,465 and \$2,656,541, respectively, are reported as a component of interest expense in the accompanying consolidated statements of operations. These amounts represent the net cash paid related to the swap agreement that continues to be accounted for using hedge accounting. The remaining amounts for 2013 and 2012 are reported as a component of other income in the accompanying consolidated statements of operations, which is related to the swap agreement that does not qualify for hedge accounting.

At December 31, 2013 and 2012, the Corporation's derivative financial instruments and related fair values are as follows:

	<u>2013</u>	<u>2012</u>
Agreement for the notional amount of \$55,680,000 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	\$ (4,764,505)	\$ (8,030,190)
Agreement for the notional amount of \$78,000,000 requiring the Corporation to pay a fixed interest rate of 3.567% while receiving variable interest rates based upon 67% of LIBOR, maturing January 2035 and qualifying for cash flow hedge accounting treatment	<u>(11,339,076)</u>	<u>(20,139,533)</u>
Total	<u>\$ (16,103,581)</u>	<u>\$ (28,169,723)</u>

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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 4). 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 from continuing operations. Gains or losses resulting from hedge ineffectiveness are recognized in revenues in excess of expenses from continuing operations. Gains of \$500,129 and \$305,855 were recognized as of December 31, 2013 and 2012, 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 from continuing operations. The impact of swaps not qualifying for hedge accounting treatment on the consolidated statements of operations were gains of \$2,373,408 in 2013 and \$514,069 in 2012.

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, 2013 and 2012, accumulated amortization of \$89,909 and \$53,946, respectively, is included in other changes in net assets and interest expense in the consolidated statements of operations and changes in net assets.

11. 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 \$16,006,602 in 2013 and \$19,606,916 in 2012. 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:	
2014	\$ 14,080,302
2015	13,643,186
2016	13,288,725
2017	12,418,366
2018	11,985,993
Thereafter	<u>84,918,623</u>
Total	<u>\$ 150,335,195</u>

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 \$3,851,382 in 2013 and \$4,335,800 in 2012, which has been reported as a component of other operating revenue in the consolidated statements of operations.

Adventist HealthCare, Inc. and Controlled Entities

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Future rent payments expected to be received by the Corporation during the years ending December 31 are as follows:

Years ending December 31:	
2014	\$ 2,894,563
2015	2,498,262
2016	1,778,550
2017	1,080,850
2018	623,734
Thereafter	<u>219,651</u>
Total	<u>\$ 9,095,610</u>

12. Retirement, Health Plans and Life Insurance

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 \$8,183,463 in 2013 and \$8,624,347 in 2012. Retirement plan expense for HRMC was \$666,071 in 2013 and \$733,839 in 2012 which is included in (loss) income from discontinued operations in the consolidated statements of operations.

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.

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Life Insurance

Full-time and part-time employees are insured for an amount equal to one times their base salary at time of enrollment up to \$450,000 for full-time employees and \$10,000 for part-time employees. In addition, if death is caused by accident, the employee is insured for an additional benefit equal to the amount of their life insurance.

13. 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 \$7,533,379 in 2013 and \$10,622,475 in 2012.

14. 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.

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, 2013, management determined that the fully-funded professional liability reserve reported at December 31, 2013 and 2012 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 \$9,324,911 and \$7,265,426 at December 31, 2013 and 2012, respectively. The discount rate used in determining these liabilities was 2.5% at both December 31, 2013 and 2012.

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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.

15. 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, 2013 and 2012, concentrations of gross receivables from third-party payors and others are as follows:

	<u>2013</u>	<u>2012</u>
Medicare	19 %	19 %
Medicaid	12	17
Other third party payers	37	39
Self-pay and others	32	25
	<u>100 %</u>	<u>100 %</u>

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

	<u>2013</u>	<u>2012</u>
Medicare	29 %	39 %
Medicaid	5	5
Other third party payers	57	46
Self-pay and others	9	10
	<u>100 %</u>	<u>100 %</u>

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

Adventist HealthCare, Inc. and Controlled Entities

Notes to Consolidated Financial Statements
December 31, 2013 and 2012

17. Functional Expenses

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

	<u>2013</u>	<u>2012</u>
Hospital acute and ambulatory services	\$ 524,569,366	\$ 504,575,820
Home care services	15,114,246	14,314,302
Other health care services	105,945,631	101,221,270
Other, including general and administrative	13,121,785	25,537,867
Fundraising	<u>703,853</u>	<u>891,289</u>
Total	<u>\$ 659,454,881</u>	<u>\$ 646,540,548</u>

The Corporation also incurred general and administrative expense related to ASLS and hospital acute services expense related to HRMC that were included in (loss) income from discontinued operations in the consolidated statements of operations. ASLS general and administrative expenses were \$2,972 in 2013. There were no general and administrative expenses for ASLS incurred in 2012. HRMC hospital acute services expenses were \$89,256,261 in 2013 and \$88,927,963 in 2012.

