ORIGINAL

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR EXEMPTION FOR THE
CHANGE OF OWNERSHIP FOR AN EXISTING HEALTH CARE FACILITY

E-040-14

RECEIVED

OCT 31 2014

HEALTH FACILITIES & SERVICES REVIEW BOARD

1. **INFORMATION FOR EXISTING FACILITY**

Current Facility Name ___Adventist La Grange Memorial Hospital___
Address ___5101 South Willow Springs Road___
City ___LaGrange, Illinois___ Zip Code __60525__ County ___Cook___
Name of current licensed entity for the facility Adventist Health System/Sunbelt, Inc. d/d/a Adventist LaGrange Memorial Hospital
Does the current licensee: own this facility __yes__ OR lease this facility______(if leased, check if sublease □)
Type of ownership of the current licensed entity (check one of the following:) ______ Sole Proprietorship
__X__ Not-for-Profit Corporation ______ For Profit Corporation ______ Partnership ______ Governmental
______ Limited Liability Company ______ Other, specify ______
Illinois State Senator for the district where the facility is located: Sen._Kimberly A. Lightfoot______
State Senate District Number ___4___ Mailing address of the State Senator ______
___10001 W. Roosevelt Road Westchester, IL 60154______
Illinois State Representative for the district where the facility is located: Rep. _La Shawn K. Ford______
State Representative District Number ___8___ Mailing address of the State Representative ______
___816 S. Oak Park Ave. Oak Park, IL 60304______

2. **OUTSTANDING PERMITS**. Does the facility have any projects for which the State Board issued a permit that will not be completed (refer to 1130.140 "Completion or Project Completion" for a definition of project completion) by the time of the proposed ownership change? Yes X No □. If yes, refer to Section 1130.520(f), and indicate the projects by Project #
___13-073 establishment of a comprehensive physical rehabilitation category of service ______

3. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant ___please see following page______
Address ______
City, State & Zip Code ______
Type of ownership of the current licensed entity (check one of the following:) ____ Sole Proprietorship
______ Not-for-Profit Corporation ______ For Profit Corporation ______ Partnership ____ Governmental ______
Limited Liability Company ______ Other, specify ______

4. **NAME OF LEGAL ENTITY THAT WILL BE THE LICENSEE/OPERATING ENTITY OF THE FACILITY NAMED IN THE APPLICATION AS A RESULT OF THIS TRANSACTION.***

Exact Legal Name of Entity to be Licensed _Adventist Hinsdale Hospital d/b/a Adventist La Grange Memorial Hospital_
Address______120 North Oak Street ______
City, State & Zip Code ___Hinsdale, IL 60525______
Type of ownership of the current licensed entity (check one of the following:) ______ Sole Proprietorship ______
Not-for-Profit Corporation __X__ For Profit Corporation ____ Partnership ____ Governmental ______
Limited Liability Company ______ Other, specify ______

5. **BUILDING/SITE OWNERSHIP. NAME OF LEGAL ENTITY THAT WILL OWN THE "BRICKS AND** MORTAR" (BUILDING) OF THE FACILITY NAMED IN THIS APPLICATION IF DIFFERENT FROM THE OPERATING/LICENSED ENTITY*

Exact Legal Name of Entity to be Licensed _Adventist Hinsdale Hospital d/b/a Adventist La Grange Memorial Hospital_
Address______120 North Oak Street ______
City, State & Zip Code ___Hinsdale, IL 60525______
Type of ownership of the current licensed entity (check one of the following:) ______ Sole Proprietorship
_X__ Not-for-Profit Corporation ______ For Profit Corporation ______ Partnership ______ Governmental ______
Limited Liability Company ______ Other, specify ______

* Once regulatory approval is obtained, the legal entity "Adventist Hinsdale Hospital" will change its name to "Adventist Midwest Health" and will establish "Adventist Hinsdale Hospital" and "Adventist La Grange Memorial Hospital" as d/b/a's for the licensed health care facilities it operates.

NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant ____ Adventist Health System Sunbelt Healthcare Corporation ________________
Address ________________900 Hope Way____
City, State & Zip Code____Altamonte Springs, FL 32714_______________________________________
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
___X____ Not-for-Profit Corporation ________ For Profit Corporation ________ Partnership ____ Governmental _______
Limited Liability Company Other, specify

NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant ____ Adventist Midwest Health d/b/a Adventist La Grange Memorial Hospital __________
Address ________________120 North Oak Street____
City, State & Zip Code ____Hinsdale, IL 60525_______________________________________
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
___X____ Not-for-Profit Corporation ________ For Profit Corporation ________ Partnership ____ Governmental _______
Limited Liability Company ________ Other, specify ________________________________

NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant ______Adventist Hinsdale Hospital d/b/a Adventist La Grange Memorial Hospital* __
Address ________________120 North Oak Street____
City, State & Zip Code ____Hinsdale, IL 60525_______________________________________
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
___X____ Not-for-Profit Corporation ________ For Profit Corporation ________ Partnership ____ Governmental _______
Limited Liability Company ________ Other, specify ________________________________

* Once regulatory approval is obtained, the legal entity "Adventist Hinsdale Hospital" will change its name to "Adventist Midwest Health" and will establish "Adventist Hinsdale Hospital" and "Adventist La Grange Memorial Hospital" as d/b/a's for the licensed health care facilities it operates.

6. **TRANSACTION TYPE. CHECK THE FOLLOWING THAT APPLY TO THE TRANSACTION:**
   - o Purchase resulting in the issuance of a license to an entity different from current licensee;
   - o Lease resulting in the issuance of a license to an entity different from current licensee;
   - o Stock transfer resulting in the issuance of a license to a different entity from current licensee;
   - o Stock transfer resulting in no change from current licensee;
   - o Assignment or transfer of assets resulting in the issuance of a license to an entity different from the current licensee;
   - o Assignment or transfer of assets not resulting in the issuance of a license to an entity different from the current licensee;
   - o Change in membership or sponsorship of a not-for-profit corporation that is the licensed entity;
   - o Change of 50% or more of the voting members of a not-for-profit corporation's board of directors that controls a health care facility's operations, license, certification or physical plant and assets;
   - o Change in the sponsorship or control of the person who is licensed, certified or owns the physical plant and assets of a governmental health care facility;
   - o Sale or transfer of the physical plant and related assets of a health care facility not resulting in a change of current licensee;
   - **X** Any other transaction that results in a person obtaining control of a health care facility's operation or physical plant and assets, and explain in "Attachment 3 Narrative Description"

7. **APPLICATION FEE.** Submit the application fee in the form of a check or money order for $2,500 payable to the Illinois Department of Public Health and append as **ATTACHMENT #1.**

8. **FUNDING.** Indicate the type and source of funds which will be used to acquire the facility (e.g., mortgage through Health Facilities Authority; cash gift from parent company, etc.) and append as **ATTACHMENT #2.** **not applicable**

9. **ANTICIPATED ACQUISITION PRICE: $___ not applicable _______**

10. **FAIR MARKET VALUE OF THE FACILITY: $___216,227,438.22__________**
    (to determine fair market value, refer to 77 IAC 1130.140)

11. **DATE OF PROPOSED TRANSACTION:** ___January 1, 2015______________

12. **NARRATIVE DESCRIPTION.** Provide a narrative description explaining the transaction, and append it to the application as **ATTACHMENT #3**.

13. **BACKGROUND OF APPLICANT** (co-applicants must also provide this information). Corporations and Limited Liability Companies must provide a current Certificate of Good Standing from the Illinois Secretary of State. Limited Liability Companies and Partnerships must provide the name and address of each partner/ member and specify the percentage of ownership of each. Append this information to the application as **ATTACHMENT #4**.

14. **TRANSACTION DOCUMENTS.** Provide a copy of the complete transaction document(s) including schedules and exhibits which detail the terms and conditions of the proposed transaction (purchase, lease, stock transfer, etc). Applicants should note that the document(s) submitted should reflect the applicant's (and co-applicant's, if applicable) involvement in the transaction. The document must be signed by both parties and contain language stating that the transaction is contingent upon approval of the Illinois Health Facilities and Services Review Board. Append this document(s) to the application as **ATTACHMENT #5**.
    not applicable

15. FINANCIAL STATEMENTS. (Co-applicants must also provide this information) Provide a copy of the applicants latest audited financial statements, and append it to this application as ATTACHMENT #6. If the applicant is a newly formed entity and financial statements are not available, please indicate by checking YES ____, and indicate the date the entity was formed ______

16. **PRIMARY CONTACT PERSON**. Individual representing the applicant to whom all correspondence and inquiries pertaining to this application are to be directed. (Note: other persons representing the applicant not named below will need written authorization from the applicant stating that such persons are also authorized to represent the applicant in relationship to this application).

Name: ____Ms. Nanette Bufalino Regional Chief Legal Officer-Adventist Midwest Region ________
Address: ___120 North Oak Street______
City, State & Zip Code: ___Hinsdale, IL 60521____
Telephone (630) 856-6050 Ext. ______________________________

17. **ADDITIONAL CONTACT PERSON. Consultant, attorney, other individual who is also authorized to discuss this** application and act on behalf of the applicant.
Name: ________________Jacob M. Axel_President, Axel & Associates, Inc.________________________
Address: ________________675 North Court Suite 210 ____________________________________
City, State & Zip Code: ____Palatine, IL 60067____
Telephone (847) 776-7101 Ext. ______________________________

18. **CERTIFICATION**
I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the number of beds within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer [signature]

Typed or Printed Name of Authorized Officer David L. Crane

Title of Authorized Officer: Vice President

Address: 5101 S. Willow Springs Rd

City, State & Zip Code: La Grange IL 60525

Telephone (708) 245-6000 Date: 9/29/14

NOTE: complete a separate signature page for each co-applicant and insert following this page.

Adventist Health System Sunbelt Healthcare Corporation

16. **PRIMARY CONTACT PERSON**. Individual representing the applicant to whom all correspondence and inquiries pertaining to this application are to be directed. (Note: other persons representing the applicant not named below will need written authorization from the applicant stating that such persons are also authorized to represent the applicant in relationship to this application).

Name: ____Ms. Nanette Bufalino Regional Chief Legal Officer-Adventist Midwest Region ________
Address: ___120 North Oak Street_______
City, State & Zip Code: ___Hinsdale, IL 60521________________________________
Telephone (630) 856-6050 Ext. ______________________

17. **ADDITIONAL CONTACT PERSON. Consultant, attorney, other individual who is also authorized to discuss this** application and act on behalf of the applicant.

Name: ________________Jacob M. Axel_President, Axel & Associates, Inc.____________________
Address: _______________675 North Court Suite 210 ______________________________
City, State & Zip Code: ____Palatine, IL 60067______________________________
Telephone (847) 776-7101 Ext. ______________________

18. **CERTIFICATION**

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Signature of Authorized Officer ________

Typed or Printed Name of Authorized Officer Michael Goebel

Title of Authorized Officer: Chief Executive Officer

Address: 120 N. Oak St.

City, State & Zip Code: Hinsdale, IL 60521

Telephone (630) 856-6056 Date: 9/29/14

NOTE: complete a separate signature page for each co-applicant and insert following this page.

Adventist Hinsdale Hospital

FUNDING

This application does not address the acquisition of a licensed health care facility, and the proposed change of control does not involve capitalized costs. As a result, this section of the Certificate of Exemption application form is not applicable.

NARRATIVE DESCRIPTION

This Certificate of Exemption ("COE") application is being filed consistent with direction provided by Illinois Health Facilities and Services Review Board staff during a technical assistance conference held by telephone on July 9, 2014; and is limited to the change of ownership of Adventist La Grange Memorial Hospital, La Grange, Illinois ("La Grange Memorial").

Under the current organizational structure of Adventist Health System-Sunbelt Healthcare Corporation ("Adventist"), La Grange Memorial operates as a division of Adventist Health System/Sunbelt, Inc., rather than as a distinct legal entity. Concurrent to the filing of this COE application, and consistent with the technical assistance conference referenced above, separate COE applications were filed for each of Adventist's four Illinois hospitals and each of the three Illinois hospitals owned by Ascension Health to allow the seven hospitals to operate under the governance of a joint operating company.

This COE application organizationally "re-locates" La Grange Memorial within Adventist, changing it from a division of Adventist Health System/Sunbelt, Inc. to a division of the Adventist Hinsdale Hospital corporation,* the same legal entity that currently owns and operates Adventist Hinsdale Hospital. The purpose of this re-organization is to facilitate the establishment of the joint operating company that will have "control" of the seven Adventist and Ascension Illinois hospitals.

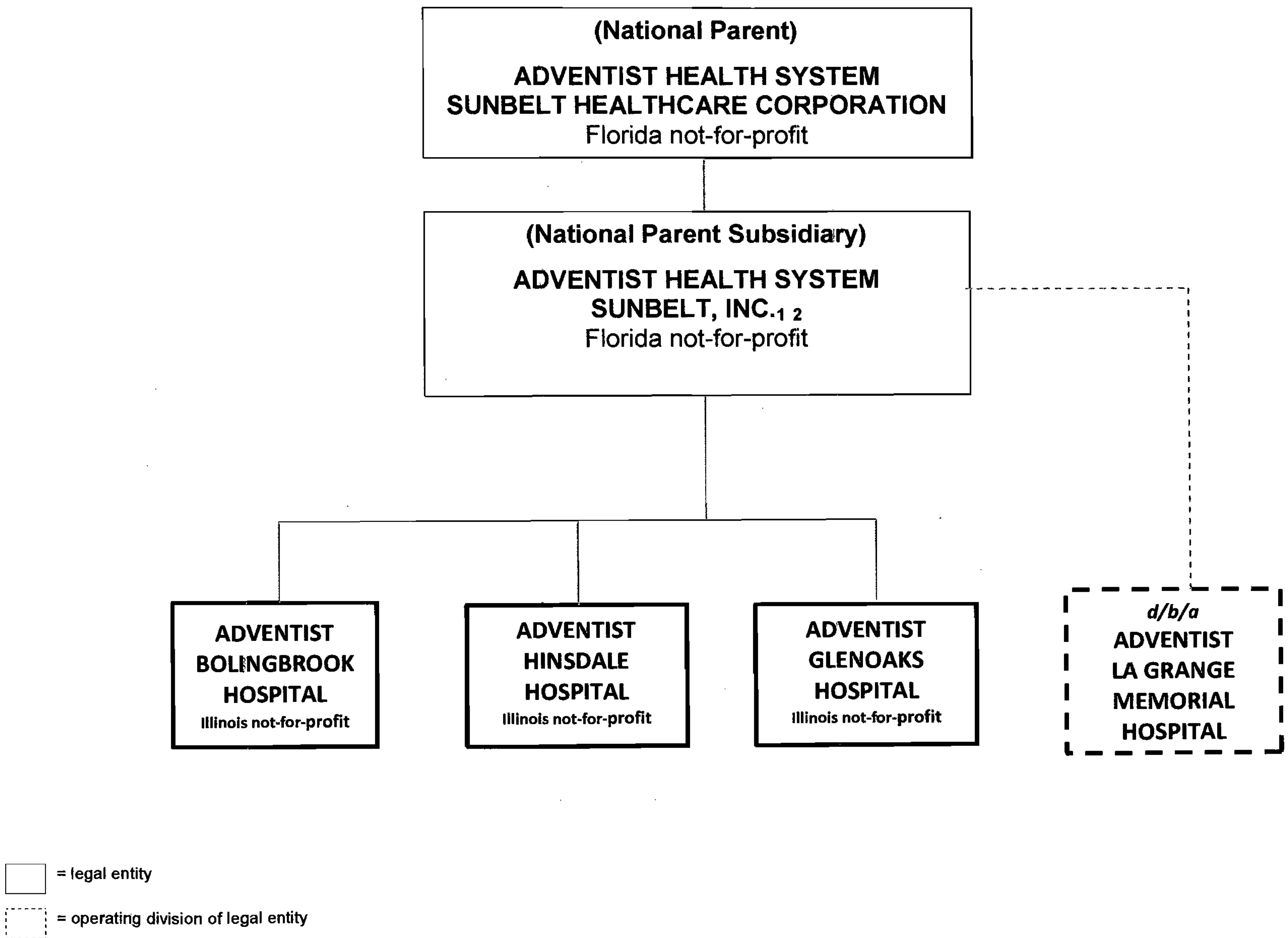
Similar COE applications have been concurrently filed addressing the relocating of Adventist Bolingbrook Hospital (change of control) and Adventist GlenOaks Hospital (change of control) within the Adventist organizational structure.

Organizational charts, depicting both the current Adventist organizational structure and the proposed Adventist organizational structure are attached.

The re-organization addressed through this COE application, as discussed in the above-referenced technical assistance conference, will occur simultaneous to the establishment of the joint operating company and the resulting change of control of the seven hospitals.

* Once regulatory approvals are obtained, the Illinois corporation "Adventist Hinsdale Hospital" will change its name to "Adventist Midwest Health", and will establish "Adventist Hinsdale Hospital" as a d/b/a and retain "Adventist La Grange Memorial Hospital" as a d/b/a for that licensed facility. Adventist Midwest Health will then operate two licensed hospitals under their respective d/b/as.

CURRENT HOSPITAL STRUCTURE – ADVENTIST MIDWEST REGION ENTITIES



[1] Owns and operates hospitals outside of Illinois

[2] Sole corporate member of the entities below unless otherwise noted

09/19/2014

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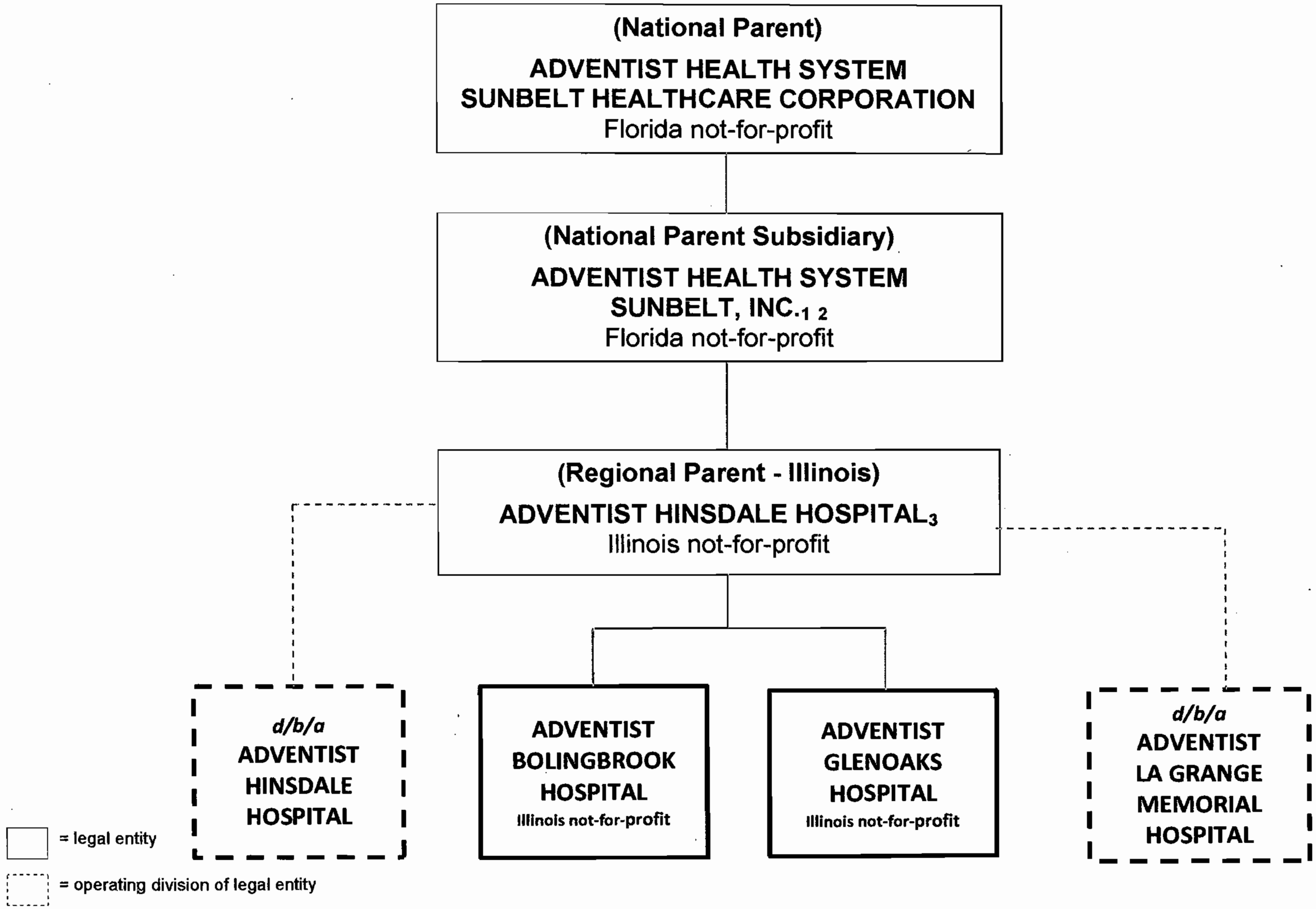
INTERNAL REORGANIZATION – ADVENTIST MIDWEST REGION ENTITIES



[1] Owns and operates hospitals outside of Illinois

[2] Sole corporate member of Adventist Hinsdale Hospital

[3] Once regulatory approvals are obtained, the Illinois corporation "Adventist Hinsdale Hospital" will change its name to "Adventist Midwest Health", and will establish "Adventist Hinsdale Hospital" as a d/b/a and retain "Adventist La Grange Memorial Hospital" as a d/b/a for that licensed facility. Adventist Midwest Health will then operate two licensed hospitals under their respective d/b/as.

09/19/2014

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This COE application organizationally "re-locates" La Grange Memorial within Adventist, changing it from a division of Adventist Health System-Sunbelt, Inc. to a division of the Adventist Hinsdale Hospital corporation, the same legal entity that currently owns and operates Adventist Hinsdale Hospital. The purpose of this re-organization is to facilitate the establishment of the joint operating company that will have "control" of the seven Adventist and Ascension Illinois hospitals.

Similar COE applications have been concurrently filed addressing the relocating of Adventist Bolingbrook Hospital and Adventist GlenOaks Hospital within the Adventist organizational structure.

Organizational charts, depicting both the current Adventist organizational structure and the proposed Adventist organizational structure are attached.

The re-organization addressed through this COE application, as discussed in the above-referenced technical assistance conference, will occur simultaneous to the establishment of the joint operating company and the resulting change of control of the seven hospitals.

FITCH AFFIRMS ASCENSION HEALTH ALLIANCE SR CREDIT GROUP REVS AT 'AA+'; OUTLOOK STABLE

Fitch Ratings-Chicago-15 September 2014: Fitch Ratings has affirmed the ratings on the following revenue bonds that have been issued by or on behalf of Ascension Health Alliance (Ascension) through various conduit issuing authorities:

--Approximately $3.9 billion of Ascension Health Alliance Senior Credit Group bonds at 'AA+';
--Approximately $503 million of Ascension Health Alliance Subordinate Credit Group bonds at 'AA';
--Approximately $425 million of Ascension Health Alliance taxable bonds at 'AA+';
--Approximately $1.1 billion of variable-rate and short-term debt currently outstanding based on the adequacy of Ascension's self-liquidity at 'F1+';
--$1 billion Ascension Health Alliance Taxable Commercial Paper (CP) Program at 'F1+'

The Rating Outlook is Stable.

KEY RATING DRIVERS:

BROAD OPERATING FOOTPRINT: Fitch believes Ascension's broad operating footprint, including 102 general acute care hospitals in 23 states and the District of Columbia, helps to insulate Ascension's overall credit profile from adverse economic, demographic and operational changes in any one of its markets. Further, a key strategy is to expand and diversify its care continuum beyond inpatient acute care services as well as develop greater health plan capabilities.

LIGHT DEBT BURDEN: Ascension's light debt burden is viewed as a key credit strength which will allow for solid debt coverage should profitability be compressed going forward. Maximum annual debt service (MADS) equates to a light 1.8% of annualized 2014 total revenues which is lower than the 'AA' category median of 2.6%. MADS coverage by net and operating EBITDA through the nine months ended March 31, 2014 was a strong 5.7x and 5.2x, respectively.

ROBUST LIQUIDITY: At March 31 2014, Ascension's unrestricted cash and investments increased to $12.7 billion from $9.7 billion at the end of third quarter 2013 (3Q'13). Liquidity metrics remain strong relative to Fitch's 'AA' category median, with days cash on hand of 252.6, a cushion ratio of 35.8x and cash to debt of 200.4%.

STRONG MANAGEMENT PRACTICES: While Ascension's sheer size could present a challenge in its ability to react quickly to the rapidly changing health care delivery environment, Fitch views Ascension's management practices and information systems as a credit strength which should allow the organization to successfully navigate the changing landscape. Management continues to drive greater efficiencies through a consolidation of redundant services, has demonstrated a willingness to create joint venture partnerships where appropriate, and divest money-losing/poorly positioned operations.

RATING SENSITIVITIES:

PROFITABILITY DETERIORATION: While Ascension's light debt burden and strong liquidity provide significant credit strength, a sustained deterioration in profitability due to weaker core operations (i.e. declining clinical volumes, weaker reimbursement, etc.) would likely result in negative rating action.

SECURITY:

Senior bonds are secured by a security interest in the pledged revenues of the Senior Credit Group.

CREDIT SUMMARY:

Ascension, headquartered in St. Louis, MO, is the largest Catholic-sponsored health care provider in the United States. The System operates 102 general acute care hospitals, 69 outpatient surgery centers, 372 primary care clinics and over 4,900 employed physicians located across 23 states and the District of Columbia. On a fully consolidated basis, Ascension Health Alliance reported total revenues of $17.1 billion in fiscal 2013.