Adventist HealthCare, Inc. and Controlled Entities

Consolidating Schedule, Balance Sheet
December 31, 2013

	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
Assets														
Current Assets														
Cash and cash equivalents	\$ 58,692,102	\$ -	\$ (33,782,969)	\$ 105,863,271	\$ (6,971,085)	\$ 33,788,130	\$ (9,472,647)	\$ (2,002,075)	\$ 7,880,009	\$ 2,727,506	\$ (40,730,750)	\$ (42,164)	\$ (340,998)	\$ 1,775,874
Short term investments	128,642,187	-	128,642,187	-	-	-	-	-	-	-	-	-	-	-
Assets whose use is limited	3,950,514	-	3,950,514	-	-	-	-	-	-	-	-	-	-	-
Patient accounts receivable, net of estimated allowances of \$92,434,000	127,698,502	-	393,103	52,479,937	40,561,412	9,497,690	9,253,345	-	10,239,140	2,341,466	2,936,754	(4,345)	-	-
Other receivables, net of estimated allowance for uncollectible accounts of \$2,288,000	12,781,149	(190,379)	3,493,980	1,900,776	743,346	461,392	1,920,199	2,407,470	68,802	(8,377)	256,282	-	402,878	1,324,780
Due from third party payors	-	(2,313,438)	-	-	-	-	194,072	-	1,973,008	-	-	146,358	-	-
Due from affiliates	-	(180)	-	74,141	(74,141)	-	-	-	180	-	-	-	-	-
Inventories	12,172,222	-	-	5,931,563	4,056,160	1,801,874	130,095	-	104,013	-	-	-	148,517	-
Prepaid expenses and other current assets	6,251,940	-	2,961,189	1,501,979	1,084,096	293,660	93,334	2,275	72,347	47,131	159,350	-	36,229	350
Total current assets	350,188,616	(2,503,997)	105,658,004	167,751,667	39,399,788	45,842,746	2,118,398	407,670	20,337,499	5,107,726	(37,378,364)	99,849	246,626	3,101,004
Property and Equipment, Net	392,164,649	-	112,688,907	181,192,380	33,476,093	42,952,842	10,363,701	1,644,476	8,577,123	497,688	411,902	-	359,537	-
Assets Whose Use is Limited														
Under trust indenture and capital lease purchase financing facilities, held by trustees and banks	7,045,353	-	1,340,578	1,105,757	866,336	2,793,642	492,996	-	446,044	-	-	-	-	-
Professional liability trust fund	8,835,811	-	8,835,811	-	-	-	-	-	-	-	-	-	-	-
Deferred compensation fund	164,057	-	-	-	164,057	-	-	-	-	-	-	-	-	-
Cash and Cash Equivalents Temporarily Restricted for Capital Acquisition	2,978,828	-	-	330,520	-	1,520,468	-	549,666	210,884	-	-	-	-	367,290
Investments and Investments in Unconsolidated Subsidiaries	9,926,599	-	5,094,069	2,101,791	-	1,353,168	-	-	-	-	-	422,522	-	955,049
Land Held for Healthcare Development	84,805,542	-	62,758,405	15,657	22,031,480	-	-	-	-	-	-	-	-	-
Deferred Financing Costs, Net	2,622,135	-	589,643	900,879	540,174	445,734	79,485	-	66,220	-	-	-	-	-
Intangible Assets, Net	5,408,550	-	48,632	1,426,333	-	867,660	1,862,520	-	974,334	184,256	-	-	44,815	-
Deposits and Other Noncurrent Assets	7,448,871	-	1,192,987	3,002,585	3,408	876,951	26,674	5,054	32,000	30,828	6,887	-	42,581	2,228,916
Total assets	\$ 871,589,011	\$ (2,503,997)	\$ 298,207,036	\$ 357,827,569	\$ 96,481,336	\$ 96,653,211	\$ 14,943,774	\$ 2,606,866	\$ 30,644,104	\$ 5,820,498	\$ (36,959,575)	\$ 522,371	\$ 693,559	\$ 6,652,259