BROAD OPERATING FOOTPRINT

Ascension's wide geographic diversity and large scale of operations make it unique among Fitch's not-for-profit healthcare systems. Fitch views Ascension's broad operating footprint as a credit strength as it helps to insulate the system from adverse economic, demographic and operational challenges in any one of its markets. The diversity of its markets allows Ascension's management team to identify industry changes and test strategies that can then be exported throughout the system. Through its various subsidiaries, Ascension has been able to test new technologies and incubate various strategies without putting the enterprise at risk. Ascension has been expanding its presence in non-acute service lines such as long-term care, home health, senior housing and outpatient rehabilitation in an effort to prepare for value-based reimbursement models. Ascension has entered into a variety of risk-based reimbursement contracts in various markets to develop knowledge and expertise for the expected growth in value-based reimbursement models.

Similarly, Ascension has entered into a non-binding Letter of Intent to acquire a multi-state health insurance company to accelerate and expand its health plan capabilities to support risk-based contracting and health management services including third party administration. The completion of the proposed transaction is subject to the parties executing final definitive agreements and obtaining all necessary approvals. According to management, the purchase price would not be material to Ascension's financial or operational profile with closing possible by the end of calendar year 3Q'14.

LIGHT DEBT BURDEN

Ascension's light debt burden is considered a key credit strength. Fitch used MADS of $355.6 million (which includes certain debt of Alexian Brothers, St. John Health System and Ministry Health system, formerly part of Marian Health System, that remains outside the Ascension Credit Group) which equates to a light 1.8% of annualized fiscal 2014 revenues. Debt-to-capitalization at March 31, 2014 was 26.1% which compares favorably to the 'AA' median of 31.1%. Ascension's light debt burden, combined with adequate profitability for the rating category generates strong coverage of debt service. Historical coverage of MADS by EBITDA was a very solid 5.7x in fiscal 2013 and remained steady at 5.7x through the nine-month interim period. Fitch notes that MADS coverage for 2013 is understated in light of only three months of revenues from the Marian Health System transaction being reflected in consolidated audited results.

Although light relative to Fitch's 'AA' category medians, Ascension's operating profitability has been fairly stable over the last four fiscal years. Operating margins from recurring operations have ranged between 2.8% and 4% while operating EBITDA margins from recurring operations have ranged between 8.1% and 9.5% over that period. Through the nine months ended March 31, 2014, Ascension generated $1.38 billion of operating EBITDA on total revenues of $15 billion, resulting in a 9.2% operating EBITDA margin from recurring operations. Operating results reflect the system's continued investment in physician alignment and sub-acute business lines, its on-going investment in its Symphony software platform and softer clinical volumes and payor mix. Ascension's strong liquidity and light debt burden currently offset any concerns regarding the somewhat compressed operating profitability relative to the 'AA' category median.

ROBUST LIQUIDITY

Ascension's strong liquidity position provides a substantial financial cushion as the system positions itself for the changes anticipated under the Affordable Care Act and further executes its strategic plan. At March 31, 2014, unrestricted cash and investments improved to $12.7 billion from $9.7 billion at 3Q 2013 reflecting the addition of the systems formerly affiliated with Marian Health System, and strong investment returns. Ascension's liquidity ratios compare favorably to Fitch's 'AA' category medians with days cash on hand of 252.6, cushion ratio of 35.8x and cash-to-debt of 200.4%.

STRONG MANAGEMENT PRACTICES

While Ascension's sheer size could present a challenge to its ability to react quickly to the rapidly changing health care delivery environment, Fitch views Ascension's management practices as a credit strength which should allow the organization to successfully navigate the changing landscape. Ascension's substantial investment in its Symphony information and enterprise risk management platform is nearing its completion with 21 of 25 Ministry Organizations expected to be fully operational by the end of 2014. Fitch believes this will improve information flow allowing for timely decisionmaking and identifying additional areas ready for further operational efficiencies. Ascension has demonstrated a willingness to create joint venture partnerships where appropriate, test strategies that can be exported through the system and divest money-losing/poorly positioned operations. Additionally, Fitch believes Ascension is very well positioned as a preferred merger partner, particularly among religion-sponsored providers, as the not-for-profit health sector further consolidates in response to healthcare reform.

SELF-LIQUIDITY

The 'F1+' rating is based on the sufficiency of Ascension's liquid resources and written procedures to fund any un-remarketed variable rate demand bonds (VRDBs) and multi-annual put bonds. As of Aug. 31, 2014, the corporation had a total of $587 million of tax exempt weekly VRDBs, $393 million of variable-rate bonds in seven-month Windows mode and approximately $40.8 million of multi-annual put bonds which come due within 90 days that are supported by Ascension's internal liquidity. Ascension has a taxable CP program which has been authorized up to $1 billion of which there were no amounts outstanding at Aug. 31, 2014. Ascension has staggered the put dates on its multi-annual puts such that Ascension's maximum put exposure in any given week including its weekly VRDBs and multi-annual puts supported by self-liquidity is approximately $668 million in the next 13 months. Liquidity is supplemented by a $1 billion line of credit which has an expiration date of Nov. 9, 2014. Wells Fargo Bank, N.A. acts as the administrative agent on the line of credit. Based on Fitch's Rating Criteria related to Self-Liquidity, Ascension had 'eligible' cash and investments (including bank credit facilities) in excess of the 125% threshold of its maximum put exposure for assignment of the 'F1+' rating.

DISCLOSURE

Ascension has covenanted to provide audited financial information and annual operating data within 180 days of each fiscal year end and quarterly unaudited financial information for the first three quarters within 60 days of each fiscal quarter end. The annual and quarterly financial releases and all notices of material events will be filed by the bond trustee with the Municipal Securities Rulemaking Board's EMMA system. Additionally, Ascension has made annual and quarterly financial information available on its website at www.ascensionhealth.org. Fitch views Ascension's disclosure content and practices positively.

Contact:
Primary Analyst
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Fitch Ratings, Inc.
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Chicago, IL 60602

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Senior Director
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Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'U.S. Nonprofit Hospitals and Health Systems Rating Criteria' (May 30, 2014);
--'Revenue Supported Rating Criteria' (June 16, 2014);
--Rating U.S. Public Finance Short-Term Debt (Dec. 9, 2013)

Applicable Criteria and Related Research:
Rating U.S. Public Finance Short-Term Debt
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=724680
Revenue-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750012
U.S. Nonprofit Hospitals and Health Systems Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=746860

File Number 0940-715-4

STATE OF ILLINOIS
OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

ADVENTIST HINSDALE HOSPITAL, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON NOVEMBER 01, 1904, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 1ST *day of* AUGUST *A.D.* 2014 .

SEAL OF THE STATE OF ILLINOIS AUG. 26TH 1818

Authentication #: 1421300328

Authenticate at: http://www.cyberdriveillinois.com

Jesse White

SECRETARY OF STATE

ATTACHMENT 4

File Number 5938-890-8

STATE OF ILLINOIS

OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

ADVENTIST HEALTH SYSTEM SUNBELT HEALTHCARE CORPORATION, INCORPORATED IN FLORIDA AND LICENSED TO CONDUCT AFFAIRS IN THIS STATE ON APRIL 28, 1997, AND MUST CONDUCT ALL AFFAIRS IN THIS STATE UNDER THE ASSUMED NAME OF ADVENTIST HEALTH SYSTEM, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO CONDUCT AFFAIRS IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 26TH *day of* SEPTEMBER *A.D.* 2014 .

Jesse White

SECRETARY OF STATE

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Attachment 4

Report: ois

Adventist La Grange Memorial Hospital
Operating Income Statement
As of DEC 13

DEC 12 Last Year Month	* Budget Variance	DEC 13 Budget Month	DEC 13 Actual Month		DEC 13 Actual YTD	DEC 13 Budget YTD	* Budget Variance	DEC 12 Last Year YTD	Change Fr. Last Yr.
				Revenues					
50,169,663	-220,875	47,624,521	47,403,646	Gross Patient Revenue	577,266,303	584,305,183	-7,038,880	581,981,888	-4,715,585
1,331,082	-601,417	1,172,122	1,773,539	Charity	15,114,001	14,424,433	-689,568	14,975,129	138,872
35,753,282	855,085	33,897,196	33,042,111	All Other Deductions	411,571,947	416,693,263	5,121,316	416,200,828	-4,628,882
252,355	-134,719	289,963	424,682	Prov for Bad Debt	5,360,043	3,479,556	-1,880,487	3,722,044	1,637,999
12,832,964	-101,926	12,265,240	12,163,314	Net Patient Revenue	145,220,312	149,707,931	-4,487,619	147,083,887	-1,863,575
25.6%	-0.1%	25.8%	25.7%	% of Gross Pat Rev	25.2%	25.6%	-0.5%	25.3%	-0.1%
249,143	-22,036	273,462	251,426	Other Operating Rev [OIS/MIS]	3,307,955	3,263,058	44,897	2,896,668	411,288
13,082,107	-123,962	12,538,702	12,414,740	Total Operating Revenue *	148,528,267	152,970,989	-4,442,722	149,980,554	-1,452,288
				Expenses					
4,810,284	246,732	4,778,122	4,531,390	Salaries & Wages *	55,331,487	56,552,418	1,220,931	55,439,193	-107,706
37.3%	1.6%	38.1%	36.5%	% of Op. Rev.	37.3%	37.0%	-0.3%	37.0%	0.2%
1,656,682	116,483	1,581,821	1,465,338	Employment Benefits	19,208,752	18,783,746	-425,006	18,819,963	388,789
1,221,813	325,205	960,983	635,778	Fees **	12,687,075	12,105,284	-581,791	11,698,860	988,214
1,756,841	22,219	1,748,124	1,725,905	Supplies	24,361,903	22,607,683	-1,754,220	23,677,910	683,992
937,973	-211,928	952,830	1,164,758	Purchased Services	11,327,910	11,406,195	78,285	10,908,867	419,043
114,693	1,948	103,390	101,442	Rents and Leases *	1,226,301	1,240,680	14,379	1,499,930	-273,629
167,297	158,543	187,299	28,756	Insurance	2,102,587	2,247,588	145,001	2,067,027	35,560
175,770	29,237	254,022	224,785	Utilities	2,736,215	2,928,467	192,252	2,880,483	-144,268
597,832	-248,065	549,437	797,502	Other Expense & Travel *	6,994,038	6,598,944	-395,094	5,476,281	1,517,756
11,439,185	440,373	11,116,028	10,675,655	Total Expense *	135,976,267	134,471,005	-1,505,262	132,468,515	3,507,752
1,642,922	316,411	1,422,674	1,739,085	EBDITA B4 Subs & Prior Peric	12,552,000	18,499,984	-5,947,984	17,512,039	-4,960,039
12.6%	2.7%	11.3%	14.0%	EBDITA % B4	8.5%	12.1%	-3.6%	11.7%	-3.2%
	0			Gains on Subs & Joint Venture:			0		0
0	-680,207		-680,207	Prior years Mcare/Mcaid	-87,240		-87,240	553,360	-640,600
1,642,922	-363,796	1,422,674	1,058,878	EBDITA	12,464,760	18,499,984	-6,035,224	18,065,400	-5,600,639
12.6%	-2.8%	11.3%	8.5%	EBDITA %	8.4%	12.1%	-3.7%	12.0%	-3.7%
				Capital & Other					
1,054,377	-14,764	1,094,555	1,109,319	Deprec, Intg Amort & Inc Taxes	12,968,369	13,134,660	166,291	12,703,159	265,211
49,237	-9,539	62,074	52,535	Normalized Interest Income	639,731	671,881	-32,150	542,923	96,808
473,409	-3,872	377,746	381,618	Normalized Interest Expense	4,540,276	4,497,312	-42,964	5,638,282	-1,098,006
164,373	-391,972	12,447	-379,525	Operating Net Income [OIS]	-4,404,154	1,539,893	-5,944,047	266,882	-4,671,036
1.3%	-3.2%	0.1%	-3.1%	% of Op. Rev.	-3.0%	1.0%	-4.0%	0.2%	-3.1%
59,524	112,511	-2,321	110,190	Normalized Inc True-up	242,366	-27,852	270,218	310,780	-68,414
65,719	-53,585	126,129	179,714	Normalized Exp True-up	1,476,470	1,549,188	72,718	1,341,122	135,348
628,871	354,631		354,631	EHR Incentive Revenue Net	625,389		625,389	743,815	-118,426
1,935,219	0			Total Other Nonoperating *			0	1,935,219	-1,935,219
2,722,368	21,585	-116,003	-94,418	Net Income	-5,012,869	-37,147	-4,975,722	1,915,574	-6,928,443
20.8%	0.2%	-0.9%	-0.8%	% of Op. Rev.	-3.4%	0.0%	-3.4%	1.3%	-4.7%

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ATTACHMENT 6

ADVENTIST HINDSALE HOSPITAL & ADVENTIST LA GRANGE MEMORIAL HOSPITAL
COMBINED BALANCE SHEET
DECEMBER 31, 2013

	THIS MONTH	PRIOR MONTH	BEGIN. BALANCE THIS YEAR	INC/DEC (-) THIS YEAR
LIABILITIES				
CURRENT LIABILITIES				
ACCOUNTS PAYABLE	14,257,357.80	13,907,442.45	13,833,904.45	423,453.35
ACCRUED COMPENSATION PAYA	22,474,993.72	21,663,087.49	21,212,153.74	1,262,839.98
ACCRUED INTEREST PAYABLE	1,585,926.00	307,825.00	1,515,856.00	70,070.00
OTHER ACCRUED EXPENSES	919,637.73	853,249.94	2,753,309.99	(1,833,672.26)
PAYABLE TO THIRD PARTIES	39,757,160.28	39,920,203.16	45,517,301.08	(5,760,140.70)
NOTES AND LOANS PAYABLE	10,263,541.00	10,263,541.00	10,292,413.00	(28,872.00)
CURRENT PORTION-LONG DEBT	7,037,875.24	7,037,875.24	8,176,453.63	(1,138,578.39)
OTHER CURRENT LIABILITIES	8,694,289.46	5,490,619.70	8,315,749.59	378,539.87
TOTAL CURRENT LIABILITES	**104,990,781.23**	**99,443,843.98**	**111,617,141.48**	**(6,626,360.15)**
LONG-TERM OBLIGATIONS				
BONDS PAYABLE	281,858,156.00	283,998,938.00	290,977,686.00	(9,119,530.00)
LEASES PAYABLE	895,719.56	1,015,469.48	1,142,053.10	(246,333.54)
OTHER NON-CURRENT LIAB.	8,923,530.58	8,793,678.30	8,399,661.20	523,869.38
TOTAL LONG-TERM OBLIGATIONS	**291,677,406.14**	**293,808,085.78**	**300,519,400.30**	**(8,841,994.16)**
FUND BALANCE				
GENERAL FUND BALANCE				
ACCUMULATED EARNINGS	2,662,808.43	261,473.83	-	2,662,808.43
GENERAL FUND BALANCE	138,792,189.20	193,059,442.10	194,261,578.26	(55,469,389.06)
TOTAL GENERAL FUND BALANCE	**141,454,997.63**	**193,320,915.93**	**194,261,578.26**	**(52,806,580.63)**
DONOR RESTRICTED FUND BALANCE				
DONOR RESTRICTED FUND BAL	8,860,813.22	9,750,964.20	8,206,483.10	654,330.12
TOTAL FUND BALANCE	**150,315,810.85**	**203,071,880.13**	**202,468,061.36**	**(52,152,250.51)**
TOTAL LIABILITIES AND FUND BALANCE	**546,983,998.22**	**596,323,809.89**	**614,604,603.14**	**(67,620,604.82)**

ATTACHMENT 6

ADVENTIST HINDSALE HOSPITAL & ADVENTIST LA GRANGE MEMORIAL HOSPITAL
COMBINED BALANCE SHEET
DECEMBER 31, 2013

	THIS MONTH	PRIOR MONTH	BEGIN. BALANCE THIS YEAR	INC/DEC (-) THIS YEAR
ASSETS				
CURRENT ASSETS				
CASH	115,823,588.36	159,043,140.89	167,806,709.24	(51,983,120.88)
INVESTMENTS	27,895,450.93	27,854,160.62	27,862,501.14	32,949.79
FUNDS HELD IN TRUST	41,995.00	5,685.00	34,458.00	7,537.00
PATIENT ACCTS RECEIVABLE	23,272,477.58	22,982,152.28	29,361,023.96	(6,088,546.38)
ALLOW FOR UNCOLLECTIBLES	(10,533,019.04)	(11,454,952.08)	(14,270,714.63)	3,737,695.59
RECEIVABLE-3RD PARTY PAYR	415,471.54	3,259,749.79	1,124,787.58	(709,316.04)
OTHER CURRENT RECEIVABLES	33,853,025.19	31,688,523.16	28,420,315.43	5,432,709.76
INVENTORY	12,024,530.56	12,009,069.32	11,911,689.43	112,841.13
PREPAID EXP & OTHER ASSET	5,145,151.81	6,458,647.37	4,625,493.89	519,657.92
TOTAL CURRENT ASSETS	**207,938,671.93**	**251,846,176.35**	**256,876,264.04**	**(48,937,592.11)**
OTHER ASSETS				
FUNDS HELD IN TRUST	818,134.00	612,179.00	917,617.00	(99,483.00)
LONG TERM INVESTMENTS	20,018,507.88	20,282,552.84	17,848,046.68	2,170,461.20
DEFERRED CHARGES	8,221,427.74	8,171,029.46	8,449,042.59	(227,614.85)
OTHER NON-CURRENT ASSETS	4,978,688.18	9,235,096.27	9,266,106.88	(4,287,418.70)
TOTAL OTHER ASSETS	**34,036,757.80**	**38,300,857.57**	**36,480,813.15**	**(2,444,055.35)**
PROPERTY, PLANT & EQUIPMENT				
LAND	22,830,754.99	22,830,754.99	22,830,754.99	-
LAND IMPROVEMENTS	6,972,028.19	6,972,028.19	6,860,196.19	111,832.00
BUILDINGS & IMPROVEMENTS	488,594,318.54	488,276,891.86	483,085,579.45	5,508,739.09
FIXED EQUIPMENT	76,553,867.05	76,500,121.21	75,708,270.50	845,596.55
MAJOR MOVABLE EQUIPMENT	148,733,220.43	147,942,535.41	139,433,698.84	9,299,521.59
CONSTRUCTION IN PROGRESS	3,409,847.12	3,122,091.20	4,264,258.37	(854,411.25)
ACCUMULATED DEPRECIATION	(442,085,467.73)	(439,467,646.89)	(410,935,232.39)	(31,150,235.34)
TOTAL PROPERTY, PLANT & EQUIPMENT	**305,008,568.59**	**306,176,775.97**	**321,247,525.95**	**(16,238,957.36)**
TOTAL ASSETS	**546,983,998.32**	**596,323,809.89**	**614,604,603.14**	**(67,620,604.82)**

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ATTACHMENT 6

Audited Consolidated Financial Statements

December 31, 2013

Adventist Health System

ATTACHMENT 6

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ATTACHMENT 6

Table of Contents

Consolidated Balance Sheets

December 31, 2013 and 2012

(dollars in thousands)	2013	2012
ASSETS		
Current Assets		
Cash and cash equivalents	$ 966,141	$ 654,893
Investments (including investments pledged under securities lending program of $20,154 in 2013 and $3,000 in 2012)	3,514,606	3,285,606
Current portion of assets whose use is limited	240,087	216,767
Collateral held under securities lending program	20,619	3,060
Patient accounts receivable, less allowance for uncollectible accounts of $264,870 in 2013 and $217,832 in 2012	345,133	311,406
Estimated settlements from third parties	39,349	35,640
Other receivables	349,098	332,116
Inventories	157,657	153,614
Prepaid expenses and other current assets	78,744	73,257
	5,711,434	5,066,359
Property and Equipment	4,872,811	4,661,206
Assets Whose Use is Limited, net of current portion	605,611	419,908
Other Assets	518,438	497,622
	$ 11,708,294	$ 10,645,095
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities	$ 771,260	$ 701,427
Estimated settlements to third parties	229,487	177,917
Payable under securities lending program	20,619	3,060
Other current liabilities	219,304	169,880
Short-term financings	108,324	136,945
Current maturities of long-term debt	75,882	88,089
	1,424,876	1,277,318
Long-Term Debt, net of current maturities	3,400,199	3,050,405
Other Noncurrent Liabilities	562,811	561,465
	5,387,886	4,889,188
Net Assets		
Unrestricted:		
Controlling interest	6,105,853	5,549,868
Noncontrolling interests	39,841	39,761
	6,145,694	5,589,629
Temporarily restricted – controlling interest	174,714	166,278
	6,320,408	5,755,907
Commitments and Contingencies		
	$ 11,708,294	$ 10,645,095

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

Consolidated Statements of Operations and Changes in Net Assets

For the years ended December 31, 2013 and 2012

(dollars in thousands)	2013	2012
Revenue		
Patient service revenue	$ 7,666,256	$ 7,345,338
Provision for bad debts	(426,710)	(330,877)
Net patient service revenue	7,239,546	7,014,461
EHR incentive payments	38,944	57,982
Other	319,309	274,154
Total operating revenue	7,597,799	7,346,597
Expenses		
Employee compensation	3,678,015	3,524,445
Supplies	1,334,264	1,311,364
Professional fees	481,061	442,094
Purchased services	487,934	471,778
Other	550,272	522,269
Interest	132,154	146,524
Depreciation and amortization	433,720	415,653
Total operating expenses	7,097,420	6,834,127
Income from Operations	500,379	512,470
Nonoperating Gains (Losses)		
Investment income	79,781	77,213
Change in fair value of interest rate swaps	–	289
Loss from early extinguishment of debt	(1,919)	(82,186)
Total nonoperating gains (losses)	77,862	(4,684)
Excess of revenue and gains over expenses and losses	578,241	507,786
Less: Deficiency (excess) of revenue and gains over expenses and losses attributable to noncontrolling interests	577	(2,828)
Excess of Revenue and Gains over Expenses and Losses Attributable to Controlling Interest	578,818	504,958

Continued on following page.

ATTACHMENT 5

Consolidated Statements of Operations and Changes in Net Assets (continued)

For the years ended December 31, 2013 and 2012

(dollars in thousands)	2013	2012
CONTROLLING INTEREST		
Unrestricted Net Assets		
Excess of revenue and gains over expenses and losses	$ 578,818	$ 504,958
Change in unrealized gains and losses on investments	(91,423)	22,631
Change in fair value of cash flow hedges	–	(1,544)
Accumulated derivative losses related to terminated cash flow hedges reclassified into loss on extinguishment of debt	1,613	73,544
Accumulated derivative losses reclassified into excess of revenue and gains over expenses and losses	11,352	10,028
Net assets released from restrictions for purchase of property and equipment	22,322	15,287
Pension-related changes other than net periodic pension cost	24,137	(27,397)
Other	9,166	932
Increase in unrestricted net assets	555,985	598,439
Temporarily Restricted Net Assets		
Investment income	2,447	2,909
Gifts and grants	36,411	31,081
Net assets released from restrictions for purchase of property and equipment or use in operations	(38,107)	(28,032)
Other	7,685	3,404
Increase in temporarily restricted net assets	8,436	9,362
NONCONTROLLING INTERESTS		
Unrestricted Net Assets		
(Deficiency) excess of revenue and gains over expenses and losses	(577)	2,828
Distributions	(1,613)	(1,240)
Other	2,270	360
Increase in noncontrolling interests	80	1,948
Increase in Net Assets	564,501	609,749
Net assets, beginning of year	5,755,907	5,146,158
Net assets, end of year	$ 6,320,408	$ 5,755,907

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2013 and 2012

(dollars in thousands)	2013	2012
Operating Activities	$ 1,153,648	$ 978,176
Investing Activities		
Purchases of property and equipment, net	(652,363)	(657,310)
Sales and maturities of investments	18,618,004	13,558,555
Purchases of investments	(18,931,976)	(14,283,195)
Sales and maturities of assets whose use is limited	407,222	527,351
Purchases of assets whose use is limited	(444,696)	(566,461)
Additional purchases of assets whose use is limited from borrowings	(178,000)	–
(Increase) decrease in collateral held under securities lending program	(17,559)	8,432
Net proceeds from sale of controlling interest in a subsidiary	–	9,794
Increase in other assets	(11,147)	(27,154)
	(1,210,515)	(1,429,988)
Financing Activities		
Repayments of long-term borrowings	(152,552)	(1,092,639)
Additional long-term borrowings	494,676	1,019,465
Repayments of short-term borrowings	(30,700)	(54,031)
Additional short-term borrowings	2,079	20,000
Payment of deferred financing costs	(1,805)	(6,593)
Increase (decrease) in payable under securities lending program	17,559	(8,432)
Restricted gifts and grants and investment income	38,858	33,990
	368,115	(88,240)
Increase (Decrease) in Cash and Cash Equivalents	311,248	(540,052)
Cash and cash equivalents at beginning of year	654,893	1,194,945
Cash and Cash Equivalents at End of Year	$ 966,141	$ 654,893
Operating Activities		
Increase in net assets	$ 564,501	$ 609,749
Provision for bad debts	426,710	330,877
Depreciation	429,346	412,004
Amortization of intangible assets	4,374	3,649
Amortization of deferred financing costs and original issue discounts and premiums	(2,103)	(1,217)
Loss on extinguishment of debt, excluding reclassification of accumulated derivative loss	306	8,642
Change in unrealized gains and losses on investments	91,423	(22,631)
Change in fair value of interest rate swaps	–	1,255
Restricted gifts and grants and investment income	(38,858)	(33,990)
Income from unconsolidated entities	(28,960)	(24,790)
Distributions from unconsolidated entities	14,178	14,649
Pension-related changes other than net periodic pension cost	(24,137)	27,397
Changes in operating assets and liabilities:		
Patient accounts receivable	(460,437)	(289,036)
Other receivables	(16,982)	(19,513)
Other current assets	1,882	(35,434)
Accounts payable and accrued liabilities	69,637	44,075
Estimated settlements to third parties	47,861	7,720
Other current liabilities	49,424	22,249
Other noncurrent liabilities	25,483	(77,479)
	$ 1,153,648	$ 978,176

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

ATTACHMENT 5

Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012 (dollars in thousands)

1. Significant Accounting Policies

Reporting Entity

Adventist Health System Sunbelt Healthcare Corporation d/b/a Adventist Health System (Healthcare Corporation) is a not-for-profit healthcare corporation that operates and controls hospitals, nursing homes and philanthropic foundations (referred to herein collectively as the System). The affiliated hospitals, nursing homes and philanthropic foundations are operated or controlled through their by-laws, governing board appointments or operating agreements by Healthcare Corporation. The System's 43 hospitals, 16 nursing homes and philanthropic foundations operate in 10 states – Colorado, Florida, Georgia, Illinois, Kansas, Kentucky, North Carolina, Tennessee, Texas and Wisconsin.