Adventist HealthCare, Inc. and Controlled Entities

Consolidating Schedule, Balance Sheet
December 31, 2013

	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
Liabilities and Net Assets														
Current Liabilities														
Accounts payable and accrued expenses	\$ 83,688,817	\$ (182)	\$ 21,467,559	\$ 31,685,715	\$ 18,006,464	\$ 5,399,992	\$ 2,631,420	\$ 411,345	\$ 1,584,655	\$ 731,240	\$ 1,033,016	\$ (7,514)	\$ 620,857	\$ 124,250
Accrued compensation and related items	31,922,897	(190,379)	4,076,530	11,212,107	8,042,978	2,974,886	2,028,514	392,428	1,875,836	901,861	432,427	1,318	174,391	-
Interest payable	2,222,769	-	2,217,729	-	2,302	-	2,738	-	-	-	-	-	-	-
Due to third party payors	21,919,784	(2,313,438)	-	14,415,364	8,210,143	555,818	985,166	-	(27,057)	-	-	93,788	-	-
Estimated self-insured professional liability	1,202,986	-	1,202,986	-	-	-	-	-	-	-	-	-	-	-
Current maturities of long-term obligations	22,925,596	-	12,823,929	4,981,571	4,213,189	45,657	861,250	-	-	-	-	-	-	-
Long-term debt subject to short-term remarketing and repayment arrangements	41,985,000	-	-	32,920,739	9,064,261	-	-	-	-	-	-	-	-	-
Total Current Liabilities	205,867,849	(2,503,999)	41,788,733	95,215,496	47,539,337	8,976,353	6,509,088	803,773	3,433,434	1,633,101	1,465,443	87,592	795,248	124,250
Construction Payable	116,254	-	-	-	-	116,254	-	-	-	-	-	-	-	-
Long-Term Obligations, Net														
Bonds payable	221,015,919	-	181,885,000	3,732,000	35,398,919	-	-	-	-	-	-	-	-	-
Notes payable	18,916,729	-	18,216,562	-	243,750	-	456,417	-	-	-	-	-	-	-
Capital lease obligation	16,348,680	-	13,831,198	1,892,022	577,265	48,195	-	-	-	-	-	-	-	-
Internal debt	-	2	(177,649,000)	103,119,312	32,143,145	32,229,053	5,809,634	-	4,347,854	-	-	-	-	-
Derivative Financial Instruments	16,103,581	-	16,103,581	-	-	-	-	-	-	-	-	-	-	-
Deferred Compensation	164,057	-	-	-	164,057	-	-	-	-	-	-	-	-	-
Other Liabilities	12,310,883	-	5,207,680	5,249,737	486,931	1,106,959	-	-	200,000	-	-	-	-	59,576
Estimated Self Insured Professional Liability	8,121,925	-	8,121,925	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	498,965,877	(2,503,997)	107,505,679	209,208,567	116,553,404	42,476,814	12,775,139	803,773	7,981,288	1,633,101	1,465,443	87,592	795,248	183,826
Net Assets (Deficit)														
Unrestricted	365,618,832	-	190,608,660	148,328,361	(20,642,842)	52,986,699	2,168,636	1,324,203	22,594,799	4,187,397	(38,425,018)	434,779	(101,689)	2,154,847
Temporarily restricted	6,662,881	-	92,697	290,641	570,774	1,189,698	(1)	137,469	68,017	-	-	-	-	4,313,586
Permanently restricted	341,421	-	-	-	-	-	-	341,421	-	-	-	-	-	-
Total net assets (deficit)	372,623,134	-	190,701,357	148,619,002	(20,072,068)	54,176,397	2,168,635	1,803,093	22,662,816	4,187,397	(38,425,018)	434,779	(101,689)	6,468,433
Total liabilities and net assets	\$ 871,589,011	\$ (2,503,997)	\$ 298,207,036	\$ 357,827,569	\$ 96,481,336	\$ 96,653,211	\$ 14,943,774	\$ 2,606,866	\$ 30,644,104	\$ 5,820,498	\$ (36,959,575)	\$ 522,371	\$ 693,559	\$ 6,652,259

Adventist Healthcare, Inc. and Controlled Entities

 Consolidating Schedule, Statement of Operations
 Year Ended December 31, 2013

	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	\$ 664,929,799	\$ (85,757,199)	\$ 4,577,689	\$ 338,865,036	\$ 216,357,425	\$ 85,579,847	\$ 39,049,612	\$ 588,114	\$ 33,951,685	\$ 15,209,221	\$ 16,508,369	\$ -	\$ -	\$ -
Provision for doubtful collections	(43,172,646)	4,624,228	(36,641)	(18,775,242)	(20,223,050)	(4,624,228)	(1,473,295)	(83,907)	(982,226)	(76,756)	(1,486,466)	-	(35,063)	-
Net patient service revenue less provision for doubtful collections	621,757,153	(81,132,971)	4,541,048	320,089,794	196,134,375	80,955,619	37,576,317	504,207	32,969,459	15,132,465	15,021,903	-	(35,063)	-
Other revenue	37,990,928	(15,463,303)	4,839,558	11,068,192	6,540,625	7,382,747	6,829,623	6,690,122	360,155	35,643	924,991	-	5,740,017	3,042,558
Total unrestricted revenues	659,748,081	(96,596,274)	9,380,606	331,157,986	202,675,000	88,338,366	44,405,940	7,194,329	33,329,614	15,168,108	15,946,894	-	5,704,954	3,042,558
Operating Expenses														
Salaries and wages	277,034,762	(37,662,844)	12,012,680	119,025,920	82,830,918	37,662,435	23,960,613	4,231,286	18,963,230	10,402,817	3,803,668	409	1,803,630	-
Employee benefits	58,644,334	(9,313,996)	3,156,429	25,068,467	17,329,481	9,313,650	5,482,342	893,854	3,885,587	1,960,849	507,661	37	359,973	-
Contract labor	29,565,999	(1,941,301)	200,624	10,775,754	13,338,507	1,871,196	1,012,436	368,814	717,967	171,976	2,505,856	-	544,170	-
Medical supplies	93,404,087	(12,139,581)	(3,442)	52,143,295	36,700,444	12,047,963	1,743,800	30,730	1,323,840	225,915	8,725	-	1,322,398	-
General and administrative	121,185,271	(22,441,047)	37,266,028	39,561,825	27,423,483	9,418,785	3,092,734	974,934	2,855,256	775,622	18,548,614	2,526	686,445	3,020,066
Building and maintenance	35,047,777	(7,065,030)	907,509	21,344,117	9,031,414	5,192,743	2,961,967	284,406	1,215,331	601,739	52,449	-	521,132	-
Insurance	5,147,729	(532,209)	89,963	2,528,458	1,852,746	532,209	239,722	21,463	143,893	106,251	159,415	-	5,818	-
Interest	8,365,613	(1,388,123)	(125,251)	5,982,743	1,988,992	1,388,123	311,353	1,865	205,223	-	-	-	688	-
Depreciation and amortization	31,059,309	(5,033,010)	8,259,458	14,828,247	6,195,471	5,033,010	1,009,126	112,695	635,193	116,671	43,653	-	53,795	-
IT depreciation	-	-	(7,664,344)	3,856,865	2,108,421	1,217,489	68,779	-	361,276	35,092	-	-	16,422	-
Allocation: IT services	-	-	(31,115,283)	14,235,038	10,091,609	3,267,690	1,412,424	-	1,582,729	422,244	-	-	103,549	-
AHC management fees	-	-	(15,408,268)	6,482,897	4,504,478	2,310,968	862,984	150,569	673,579	299,822	-	-	122,971	-
Total expenses	659,454,881	(97,517,141)	7,576,103	315,633,626	213,395,964	89,256,261	42,158,280	7,070,616	32,563,104	15,118,998	25,630,041	2,972	5,545,991	3,020,066
Income (loss) from operations	293,200	920,867	1,804,503	15,524,360	(10,720,964)	(917,895)	2,247,660	123,713	766,510	49,110	(9,683,147)	(2,972)	158,963	22,492
Other Income (Expense)														
Investment income (loss)	2,786,060	(426,358)	3,061,483	731,946	(1,027,531)	426,358	(151,156)	7,722	81,008	35,497	-	-	(4,010)	51,101
Loss on extinguishment of debt	(707,292)	-	(707,292)	-	-	-	-	-	-	-	-	-	-	-
Other income (expense)	1,673,660	(21,808)	3,228,900	(992,613)	(482,180)	(649,149)	(45,970)	-	(34,477)	-	-	670,957	-	-
Total other income (expense)	3,752,428	(448,166)	5,583,091	(260,667)	(1,509,711)	(222,791)	(197,126)	7,722	46,531	35,497	-	670,957	(4,010)	51,101
Revenue and gains in excess of (less than expenses from continuing operations)	4,045,628	472,701	7,387,594	15,263,693	(12,230,675)	(1,140,686)	2,050,534	131,435	813,041	84,607	(9,683,147)	667,985	154,953	73,593
Change in net unrealized gains and losses on investment other than trading securities	(2,896,072)	-	(763,753)	(1,380,006)	(13,361)	(530,960)	(1,728)	(10,891)	(104,671)	(43,962)	-	-	(8)	(46,732)
Change in net unrealized gain on derivative financia instrument	8,450,548	-	8,450,548	-	-	-	-	-	-	-	-	-	-	-
Transfer from (to) unconsolidated subsidiary	-	-	8,856,643	(3,030,260)	(2,107,217)	(860,732)	(403,379)	(70,380)	(314,847)	(140,144)	-	(1,872,205)	(57,479)	-
Net assets released from restriction for purchase of property and equipment	3,243,024	-	1,275,415	1,818,335	32,890	27,084	-	25,000	64,300	-	-	-	-	-
Other unrestricted net asset activity	(82,046)	-	(82,046)	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) in unrestricted net assets from continuing operations	12,761,082	472,701	25,124,401	12,671,762	(14,318,363)	(2,505,294)	1,645,427	75,164	457,823	(99,499)	(9,683,147)	(1,204,220)	97,466	26,861
Loss from discontinued operations	(472,701)	(472,701)	-	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) in unrestricted net assets	\$ 12,288,381	\$ -	\$ 25,124,401	\$ 12,671,762	\$ (14,318,363)	\$ (2,505,294)	\$ 1,645,427	\$ 75,164	\$ 457,823	\$ (99,499)	\$ (9,683,147)	\$ (1,204,220)	\$ 97,466	\$ 26,861