Healthcare Corporation and the System are collectively controlled by the Lake Union Conference of Seventh-day Adventists, the Mid-America Union Conference of Seventh-day Adventists, the Southern Union Conference of Seventh-day Adventists and the Southwestern Union Conference of Seventh-day Adventists.

SunSystem Development Corporation (Foundation) is a charitable foundation operated by the System for the benefit of the hospitals that are divisions or controlled affiliates of Healthcare Corporation. The board of directors is appointed by the board of directors of the System. The Foundation is involved in philanthropic activities.

Mission

The System exists solely to improve and enhance our local communities that we serve in harmony with Christ's healing ministry. All financial resources and excess of revenue and gains over expenses and losses are used to benefit the communities in the areas of patient care, research, education, community service and capital reinvestment.

Specifically, the System provides:

Benefit to the underprivileged, by offering services free of charge or deeply discounted to those who cannot pay, and by supplementing the unreimbursed costs of the government's Medicaid assistance program.

Benefit to the elderly, as provided through governmental Medicare funding, by subsidizing the unreimbursed costs associated with this care.

Benefit to the community's overall health and wellness through clinics and primary care services, health education and screenings, in-kind donations, extended education and research.

Benefit to the faith-based and spiritual needs of the community in accordance with our mission of extending the healing ministry of Christ.

Benefit to the community's infrastructure by investing in capital improvements to ensure the facilities and technology provide the best possible care to the community.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Adventist Health System/Sunbelt, Inc. (Sunbelt), the Foundation and other affiliated organizations that are controlled by Healthcare Corporation. Any subsidiary or other

Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012 (dollars in thousands)

operations owned and controlled by divisions or controlled affiliates of Healthcare Corporation are included in these consolidated financial statements. Investments in entities where Healthcare Corporation does not have operating control are recorded under the equity or cost method of accounting. Income from unconsolidated entities is included in other operating revenue in the accompanying consolidated statements of operations and changes in net assets. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-11, *Disclosures about Offsetting Assets and Liabilities* (ASU 2011-11), an amendment to the accounting guidance for disclosure of offsetting assets and liabilities. In January 2013, the FASB issued ASU No. 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities* (ASU 2013-01). These ASUs expand the disclosure requirements in that entities will be required to disclose both gross and net information about instruments and transactions eligible for offset in the balance sheet. This new guidance was effective for annual reporting periods beginning on or after January 1, 2013. The adoption of this standard did not have an impact on the System's consolidated financial statements.

Net Patient Service Revenue, Patient Accounts Receivable and Allowance for Uncollectible Accounts

The System's patient acceptance policy is based on its mission statement and its charitable purposes. Accordingly, the System accepts patients in immediate need of care, regardless of their ability to pay. Patient service revenue is reported at estimated net realizable amounts for services rendered. The System recognizes patient service revenue associated with patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, revenue is recognized on the basis of discounted rates in accordance with the System's policy.

Patient service revenue is reduced by the provision for bad debts and accounts receivable are reduced by an allowance for uncollectible accounts. These amounts are based on management's assessment of historical and expected net collections for each major payor source, considering business and economic conditions, trends in healthcare coverage and other collection indicators. Management regularly reviews collections data by major payor sources in evaluating the sufficiency of the allowance for uncollectible accounts. On the basis of historical experience, a significant portion of the System's self-pay patients will be unable or unwilling to pay for the services provided. Thus, the System records a significant provision for bad debts in the period services are provided related to self-pay patients. The System's allowance for uncollectible accounts for self-pay patients was 97% of self-pay accounts receivable as of December 31, 2013 and 2012. For receivables associated with patients who have third-party coverage, the System analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if

Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012 (dollars in thousands)

necessary. Accounts receivable are written off after collection efforts have been followed in accordance with the System's policies.

For all patients other than charity patients, patient service revenue, net of contractual allowances and self-pay discounts and before the provision for bad debts, recognized from major payor sources is as follows:

	Year Ended December 31	
	2013	2012
Third-party payors, net of contractual allowances	$7,240,083	$6,977,094
Self-pay patients, net of discounts	426,173	368,244
	$7,666,256	$7,345,338

The System has not experienced significant changes in write-off trends and has not changed its self-pay discount or charity care policy for the years ended December 31, 2013 or 2012.

The System has determined, based on an assessment at the reporting-entity level, that services are provided prior to assessing the patient's ability to pay and as such, the entire provision for bad debts is recorded as a deduction from patient service revenue in the accompanying consolidated statements of operations and changes in net assets.

Third-Party Reimbursement Arrangements

Revenue from the Medicare and Medicaid programs represents approximately 31% and 33% of the System's patient service revenue for the years ended December 31, 2013 and 2012, respectively. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Other than the accounts receivable related to the Medicare and Medicaid programs, there are no significant concentrations of accounts receivable due from an individual payor at December 31, 2013 and 2012.

The System was a party to a settlement agreement dated April 5, 2012 with the United States Department of Health and Human Services (HHS), the Secretary of HHS and the Centers for Medicare and Medicaid Services (CMS). The System, along with a group of other Medicare providers, had challenged CMS' implementation of the rural floor budget neutrality provision of the Balance Budget Act of 1997, which effectively understated the standard amount paid through the inpatient prospective payment system for a number of years. Under the settlement agreement, the System received $52,769 during the year ended December 31, 2012 and recognized this amount as patient service revenue in the accompanying consolidated statements of operations and changes in net assets. Related professional fees of $5,277 are included in operating expenses for the year ended December 31, 2012 in the accompanying consolidated statements of operations and changes in net assets.

The System is subject to retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations. Adjustments to revenue related to prior periods, excluding amounts received from the 2012 CMS settlement discussed above, increased patient service revenue by approximately $10,600 and $49,500 for the years ended December 31, 2013 and 2012, respectively.

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For the years ended December 31, 2013 and 2012 (dollars in thousands)

Charity Care

As discussed previously, the System's patient acceptance policy is based on its mission statement and its charitable purposes and as such, the System accepts patients in immediate need of care, regardless of their ability to pay. Patients that qualify for charity are provided services for which no payment is due for all or a portion of the patient's bill. Therefore, charity care is excluded from patient service revenue and the cost of providing such care is recognized within operating expenses.

The System estimates the direct and indirect costs of providing charity care by applying a cost to gross charges ratio to the gross uncompensated charges associated with providing charity care to patients. The System also receives certain funds to offset or subsidize charity services provided. These funds are primarily received from uncompensated care programs sponsored by various states, whereby healthcare providers within the state pay into an uncompensated care fund and the pooled funds are then redistributed based on state specific criteria. The cost of providing charity care, amounts paid by the System into uncompensated care funds and amounts received by the System to offset or subsidize charity services are as follows:

	Year Ended December 31 2013	2012
Cost of providing charity care	$ 293,770	$ 301,591
Funds paid into trusts (included in other expenses)	$ (128,717)	$ (117,480)
Funds received to offset or subsidize charity services (included in patient service revenue)	89,481	75,744
	$ (39,236)	$ (41,736)

EHR Incentive Payments

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act. The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement or upgrade certified EHR technology. Providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional Medicaid incentive payments.

The System accounts for EHR incentive payments as a gain contingency. Income from Medicare incentive payments is recognized as revenue after the System has demonstrated that it complied with the meaningful use criteria over the entire applicable compliance period and the cost report period that will be used to determine the final incentive payment has ended. The System recognized revenue from Medicaid incentive payments after it adopted certified EHR technology in its first year of participation and demonstrated compliance with the meaningful use criteria over the remaining compliance periods. Incentive payments totaling $38,944 and $57,982 for the years ended December 31, 2013 and 2012, respectively, are included in total operating revenue in the accompanying consolidated statements of operations and changes in net assets. Income from incentive payments is subject to retrospective adjustment as the incentive payments are calculated using Medicare cost report data

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For the years ended December 31, 2013 and 2012 (dollars in thousands)

that is subject to audit. Additionally, the System's compliance with the meaningful use criteria is subject to audit by the federal government.

Excess of Revenue and Gains over Expenses and Losses

The consolidated statements of operations and changes in net assets include excess of revenue and gains over expenses and losses, which is analogous to income from continuing operations of a for-profit enterprise. Changes in unrestricted net assets that are excluded from excess of revenue and gains over expenses and losses, consistent with industry practice, include changes in unrealized gains and losses on certain investments, changes in the fair value of derivative financial instruments that qualify as cash flow hedges, pension-related changes other than net periodic pension costs and contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purposes of acquiring such assets).

Contributed Resources

Resources restricted by donors for specific operating purposes or a specified time period are held as temporarily restricted net assets until expended for the intended purpose or until the specified time restrictions are met, at which time they are reported as other revenue. Resources restricted by donors for additions to property and equipment are held as temporarily restricted net assets until the assets are placed in service, at which time they are reported as transfers to unrestricted net assets. Gifts, grants and bequests not restricted by donors are reported as other revenue. At December 31, 2013 and 2012, respectively, the System had $174,414 and $166,278 of temporarily restricted net assets that will become available for various programs and capital expenditures at the System's hospitals when time or purpose restrictions are met.

Cash Equivalents

Cash equivalents include all highly liquid investments, including certificates of deposit and commercial paper with maturities not in excess of three months when purchased. Interest income on cash equivalents is included in investment income.

Functional Expenses

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

Investments

Investment securities, excluding alternative investments accounted for under the equity method, are recorded at fair value. The cost of securities sold is based on the specific identification method. Investment income or loss includes realized gains and losses, interest, dividends and certain unrealized gains and losses. The investment income or loss on investments that are restricted by donor or law is recorded as increases or decreases to temporarily restricted net assets. The System accounts for investment transactions on a settlement-date basis.

Management has designated all fixed-income securities as other-than-trading securities and, accordingly, changes in unrealized gains and losses are included in unrestricted net assets. The System also has an equity investment portfolio, which includes domestic and foreign investments that are based on various market indices and include securities such as futures contracts, exchange traded funds and puts. Management has designated the securities in this portfolio as trading securities and, accordingly, changes in unrealized gains and losses are included in the excess of revenue and gains over expenses and losses. Certain other equity investments, primarily held by the System's foundations, are designated as other than trading and related changes in unrealized gains and losses are included in unrestricted net assets.

Alternative Investments – Equity Method
As part of its investment strategy, the System invests in alternative investments (primarily hedge funds) through partnership investment trusts. The partnership investment trusts generally contract with managers who have full discretionary authority over the investment decisions. The System accounts for its ownership interest in these alternative investments under the equity method. Accordingly, the System's share of the hedge funds' income or loss, both realized and unrealized, is recognized as investment income or loss, which is a component of excess of revenue and gains over expenses and losses. Alternative investments accounted for using the equity method totaled $447,327 and $602,114 at December 31, 2013 and 2012, respectively, and were classified as investments and assets whose use is limited in the accompanying consolidated balance sheets.

Alternative Investments – Fair Value
The System has a wholly-owned subsidiary, AHS–K2 Alternatives Portfolio, Ltd. (Fund) that primarily invests in alternative investments (primarily hedge funds) through partnership investment trusts. The Fund is managed by an external investment manager (Manager) in accordance with the investment guidelines contained within the limited liability company agreement.

The strategies of the underlying funds held by the Fund, as of December 31, 2013 and 2012, are described below:

Commodity. The underlying funds trade in agricultural, metal and energy markets at various stages in the commodity cycle.

Event Driven. The underlying funds focus on identifying and analyzing securities that may benefit from the occurrence of specific corporate events.

Global Macro. The underlying funds invest in products that may benefit from overall economic and political views of various countries.

Insurance. The underlying funds invest across instruments, the value of which is driven by insurance related events primarily related to property and life insurance. Risk is managed by diversifying over geography, insurance type and sensitivity to insured losses among other factors. The strategy is a tool to reduce overall investment risk as underlying insurance risk factors are less sensitive to general market factors.

Long/Short. The underlying funds invest both long and short, primarily in common stocks, based on the manager's perception of such securities being undervalued or overvalued in the market. Some of the managers may specialize in specific sectors or industries.