Adventist Healthcare, Inc. - Obligated Group

Combining Schedule, Balance Sheet

December 31, 2013

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	\$ 97,304,709	\$ -	\$ (33,782,969)	\$ 105,863,271	\$ (6,971,085)	\$ 33,788,130	\$ (9,472,647)	\$ 7,880,009
Short-term investments	128,642,187	-	128,642,187	-	-	-	-	-
Assets whose use is limited	3,950,514	-	3,950,514	-	-	-	-	-
Patient accounts receivable, net of estimated allowances of \$91,260,000	122,424,627	-	393,103	52,479,937	40,561,412	9,497,690	9,253,345	10,239,140
Other receivables, net of estimated allowance for uncollectible accounts of \$684,000	8,398,116	(190,379)	3,493,980	1,900,776	743,346	461,392	1,920,199	68,802
Due from third party payors	-	(2,167,080)	-	-	-	-	194,072	1,973,008
Due from affiliates	-	(180)	-	74,141	(74,141)	-	-	180
Inventories	12,023,705	-	-	5,931,563	4,056,160	1,801,874	130,095	104,013
Prepaid expenses and other current assets	6,006,605	-	2,961,189	1,501,979	1,084,096	293,660	93,334	72,347
Total current assets	378,750,463	(2,357,639)	105,658,004	167,751,667	39,399,788	45,842,746	2,118,398	20,337,499
Property and Equipment, Net	389,251,046	-	112,688,907	181,192,380	33,476,093	42,952,842	10,363,701	8,577,123
Assets Whose Use is Limited								
Under trust indenture and capital lease purchase financing facilities, held by trustees and banks	7,045,353	-	1,340,578	1,105,757	866,336	2,793,642	492,996	446,044
Professional liability trust fund	8,835,811	-	8,835,811	-	-	-	-	-
Deferred compensation fund	164,057	-	-	-	164,057	-	-	-
Cash and Cash Equivalents Temporarily Restricted for Capital Acquisition	2,061,872	-	-	330,520	-	1,520,468	-	210,884
Investments and Investments in Unconsolidated Subsidiaries	8,549,028	-	5,094,069	2,101,791	-	1,353,168	-	-
Land Held for Healthcare Development	84,805,542	-	62,758,405	15,657	22,031,480	-	-	-
Deferred Financing Costs	2,622,135	-	589,643	900,879	540,174	445,734	79,485	66,220
Intangible Assets, Net	5,179,479	-	48,632	1,426,333	-	867,660	1,862,520	974,334
Deposits and Other Noncurrent Assets	5,134,605	-	1,192,987	3,002,585	3,408	876,951	26,674	32,000
Total assets	<u>\$ 892,399,391</u>	<u>\$ (2,357,639)</u>	<u>\$ 298,207,036</u>	<u>\$ 357,827,569</u>	<u>\$ 96,481,336</u>	<u>\$ 96,653,211</u>	<u>\$ 14,943,774</u>	<u>\$ 30,644,104</u>

Adventist Healthcare, Inc. - Obligated Group

Combining Schedule, Balance Sheet

December 31, 2013

	Combined AHC Obligated Group	Eliminating Entries	Support Center	Shady Grove Adventist Hospital	Washington Adventist Hospital	Hackettstown Regional Medical Center	Adventist Behavioral Health	Adventist Rehabilitation Hospital of Maryland
Liabilities and Net Assets								
Current Liabilities								
Accounts payable and accrued expenses	\$ 80,775,623	\$ (182)	\$ 21,467,559	\$ 31,685,715	\$ 18,006,464	\$ 5,399,992	\$ 2,631,420	\$ 1,584,655
Accrued compensation and related items	30,020,472	(190,379)	4,076,530	11,212,107	8,042,978	2,974,886	2,028,514	1,875,836
Interest payable	2,222,769	-	2,217,729	-	2,302	-	2,738	-
Due to third party payors	21,972,354	(2,167,080)	-	14,415,364	8,210,143	555,818	985,166	(27,057)
Estimated self-insured professional liability	1,202,986	-	1,202,986	-	-	-	-	-
Current portion of long-term obligations	22,925,596	-	12,823,929	4,981,571	4,213,189	45,657	861,250	-
Long-term debt subject to short-term remarketing and repayment arrangements	41,985,000	-	-	32,920,739	9,064,261	-	-	-
Total current liabilities	201,104,800	(2,357,641)	41,788,733	95,215,496	47,539,337	8,976,353	6,509,088	3,433,434
Construction Payable	116,254	-	-	-	-	116,254	-	-
Long-Term Obligations, Net								
Bonds payable	221,015,919	-	181,885,000	3,732,000	35,398,919	-	-	-
Notes payable	18,916,729	-	18,216,562	-	243,750	-	456,417	-
Capital lease obligation	16,348,680	-	13,831,198	1,892,022	577,265	48,195	-	-
Internal debt	-	2	(177,649,000)	103,119,312	32,143,145	32,229,053	5,809,634	4,347,854
Derivative Financial Instruments	16,103,581	-	16,103,581	-	-	-	-	-
Deferred Compensation	164,057	-	-	-	164,057	-	-	-
Other Liabilities	12,251,307	-	5,207,680	5,249,737	486,931	1,106,959	-	200,000
Estimated Self-Insured Professional Liability	8,121,925	-	8,121,925	-	-	-	-	-
Total liabilities	494,143,252	(2,357,639)	107,505,679	209,208,567	116,553,404	42,476,814	12,775,139	7,981,288
Net Assets (Deficit)								
Unrestricted	396,044,313	-	190,608,660	148,328,361	(20,642,842)	52,986,699	2,168,636	22,594,799
Temporarily restricted	2,211,826	-	92,697	290,641	570,774	1,189,698	(1)	68,017
Total net assets (deficit)	398,256,139	-	190,701,357	148,619,002	(20,072,068)	54,176,397	2,168,635	22,662,816
Total liabilities and net assets	\$ 892,399,391	\$ (2,357,639)	\$ 298,207,036	\$ 357,827,569	\$ 96,481,336	\$ 96,653,211	\$ 14,943,774	\$ 30,644,104