Multi-strategy. The underlying funds invest in multiple strategies to diversify risks and reduce volatility.

Relative Value. The underlying funds utilize non-directional strategies. Relative value investing involves trading around the mispricing of two related securities using various types of securities or instruments.

Specialist Credit. The underlying funds seek to generate superior risk-adjusted returns from a combination of capital appreciation and current income by opportunistically investing and trading in a diversified portfolio of credit-related securities and other instruments.

Structured Credit. The underlying funds invest across structured credit markets including agency and non-agency residential mortgage-backed securities, commercial mortgage-backed securities and asset-backed securities.

The Fund follows the Financial Services–Investment Companies Topic of the Accounting Standards Codification (ASC) (ASC 946), which requires that the investments in the underlying funds be recorded at fair value. The fair value of the underlying hedge funds is determined in good faith by the Manager in accordance with GAAP and generally represents the Fund's proportionate share of the net assets of the underlying funds as reported by the managers. Unrealized appreciation and depreciation resulting from valuing the underlying funds is recognized as investment income or loss, which is a component of excess of revenue and gains over expenses and losses.

The Fund follows the Fair Value Measurement Topic of the ASC (ASC 820) for estimating the fair value of the underlying funds that have calculated a net asset value (NAV) per share in accordance with ASC 946. Accordingly, the Fund uses NAV as reported by the managers as a practical expedient to determine the fair value of those underlying funds that do not have a readily determinable fair value and either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company. As of December 31, 2013 and 2012, the fair value of all underlying funds has been determined using the NAV of the underlying funds.

The Manager uses its best judgment in estimating the fair value of these investments. As there are inherent limitations in any estimation technique, the fair value estimates presented herein are not necessarily indicative of an amount that could be realized in an actual transaction and the differences could be material.

Alternative investments accounted for at fair value totaled $248,569 and $211,164 as of December 31, 2013 and 2012, respectively, and were classified as investments and assets whose use is limited in the accompanying consolidated balance sheets.

Lock-up Provisions. At December 31, 2013, certain funds cannot currently be redeemed because the funds include restrictions that do not allow for redemption in the first 12 months after investment. These restrictions are referred to as lock-ups. At December 31, 2013, underlying funds with lock-up provisions expiring by January 31, 2014 totaled $1,095. Certain other underlying funds may charge a withdrawal fee ranging from 2% to 5% if the Fund liquidates its investment prior to the expiration of the lock-up periods. At December 31, 2013, these underlying funds totaling $35,807 have lock-up provisions that expire through July 31, 2014. The remaining funds totaling $211,667 have no such restrictions.

Redemption Terms. Upon the expiration of lock-up provisions, the Fund has the ability to liquidate its investments periodically in accordance with the provisions of the respective agreements with the underlying funds. The underlying funds have either monthly, quarterly or annual redemption terms. Certain funds with quarterly redemption terms allow redemptions of up to 25% of the investment each quarter and as such, a period of 12 months would be required to fully redeem these investments.

Certain agreements may also allow the underlying fund to temporarily suspend redemptions or place other temporary restrictions, such as gate provisions or side pockets. Investments that cannot be fully redeemed within 90 days or less due to lock-up provisions and redemption terms totaled $65,033 and $70,299 as of December 31, 2013 and 2012, respectively.

Assets Whose Use is Limited

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

Securities Lending Program

The System participates in securities lending transactions with the custodian of its investments, whereby a portion of its investments is loaned to certain brokerage firms in return for cash and securities from the brokers as collateral for the investments loaned, usually on a short-term basis. Collateral provided by brokers is maintained at levels approximating 102% of the fair value of the securities on loan and is adjusted for daily market fluctuations. The fair value of collateral held for loaned securities is reported as collateral held under securities lending program, with a corresponding obligation reported for repayment of such collateral upon settlement of the lending transaction.

Derivative Financial Instruments

The System accounts for its derivative financial instruments as required by the Derivative and Hedging Topic of the ASC (ASC 815) and the Health Care Entities Derivative and Hedging Topic of the ASC (ASC 954-815), which requires that not-for-profit healthcare entities apply the provisions of ASC 815 in the same manner as for-profit enterprises.

Sale of Patient Accounts Receivable

The System and certain of its member affiliates maintain a program (Program) for the continuous sale of certain patient accounts receivable to the Highlands County, Florida, Health Facilities Authority (Highlands) on a nonrecourse basis. Highlands has partially financed the purchase of the patient accounts receivable through the issuance of tax-exempt, variable-rate bonds (Bonds). During 2012, Highlands refinanced the Bonds through a private placement of variable-rate bonds with a mandatory tender in February 2017 and a final maturity in November 2027. As of December 31, 2013 and 2012, Highlands had $409,600 and $410,000, respectively, of Bonds outstanding.

As of December 31, 2013 and 2012, the estimated net realizable value, as defined in the underlying agreements, of patient accounts receivable sold by the System and removed from the accompanying consolidated balance sheets was $700,128 and $675,966, respectively. The patient accounts receivable sold consist primarily of amounts due from government programs and commercial insurers. The proceeds received from Highlands consist of cash from the Bonds, a note on a subordinated

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basis with the Bonds and a note on a parity basis with the Bonds. The note on a subordinated basis with the Bonds is in an amount to provide the required over-collateralization of the Bonds and was $115,528 and $115,641 at December 31, 2013 and 2012, respectively. The note on a parity basis with the Bonds is the excess of eligible accounts receivable sold over the sum of cash received and the subordinated note and was $175,000 and $150,325 at December 31, 2013 and 2012, respectively. These notes are included in other receivables (current) in the accompanying consolidated balance sheets. Due to the nature of the patient accounts receivable sold, collectability of the subordinated and parity notes is not significantly impacted by credit risk.

Inventories

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

Property and Equipment

Property and equipment are reported on the basis of cost, except for donated items, which are recorded at fair value at the date of the donation. Expenditures that materially increase values, change capacities or extend useful lives are capitalized. Depreciation is computed primarily utilizing the straight-line method over the expected useful lives of the assets. Amortization of capitalized leased assets is included in depreciation expense and allowances for depreciation.

Goodwill

Goodwill represents the excess of the purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of the businesses acquired. These amounts are included in other assets (noncurrent) in the accompanying consolidated balance sheets and are evaluated annually for impairment or when there is an indicator of impairment. Based on a quantitative assessment of each reporting unit, there was no impairment to goodwill recorded during the year ended December 31, 2013.

Deferred Financing Costs

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

Interest in the Net Assets of Unconsolidated Foundations

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

Impairment of Long-Lived Assets

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

Bond Discounts and Premiums

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

Income Taxes

Healthcare Corporation and its affiliated organizations, other than North American Health Services, Inc. and its subsidiaries (NAHS), are exempt from state and federal income taxes. Accordingly, Healthcare Corporation and its tax-exempt affiliates are not subject to federal, state, or local income taxes except for any net unrelated business taxable income. For the years ended December 31, 2013 and 2012, unrelated business income activities conducted by Healthcare Corporation and its tax-exempt affiliates did not generate a material amount of combined federal, state and local income tax.

NAHS is a wholly owned, for-profit subsidiary of Healthcare Corporation. NAHS and its subsidiaries are subject to federal and state income taxes. NAHS files a consolidated federal income tax return and, where appropriate, consolidated state income tax returns. For the years ended December 31, 2013 and 2012, NAHS generated taxable income of approximately $500 and $2,100, respectively. This taxable income was fully offset by net operating loss carryforwards for federal income tax purposes. Although one state in which NAHS conducts business has suspended the utilization of net operating loss carryforwards for the year ended December 31, 2013, no material state income tax liability resulted. Accordingly, there is no provision for current federal or state income tax for the years ended December 31, 2013 and 2012.

NAHS also has temporary deductible differences of approximately $65,000 and $64,800 at December 31, 2013 and 2012, respectively, primarily as a result of net operating loss carryforwards. At December 31, 2013, NAHS had net operating loss carryforwards of approximately $64,200, of which $21,000 will expire in 2023, with the remaining $43,200 expiring beginning in 2018 through 2026. Some of these net operating losses are subject to the separate return limitation year rules. Deferred taxes have been provided for these amounts, resulting in a net deferred tax asset of approximately $24,700 and $24,600 at December 31, 2013 and 2012, respectively. A full valuation allowance has been provided at December 31, 2013 and 2012, respectively, to offset the deferred tax asset since Healthcare Corporation has determined that it is more likely than not that the benefit of the net operating loss carryforwards will not be realized in future years.

The Income Taxes Topic of the ASC (ASC 740) prescribes the accounting for uncertainty in income tax positions recognized in financial statements. ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. There were no material uncertain tax positions as of December 31, 2013 and 2012.

Reclassifications

Certain reclassifications were made to the 2012 consolidated financial statements to conform to the classifications used in 2013. These reclassifications had no impact on the consolidated excess of revenue and gains over expenses and losses and changes in net assets previously reported.

For the years ended December 31, 2013 and 2012 (dollars in thousands)

2. Sale of Controlling Interest in a Subsidiary

Effective May 1, 2012 (transaction date), the System sold a 51% membership interest in its Fort Worth, Texas hospital (Hospital) to an unrelated health system located in the North Texas market. The transaction was accounted for as a deconsolidation under ASC 810, as the System ceased holding a controlling interest in the Hospital as of the transaction date. The System continues to manage the Hospital and accounts for its remaining ownership as an equity method investment. Consideration received for the sale consisted of cash and certain intangible assets.

During the period in which the Hospital was consolidated, total operating revenue included in the accompanying consolidated statements of operations and changes in net assets was $56,880 for the year ended December 31, 2012.

3. Investments and Assets Whose Use is Limited

Investments

Investments are comprised of the following:

	December 31	
	2013	2012
Other than trading portfolio		
Fixed-income instruments		
U.S. government agencies and sponsored entities	$ 2,343,340	$ 2,247,645
Corporate bonds	198,017	115,719
Residential mortgage-backed	62,962	69,832
Commercial mortgage-backed	174,758	75,165
Collateralized debt obligations	60,541	24,177
Student loan asset-backed	13,738	16,552
Accrued interest	13,761	11,100
	2,867,117	2,560,190
Equity instruments		
Domestic	5,019	4,892
Foreign	948	964
	5,967	5,856
Trading portfolio		
Domestic equity index securities	37,492	–
	37,492	–
Alternative investments – fair value		
Commodity	7,844	–
Event driven	24,619	14,933
Global macro	16,649	16,083
Insurance	17,359	21,306
Long/short	73,303	46,688
Relative value	9,865	9,669
Specialist credit	9,951	12,441
Structured credit	22,851	32,022
	182,441	153,142
Alternative investments – equity method	421,589	566,418
	$ 3,514,606	$ 3,285,606

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Assets Whose Use is Limited

Assets whose use is limited is comprised of the following:

	December 31 2013	December 31 2012
Other than trading portfolio		
Fixed-income instruments		
U.S. government agencies and sponsored entities	$ 360,528	$ 396,035
Corporate bonds	15,459	12,309
Residential mortgage-backed	2,686	2,289
Commercial mortgage-backed	5,311	3,498
Collateralized debt obligations	1,475	1,041
Student loan asset-backed	661	1,793
Accrued interest	1,756	1,770
	387,876	418,735
Equity instruments		
Domestic	7,128	13,086
Foreign	862	3,674
	7,990	16,760
Trading portfolio		
Domestic equity index securities	11,292	–
Foreign equity index securities	1,343	–
	12,635	–
Alternative investments – fair value		
Commodity	2,843	–
Event driven	8,923	5,658
Global macro	6,035	6,094
Insurance	6,292	8,072
Long/short	26,569	17,689
Relative value	3,576	3,663
Specialist credit	3,607	4,714
Structured credit	8,283	12,132
	66,128	58,022
Alternative investments – equity method	25,738	35,696
Cash and cash equivalents	345,331	107,462
	$ 845,698	$ 636,675

Assets whose use is limited include investments held by bond trustees to fund capital expenditures and debt service, investments held under other trust agreements and investments designated by boards for employee retirement plans and capital expenditures. Amounts to be used for the payment of current liabilities are classified as current assets.

Indenture requirements of tax-exempt financings by the System provide for the establishment and maintenance of various accounts with trustees. These arrangements require the trustee to control the expenditure of debt proceeds, as well as the payment of interest and the repayment of debt to bondholders. Medical malpractice trust funds are set aside to provide funds for settling estimated medical malpractice claims.

Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012 (dollars in thousands)

A summary of the major limitations as to the use of these assets consists of the following:

	December 31 2013	2012
Investments held by bond trustees		
Construction funds	$ 178,876	$ –
Required bond funds	8,938	9,893
	187,814	9,893
Malpractice trust funds	403,716	356,130
Employee benefits funds	161,847	159,649
Board designated funds for capital expenditures	18,408	54,853
Other	73,913	56,150
	845,698	636,675
Less amounts to pay current liabilities	(240,087)	(216,767)
	$ 605,611	$ 419,908

Investment Income and Unrealized Gains and Losses

Investment income from cash and cash equivalents, investments and assets whose use is limited amounted to $79,781 and $77,213 for the years ended December 31, 2013 and 2012, respectively, and consisted of the following:

	Year Ended December 31 2013	2012
Interest and dividend income	$ 43,663	$ 33,285
Net realized and unrealized gains/losses	26,834	17,783
The System's share of income from alternative investments – equity method	9,284	26,145
	$ 79,781	$ 77,213

Changes in unrealized gains and losses that are included as a (reduction of) increase to unrestricted net assets in the accompanying consolidated statements of operations and changes in net assets totaled $(91,423) and $22,631 for 2013 and 2012, respectively.

At December 31, 2013 and 2012, the total fair value of investments and assets whose use is limited, excluding alternative investments, amounted to $3,648,891 and $3,096,133, respectively. The net unrealized losses associated with these holdings were $68,744 at December 31, 2013, which is comprised of gross unrealized gains of $20,663 and gross unrealized losses of $89,407. The net unrealized gains associated with these holdings were $22,679 at December 31, 2012, which is comprised of gross unrealized gains of $32,886 and gross unrealized losses of $10,207.

Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012 (dollars in thousands)

The following tables summarize the unrealized losses on investments and assets whose use is limited:

	December 31, 2013			
	Unrealized Losses			
	Greater than 12 Months	Less than 12 Months	Total	Fair Value of Loss Holdings
Fixed-income instruments				
U.S. government agencies and sponsored entities	$ 17,788	$ 64,235	$ 82,023	$1,870,118
Corporate bonds	404	1,349	1,753	106,118
Residential mortgage-backed	625	917	1,542	46,074
Commercial mortgage-backed	848	3,023	3,871	134,486
Collateralized debt obligations	–	4	4	5,245
Student loan asset-backed	–	25	25	3,943
	19,665	69,553	89,218	2,165,984
Equity instruments				
Domestic	138	47	185	2,275
Foreign	3	1	4	80
	141	48	189	2,355
	$ 19,806	$ 69,601	$ 89,407	$2,168,339

	December 31, 2012			
	Unrealized Losses			
	Greater than 12 Months	Less than 12 Months	Total	Fair Value of Loss Holdings
Fixed-income instruments				
U.S. government agencies and sponsored entities	$ 4,389	$ 4,664	$ 9,053	$ 680,916
Corporate bonds	2	35	37	11,971
Residential mortgage-backed	685	2	687	6,641
Commercial mortgage-backed	173	124	297	24,134
	5,249	4,825	10,074	723,662
Equity instruments				
Domestic	96	23	119	1,494
Foreign	14	–	14	231
	110	23	133	1,725
	$ 5,359	$ 4,848	$ 10,207	$ 725,387

Management has evaluated the investments with unrealized losses and has concluded that none of the above losses should be considered other-than-temporary as of December 31, 2013 and 2012. Management does not intend to sell the investments and it is not more likely than not that the System will be required to sell the investments before recovery of their amortized cost. Factors considered in this evaluation included credit rating information, discussions with external advisors and duration of the investments.

For the years ended December 31, 2013 and 2012 (dollars in thousands)

4. Unrestricted Cash and Investments

The System's unrestricted cash and cash equivalents, investments and board designated funds for capital expenditures consists of the following:

	December 31 2013	December 31 2012
Cash and cash equivalents	$ 966,141	$ 654,893
Investments	3,514,606	3,285,606
Board designated funds for capital expenditures	18,408	54,853
	$ 4,499,155	$3,995,352
Days cash and investments on hand	245	226

Days cash and investments on hand is calculated as unrestricted cash and cash equivalents, investments and certain board designated funds divided by daily operating expenses (excluding depreciation and amortization). The annualized operating expenses of newly constructed facilities are included in the calculations.

5. Property and Equipment

Property and equipment consists of the following:

	December 31 2013	December 31 2012
Land and improvements	$ 654,033	$ 625,126
Buildings and improvements	4,196,324	3,921,494
Equipment	3,619,591	3,364,202
	8,469,948	7,910,822
Less allowances for depreciation	(3,897,246)	(3,554,431)
	4,572,702	4,356,391
Construction in progress	300,109	304,815
	$ 4,872,811	$ 4,661,206

Certain hospitals have entered into construction contracts or other commitments for which costs have been incurred and included in construction in progress. These and other committed projects will be financed through operations, board designated funds and existing construction funds held by trustees (note 3). The estimated costs to complete these projects approximated $108,900 at December 31, 2013.

During periods of construction, interest costs are capitalized to the respective property accounts. Interest capitalized approximated $6,700 and $7,700 for the years ended December 31, 2013 and 2012, respectively.

For the years ended December 31, 2013 and 2012 (dollars in thousands)

The System capitalizes the cost of acquired software for internal use. Any internal costs incurred in the process of developing and implementing software are expensed or capitalized depending primarily on whether they are incurred in the preliminary project stage, application development stage or post-implementation stage. Capitalized software costs and estimated amortization expense in the tables below exclude software in progress of approximately $43,000 and $16,000 at December 31, 2013 and 2012, respectively:

	December 31 2013	December 31 2012
Capitalized software costs	$ 178,035	$ 164,869
Less: accumulated amortization	(109,087)	(97,258)
Capitalized software costs, net	$ 68,948	$ 67,611

Estimated amortization expense related to capitalized software costs for the next five years and thereafter is as follows:

2014	$ 10,710
2015	9,226
2016	6,943
2017	5,359
2018	4,375
Thereafter	32,335

6. Other Assets

Other assets consists of the following:

	December 31 2013	December 31 2012
Goodwill	$ 171,078	$ 169,592
Deferred financing costs	21,620	22,359
Notes and loans receivable	69,802	64,380
Interests in net assets of unconsolidated foundations	63,429	56,539
Investments in unconsolidated entities	129,282	113,100
Other noncurrent assets	63,227	71,652
	$ 518,438	$ 497,622

The System's ownership interest and carrying amounts of investments in unconsolidated entities consists of the following:

	Ownership Interest	December 31 2013	December 31 2012
Texas Health Huguley, Inc. (note 2)	49%	$ 49,290	$ 37,739
Centura Health Corporation	30	37,867	34,061
Takoma Regional Hospital, Inc.	40	7,167	7,857
Other	4% – 50%	34,958	33,443
		$ 129,282	$ 113,100

Income from unconsolidated entities of $28,960 and $24,790 for 2013 and 2012, respectively, is included in other operating revenue in the accompanying consolidated statements of operations and changes in net assets.

Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012 (dollars in thousands)

7. Long-Term Debt

Long-term debt consists of the following:

	December 31 2013	2012
Fixed-rate hospital revenue bonds, interest rates from 1.06% to 7.25%, payable through 2039	$ 3,095,305	$ 2,728,110
Variable-rate hospital revenue bonds, payable through 2035	300,410	326,231
Capitalized leases payable	34,317	33,321
Other indebtedness	1,361	1,607
Unamortized original issue premium, net	44,688	49,225
	3,476,081	3,138,494
Less current maturities	(75,882)	(88,089)
	$ 3,400,199	$ 3,050,405

Master Trust Indenture

Long-term debt has been issued primarily on a tax-exempt basis. Substantially all bonds are secured under a Master Trust Indenture (MTI), which provides for, among other things, the deposit of revenue with the master trustee in the event of certain defaults, pledges of accounts receivable, pledges not to encumber property and limitations on additional borrowings. In addition, the MTI requires certain covenants and reporting requirements to be met by the System.

Variable-Rate Bonds

Certain variable-rate bonds may be put to the System at the option of the bondholder. The variable-rate bond indentures generally provide the System the option to remarket the obligations at the then prevailing market rates for periods ranging from one day to the maturity dates. The obligations have been primarily marketed for seven-day periods during 2013, with annual interest rates ranging from 0.02% to 0.40%. Additionally, the System paid fees, such as remarketing fees, on variable-rate bonds during 2013. The System has various sources of liquidity in the event any variable-rate bonds are put and not remarketed, including a revolving credit agreement (Revolving Note). In the event variable-rate bonds are put and not remarketed and the Revolving Note were used for liquidity, the System's obligation to the banks would be payable in accordance with the variable-rate bond's original maturities with the remaining amounts due upon expiration of the Revolving Note.

The System's Revolving Note is with a syndicate of banks (Syndicate) in the aggregate amount of $1,000,000 for letters of credit, liquidity facilities and general corporate needs, including working capital, capital expenditures and acquisitions. The Revolving Note, which expires in November 2015, has certain prime rate and LIBOR-based pricing options. At December 31, 2012, $30,000 was outstanding under the Revolving Note, which was classified as short-term financings in the accompanying consolidated balance sheet. No amounts were outstanding under the Revolving Note as of December 31, 2013.

2013 Debt Transactions

During 2013, the System issued fixed-rate bonds with par amounts totaling $485,000 and maturity dates ranging from 2025 to 2032. The interest rates range from 2.36% to 3.72% through 2029. Beginning in 2030, the interest rate for the remaining balance of $73,350 increases to 7.25% through the maturity date in

For the years ended December 31, 2013 and 2012 (dollars in thousands)

2032. With the proceeds, the System financed or refinanced certain costs of the acquisition, construction, renovations and equipping of certain facilities.

2012 Debt Transactions

During 2012, the System completed a debt refinancing plan, whereby a significant portion of its variable-rate bonds were replaced with fixed-rate bonds (Phase I) and its remaining variable-rate bonds supported by letters of credit were replaced with self-liquidity, variable-rate bonds (Phase II). Phase I included the issuance by the System of fixed-rate bonds at a premium with par amounts totaling $500,900, interest rates ranging from 1.06% to 5.00% and maturity dates ranging from 2015 to 2037. Additionally, the System issued fixed-rate bonds with par amounts totaling $249,385 with interest rates ranging from 2.02% to 2.45% through mandatory tender dates from 2021 to 2023. The interest rate on these bonds may be reset at the mandatory tender dates to either a fixed-rate or variable-rate mode. The proceeds from these bonds along with other available funds were used to extinguish short-term financings with par amounts totaling $48,200, variable-rate debt obligations with par amounts totaling $546,810 and fixed-rate debt obligations with par amounts totaling $204,660, interest rates ranging from 3.35% to 5.85% and maturity dates ranging from 2015 to 2035. Phase II of the debt refinancing plan was completed during November 2012 with the issuance of variable-rate bonds with par amounts totaling $232,125 with maturity dates through 2035. The proceeds from these bonds along with other available funds were used to extinguish variable-rate debt obligations with par amounts totaling $235,025.

In connection with this debt refinancing plan, the System recorded a loss from early extinguishment of debt of $82,186 in the accompanying consolidated statements of operations and changes in net assets for the year ended December 31, 2012. Approximately $73,544 of the loss resulted from the reclassification of accumulated loss related to terminated cash flow hedges (note 8).

Debt Maturities

The following represents the maturities of long-term debt for the next five years and the years thereafter:

2014	$ 75,882
2015	82,700
2016	97,598
2017	109,112
2018	123,904
Thereafter	2,942,197

8. Derivative Financial Instruments

Derivatives Designated as Hedging Instruments

In order to manage interest rate risk, the System had entered into interest rate swaps associated with its fixed-rate and variable-rate borrowings. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows associated with certain of the System's variable-rate borrowings), the effective portion of the gain or loss on the derivative instrument is reported as a component of unrestricted net assets and reclassified into earnings in the same line item (interest expense) associated with the forecasted transaction and in the same period or periods during which the hedged transaction affects excess of revenue and gains over expenses and losses.

For the years ended December 31, 2013 and 2012 (dollars in thousands)

During 2012, in connection with an overall debt restructuring plan, the System terminated and cash settled all of its interest rate swap agreements, including its forward-starting interest rate swaps. As such, none of the System's outstanding variable-rate debt had its interest payments designated as a hedged forecasted transaction at December 31, 2013 or 2012.

The changes in the accumulated net derivative loss included in unrestricted net assets associated with the System's cash flow hedges are as follows:

	Year Ended December 31	
	2013	2012
Accumulated net derivative loss included in unrestricted net assets at beginning of year	$ (52,957)	$ (134,985)
Net change associated with current period hedging transactions	–	(1,544)
Net reclassifications into excess of revenue and gains over expenses and losses	12,965	83,572
Accumulated net derivative loss included in unrestricted net assets at end of year	$ (39,992)	$ (52,957)

The accumulated net derivative loss included in unrestricted net assets will be reclassified into earnings in the same periods during which the hedged transaction affects excess of revenue and gains over expenses and losses or in the event it is determined that the original forecasted transactions are not probable of occurring by the end of the originally specified period or within the additional period of time allowed in ASC 815. In connection with the early extinguishment of certain variable-rate bonds (note 7), accumulated losses related to terminated cash flow hedges reclassified into excess of revenue and gains over expenses and losses were $73,544 for the year ended December 31, 2012. The System expects that the amount of net loss existing in unrestricted net assets to be reclassified into excess of revenue and gains over expenses and losses within the next 12 months will be approximately $11,000.