Adventist Healthcare, Inc. - Obligated Group

 Combining Schedule, Statement of Operations
 Year Ended December 31, 2013

	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	\$ 632,624,095	\$ (85,757,199)	\$ 4,577,689	\$ 338,865,036	\$ 216,357,425	\$ 85,579,847	\$ 39,049,612	\$ 33,951,685
Provision for doubtful collections	(41,490,454)	4,624,228	(36,641)	(18,775,242)	(20,223,050)	(4,624,228)	(1,473,295)	(982,226)
Net patient service revenue less provision for doubtful collections	591,133,641	(81,132,971)	4,541,048	320,089,794	196,134,375	80,955,619	37,576,317	32,969,459
Other revenue	26,991,606	(10,029,294)	4,839,558	11,068,192	6,540,625	7,382,747	6,829,623	360,155
Total unrestricted revenues	618,125,247	(91,162,265)	9,380,606	331,157,986	202,675,000	88,338,366	44,405,940	33,329,614
Operating Expenses								
Salaries and wages	256,793,361	(37,662,435)	12,012,680	119,025,920	82,830,918	37,662,435	23,960,613	18,963,230
Employee benefits	54,921,996	(9,313,960)	3,156,429	25,068,467	17,329,481	9,313,650	5,482,342	3,885,587
Contract labor	25,979,935	(1,936,549)	200,624	10,775,754	13,338,507	1,871,196	1,012,436	717,967
Medical supplies	91,844,933	(12,110,967)	(3,442)	52,143,295	36,700,444	12,047,963	1,743,800	1,323,840
General and administrative	109,353,354	(10,264,757)	37,266,028	39,561,825	27,423,483	9,418,785	3,092,734	2,855,256
Building and maintenance	33,611,078	(7,042,003)	907,509	21,344,117	9,031,414	5,192,743	2,961,967	1,215,331
Insurance	4,854,782	(532,209)	89,963	2,528,458	1,852,746	532,209	239,722	143,893
Interest	8,363,060	(1,388,123)	(125,251)	5,982,743	1,988,992	1,388,123	311,353	205,223
Depreciation and amortization	30,727,495	(5,033,010)	8,259,458	14,628,247	6,195,471	5,033,010	1,009,126	635,193
IT depreciation	(1,269,003)	(1,217,489)	(7,664,344)	3,856,865	2,108,421	1,217,489	68,779	361,276
Allocation: IT services	(3,793,483)	(3,267,690)	(31,115,283)	14,235,038	10,091,609	3,267,690	1,412,424	1,582,729
AHC management fees	(2,884,330)	(2,310,968)	(15,408,268)	6,482,897	4,504,478	2,310,968	862,984	673,579
Total expenses	608,503,178	(92,080,160)	7,576,103	315,633,626	213,395,964	89,256,261	42,158,280	32,563,104
Income (loss) from operations	9,622,069	917,895	1,804,503	15,524,360	(10,720,964)	(917,895)	2,247,660	766,510
Other Income (Expense)								
Investment income (loss)	2,695,750	(426,358)	3,061,483	731,946	(1,027,531)	426,358	(151,156)	81,008
Loss on extinguishment of debt	(707,292)	-	(707,292)	-	-	-	-	-
Other income (expense)	1,673,660	649,149	3,228,900	(992,613)	(482,180)	(649,149)	(45,970)	(34,477)
Total other income (expense)	3,662,118	222,791	5,583,091	(260,667)	(1,509,711)	(222,791)	(197,126)	46,531
Revenue in excess of (less than) expenses from continuing operations	13,284,187	1,140,686	7,387,594	15,263,693	(12,230,675)	(1,140,686)	2,050,534	813,041
Change in net unrealized gains and losses on investments other than trading securities	(2,794,479)	-	(763,753)	(1,380,006)	(13,361)	(530,960)	(1,728)	(104,671)
Change in net unrealized gain on derivative financial instrument	8,450,548	-	8,450,548	-	-	-	-	-
#REF!	2,140,208	-	8,856,643	(3,030,260)	(2,107,217)	(860,732)	(403,379)	(314,847)
Net assets released from restriction for purchase of property and equipment	3,218,024	-	1,275,415	1,818,335	32,890	27,084	-	64,300
Other unrestricted net asset activity	(82,046)	-	(82,046)	-	-	-	-	-
Increase (decrease) in unrestricted net assets from continuing operations	24,216,442	1,140,686	25,124,401	12,671,762	(14,318,363)	(2,505,294)	1,645,427	457,823
Loss from discontinued operations	(1,140,686)	(1,140,686)	-	-	-	-	-	-
Increase (decrease) in unrestricted net assets	\$ 23,075,756	\$ -	\$ 25,124,401	\$ 12,671,762	\$ (14,318,363)	\$ (2,505,294)	\$ 1,645,427	\$ 457,823

Adventist HealthCare, Inc. - Foundations

 Combining Schedule, Balance Sheet
 December 31, 2013

	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	\$ 1,775,874	\$ -	\$ 300,509	\$ 1,258,759	\$ 155,739	\$ 60,867
Current portion pledges receivable, less allowance for doubtful pledges of \$77,000	1,298,901	-	1,110,621	148,724	10,324	29,232
Other receivables	25,879	-	-	-	25,879	-
Prepaid expenses and other current assets	<u>350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>350</u>	<u>-</u>
Total current assets	3,101,004	-	1,411,130	1,407,483	192,292	90,099
Cash and Cash Equivalents Held for Capital Acquisitions	367,290	-	-	218,389	-	148,901
Investments	955,049	-	949,332	5,717	-	-
Beneficial Interest in Trusts	829,438	-	-	829,438	-	-
Noncurrent Portion of Pledges Receivable	<u>1,399,478</u>	<u>-</u>	<u>1,266,532</u>	<u>132,946</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 6,652,259</u>	<u>\$ -</u>	<u>\$ 3,626,994</u>	<u>\$ 2,593,973</u>	<u>\$ 192,292</u>	<u>\$ 239,000</u>
Liabilities and Net Assets						
Current Liabilities						
Accounts payable and accrued expenses	\$ 124,250	\$ -	\$ 114,251	\$ -	\$ 9,999	\$ -
Liability to Charitable Gift Annuitants	<u>59,576</u>	<u>-</u>	<u>59,576</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>183,826</u>	<u>-</u>	<u>173,827</u>	<u>-</u>	<u>9,999</u>	<u>-</u>
Net Assets						
Unrestricted	2,154,847	-	1,484,794	587,961	19,967	62,125
Temporarily restricted	<u>4,313,586</u>	<u>-</u>	<u>1,968,373</u>	<u>2,006,012</u>	<u>162,326</u>	<u>176,875</u>
Total net assets	<u>6,468,433</u>	<u>-</u>	<u>3,453,167</u>	<u>2,593,973</u>	<u>182,293</u>	<u>239,000</u>
Total liabilities and net assets	<u>\$ 6,652,259</u>	<u>\$ -</u>	<u>\$ 3,626,994</u>	<u>\$ 2,593,973</u>	<u>\$ 192,292</u>	<u>\$ 239,000</u>

Adventist HealthCare, Inc. - Foundations

Combining Schedule, Statement of Operations

Year Ended December 31, 2013

	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	\$ 405,434	\$ -	\$ 140,374	\$ 214,150	\$ 45,812	\$ 5,098
Investment income	51,101	-	50,678	-	41	382
Net assets released from restrictions	<u>2,637,124</u>	<u>-</u>	<u>2,102,088</u>	<u>193,238</u>	<u>299,107</u>	<u>42,691</u>
Total unrestricted revenues, gains, and other support	<u>3,093,659</u>	<u>-</u>	<u>2,293,140</u>	<u>407,388</u>	<u>344,960</u>	<u>48,171</u>
Expenses						
General administrative expenses	516,194	-	191,059	176,871	148,264	-
In-kind gifts expended	<u>187,660</u>	<u>-</u>	<u>102,967</u>	<u>84,693</u>	<u>-</u>	<u>-</u>
Total expenses before transfers to the hospitals	703,854	-	294,026	261,564	148,264	-
Transfers to the hospitals	<u>2,316,212</u>	<u>-</u>	<u>2,000,000</u>	<u>17,941</u>	<u>212,952</u>	<u>85,319</u>
Total expenses	<u>3,020,066</u>	<u>-</u>	<u>2,294,026</u>	<u>279,505</u>	<u>361,216</u>	<u>85,319</u>
Revenues in excess of (less than) expenses	73,593	-	(886)	127,883	(16,256)	(37,148)
Change in net unrealized gains on investments other than trading securities	<u>(46,732)</u>	<u>-</u>	<u>(46,732)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in unrestricted net assets	26,861	-	(47,618)	127,883	(16,256)	(37,148)
Unrestricted net assets, beginning	<u>2,127,986</u>	<u>-</u>	<u>1,532,412</u>	<u>460,078</u>	<u>36,223</u>	<u>99,273</u>
Unrestricted net assets, ending	<u>\$ 2,154,847</u>	<u>\$ -</u>	<u>\$ 1,484,794</u>	<u>\$ 587,961</u>	<u>\$ 19,967</u>	<u>\$ 62,125</u>
Changes in Temporarily Restricted Net Assets						
Contributions, net	\$ 2,336,471	\$ -	\$ 1,134,120	\$ 738,916	\$ 400,296	\$ 63,139
Net assets released from restrictions	(2,637,124)	-	(2,102,088)	(193,238)	(299,107)	(42,691)
Change in value of beneficial interest in trusts	13,579	-	-	13,579	-	-
Change in discount of pledges receivable and provision for doubtful pledges	(146,325)	-	(135,431)	(10,894)	-	-
Investment income and unrealized gain on investments	<u>31,901</u>	<u>-</u>	<u>13,298</u>	<u>18,603</u>	<u>-</u>	<u>-</u>
(Decrease) increase in temporarily restricted net assets	(401,498)	-	(1,090,101)	566,966	101,189	20,448
Temporarily restricted net assets, beginning	<u>4,715,084</u>	<u>-</u>	<u>3,058,474</u>	<u>1,439,046</u>	<u>61,137</u>	<u>156,427</u>
Temporarily restricted net assets, ending	<u>\$ 4,313,586</u>	<u>\$ -</u>	<u>\$ 1,968,373</u>	<u>\$ 2,006,012</u>	<u>\$ 162,326</u>	<u>\$ 176,875</u>