9. Retirement Plans

Defined Contribution Plans

The System participates with other Seventh-day Adventist healthcare entities in a defined contribution retirement plan (Plan) that covers substantially all full-time employees who are at least 18 years of age. The Plan is exempt from the Employee Retirement Income Security Act of 1974 (ERISA). The Plan provides, among other things, that the employer contribute 2.6% of wages, plus additional amounts for very highly paid employees. Additionally, the Plan provides that the employer match 50% of the employee's contributions up to 4% of the contributing employee's wages, resulting in a maximum available match of 2% of the contributing employee's wages each year.

Contributions for the Plan are included in employee compensation in the accompanying consolidated statements of operations and changes in net assets in the amount of $89,503 and $90,098 for the years ended December 31, 2013 and 2012, respectively.

Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012 (dollars in thousands)

Defined Benefit Plan – Multiemployer Plan

Prior to January 1, 1992, certain of the System's entities participated in a multiemployer, noncontributory defined benefit retirement plan, the Seventh-day Adventist Hospital Retirement Plan Trust (Old Plan) administered by the General Conference of Seventh-day Adventists that is exempt from ERISA. The risks of participating in multiemployer plans are different from single-employer plans in the following aspects:

Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

If an entity chooses to stop participating in the multiemployer plan, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as withdrawal liability.

During 1992, the Old Plan was suspended and the Plan was established. The System, along with the other participants in the Old Plan, may be required to make future contributions to the Old Plan to fund any difference between the present value of the Old Plan benefits and the fair value of the Old Plan assets. Future funding amounts and the funding time periods have not been determined by the Old Plan administrators; however, management believes the impact of any such future decisions will not have a material adverse effect on the System's consolidated financial statements.

The plan assets and benefit obligation data for the Old Plan as of December 31, 2012 is as follows:

Total plan assets	$ 837,236
Actuarial present value of accumulated plan benefits	949,943
Funded status	88.1%

The System did not make contributions to the Old Plan for the years ended December 31, 2013 or 2012.

For the years ended December 31, 2013 and 2012 (dollars in thousands)

Defined Benefit Plan – Frozen Pension Plans

Certain of the System's entities sponsored noncontributory defined benefit pension plans (Pension Plans). The System froze the Pension Plans in December 2010, such that no new benefits will accrue in the future.

The following table sets forth the remaining combined projected and accumulated benefit obligations and the assets of the Pension Plans at December 31, 2013 and 2012, the components of net periodic benefit costs for the year then ended and a reconciliation of the amounts recognized in the accompanying consolidated financial statements:

	Year Ended December 31	
	2013	2012
Accumulated benefit obligation, end of year	$ 176,979	$ 199,672
Change in projected benefit obligation:		
Projected benefit obligation, beginning of year	$ 199,672	$ 171,238
Interest cost	8,183	8,653
Benefits paid	(6,105)	(5,344)
Actuarial (gains) losses	(24,771)	25,125
Projected benefit obligation, end of year	176,979	199,672
Change in plan assets:		
Fair value of plan assets, beginning of year	150,164	149,689
Actual return on plan assets	7,406	5,819
Employer contributions	3,500	–
Benefits paid	(6,105)	(5,344)
Fair value of plan assets, end of year	154,965	150,164
Deficiency of fair value of plan assets over projected benefit obligation, included in other noncurrent liabilities	$ (22,014)	$ (49,508)

No plan assets are expected to be returned to the System during the fiscal year ending December 31, 2014.

Included in unrestricted net assets at December 31, 2013 and 2012, are unrecognized actuarial (gains) losses of $(2,739) and $21,398, respectively, which have not yet been recognized in net periodic pension expense. None of the actuarial gains included in unrestricted net assets are expected to be recognized in net periodic pension cost during the year ending December 31, 2014.

Changes in plan assets and benefit obligations recognized in unrestricted net assets include:

	Year Ended December 31	
	2013	2012
Net actuarial (gains) losses	$ (24,081)	$ 27,397
Amortization of net actuarial losses	(56)	–
Total (increase) decrease recognized in unrestricted net assets	$ (24,137)	$ 27,397

Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012 (dollars in thousands)

The components of net periodic pension cost were as follows:

	Year Ended December 31 2013	2012
Interest cost	$ 8,183	$ 8,653
Expected return on plan assets	(8,096)	(8,091)
Recognized net actuarial losses	56	–
Net periodic pension cost	$ 143	$ 562

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

	Year Ended December 31 2013	2012
Used to determine projected benefit obligation		
Weighted-average discount rate	5.06%	4.16%
Used to determine pension cost		
Weighted-average discount rate	4.16%	5.13%
Weighted-average expected long-term rate of return on plan assets	5.50%	5.50%

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

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

The target investment allocation for the Pension Plans is 50% fixed-income and 50% equity securities. This allocation is partially achieved through investments in alternative investments that have fixed-income or equity strategies. The System maintained this target investment allocation throughout 2013.

For the years ended December 31, 2013 and 2012 (dollars in thousands)

The following table presents the Pension Plans' financial instruments as of December 31, 2013, measured at fair value on a recurring basis by the valuation hierarchy defined in note 12.

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 7,612	$ 7,612	$ –	$ –
Debt securities				
U.S. government agencies and sponsored entities	19,938	1,919	18,019	–
Corporate bonds	45,165	–	45,165	–
Commercial mortgage-backed	2,772	–	2,772	–
Collateralized debt obligations	11,120	–	11,120	–
Equity securities				
Domestic equities	7,605	7,605	–	–
Foreign equities	4,308	4,308	–	–
Alternative investments				
Commodity	1,523	–	1,523	–
Event driven	4,780	–	3,658	1,122
Global macro	3,232	–	1,558	1,674
Insurance	3,371	–	1,596	1,775
Long/short	35,255	–	33,226	2,029
Relative value	1,915	–	1,915	–
Specialist credit	1,933	–	1,926	7
Structured credit	4,436	–	1,775	2,661
Total plan assets	$ 154,965	$ 21,444	$ 124,253	$ 9,268

Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012 (dollars in thousands)

The following table presents the Pension Plans' financial instruments as of December 31, 2012, measured at fair value on a recurring basis by the valuation hierarchy defined in note 12.

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 4,956	$ 4,956	$ –	$ –
Debt securities				
U.S. government agencies and sponsored entities	29,890	4,230	25,660	–
Corporate bonds	39,755	–	39,755	–
Commercial mortgage-backed	862	–	862	–
Collateralized debt obligations	14,019	–	14,019	–
Equity securities				
Domestic equities	7,170	7,170	–	–
Foreign equities	3,436	3,436	–	–
Alternative investments				
Event driven	3,101	–	1,840	1,261
Global macro	3,340	–	2,707	633
Insurance	4,425	–	1,708	2,717
Long/short	27,968	–	26,087	1,881
Relative value	2,008	–	2,008	–
Specialist credit	2,584	–	2,011	573
Structured credit	6,650	–	3,127	3,523
Total plan assets	$ 150,164	$ 19,792	$ 119,784	$ 10,588

Fair value methodologies for Levels 1, 2 and 3 are consistent with the inputs described in note 12.

The changes in financial assets classified as Level 3 during the year ended December 31, 2013 were as follows:

	Alternative Investments					
	Beginning Balance	Gross Purchases	Gross Sales	Realized Gains (Losses)	Unrealized Gains (Losses)	Ending Balance
Event driven	$ 1,261	$ 200	$ (400)	$ 29	$ 32	$ 1,122
Global macro	633	1,140	–	–	(99)	1,674
Insurance	2,717	–	(750)	(103)	(89)	1,775
Long/short	1,881	–	–	–	148	2,029
Specialist credit	573	–	(500)	49	(115)	7
Structured credit	3,523	100	(945)	35	(52)	2,661
	$ 10,588	$ 1,440	$ (2,595)	$ 10	$ (175)	$ 9,268

Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012 (dollars in thousands)

The changes in financial assets classified as Level 3 during the year ended December 31, 2012 were as follows:

	Alternative Investments					
	Beginning Balance	Purchases (Sales)	Transfers	Realized Gains (Losses)	Unrealized Gains	Ending Balance
Event driven	$ 1,481	$ (624)	$ –	$ 94	$ 310	$ 1,261
Global macro	–	603	–	–	30	633
Insurance	–	339	2,128	–	250	2,717
Long/short	–	1,657	–	–	224	1,881
Multi-strategy	1,001	(1,027)	–	(17)	43	–
Specialist credit	1,853	(1,664)	–	268	116	573
Structured credit	–	3,059	–	(191)	655	3,523
	$ 4,335	$ 2,343	$ 2,128	$ 154	$ 1,628	$10,588

The following represents the expected benefit plan payments for the next five years and the five years thereafter:

Year ending December 31:	
2014	$ 6,654
2015	6,998
2016	7,381
2017	7,903
2018	8,580
2019-2023	52,353

10. Medical Malpractice

The System established a self-insured revocable trust (Trust) that covers the System's subsidiaries and their respective employees for claims within a specified level (Self-Insured Retention). Claims above the Self-Insured Retention are insured by claims-made coverage that is placed with Adhealth Limited, a Bermuda company (Adhealth). Adhealth has purchased reinsurance through commercial insurers for the excess limits of coverage. A Self-Insured Retention of $2,000 was established for the year ended December 31, 2001. The Self-Insured Retention was increased to $7,500 and $15,000 effective January 1, 2002 and 2003, respectively, and has remained at $15,000 through December 31, 2013.

The Trust funds are recorded in the accompanying consolidated balance sheets as assets whose use is limited in the amount of $403,716 and $356,130 at December 31, 2013 and 2012, respectively. The related accrued malpractice claims are recorded in the accompanying consolidated balance sheets as other current liabilities in the amount of $83,125 and $75,742 and as other noncurrent liabilities in the amount of $292,540 and $295,765 at December 31, 2013 and 2012, respectively. The related estimated insurance recoveries are recorded as other assets in the amount of $11,251 and $13,875 in the accompanying consolidated balance sheets at December 31, 2013 and 2012, respectively.

Management, with the assistance of consulting actuaries, estimated claim liabilities at the present value of future claim payments using a discount rate of 3.75% and 4.25% at December 31, 2013 and 2012, respectively.

Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012 (dollars in thousands)

11. Commitments and Contingencies

Operating Leases

The System leases certain property and equipment under operating leases. Lease and rental expense was approximately $97,600 and $100,900 for the years ended December 31, 2013 and 2012, respectively, and is included in other expenses in the accompanying consolidated statements of operations and changes in net assets.

The following represents the net future minimum lease payments under noncancelable operating leases for the next five years and the years thereafter:

Year ending December 31:	
2014	$ 38,333
2015	36,543
2016	30,822
2017	21,671
2018	11,590
Thereafter	20,079

Compliance with Laws and Regulations

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Compliance with such laws and regulations can be subject to future review and interpretation as well as regulatory actions unknown or unasserted at this time. Management assesses the probable outcome of unresolved litigation and investigations and records contingent liabilities reflecting estimated liability exposure.

As a part of its compliance activities, the System determined that relationships with certain physicians were not in full technical compliance with the Stark Law and elected to make voluntary self-disclosures to the federal government in 2013. The System is engaged in discussions and is fully cooperating with the Department of Justice on this matter. Based on information available to date, management believes that the System has adequately provided for the most likely outcome of the self-disclosure. However, as more information becomes known, it is possible that the estimate could change. As such, assurance cannot be given that the resolution of these matters will not affect the financial condition or operations of the System, taken as a whole.

In addition, certain of the System's affiliated organizations are involved in litigation and other regulatory investigations arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters will be resolved without material adverse effect to the System's consolidated financial statements, taken as a whole.

12. Fair Value Measurements

The System categorizes, for disclosure purposes, assets and liabilities measured at fair value into a three-tier fair value hierarchy. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement, which should be determined based on assumptions that would be made by market participants. The three-tier hierarchy prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

Certain of the System's financial assets and liabilities are measured at fair value on a recurring basis, including money market, fixed-income and equity instruments and collateral under the securities lending program. The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

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

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

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both significant to the fair value of the financial asset or liability and are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

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

For the years ended December 31, 2013 and 2012 (dollars in thousands)

Recurring Fair Value Measurements

The fair value of financial assets measured at fair value on a recurring basis at December 31, 2013, was as follows:

	Total	Level 1	Level 2	Level 3
ASSETS				
CASH AND CASH EQUIVALENTS	$ 935,335	$ 935,335	$ –	$ –
INVESTMENTS				
Debt securities				
U.S. government agencies and sponsored entities	2,343,340	–	2,343,340	–
Corporate bonds	198,017	–	198,017	–
Residential mortgage-backed	62,962	–	62,962	–
Commercial mortgage-backed	174,758	–	174,758	–
Collateralized debt obligations	60,541	–	60,541	–
Student loan asset-backed	13,738	–	13,738	–
Equity securities				
Domestic equities	5,019	5,019	–	–
Foreign equities	948	948	–	–
Domestic equity index securities	37,492	37,492	–	–
Alternative investments				
Commodity	7,844	–	7,844	–
Event driven	24,619	–	18,838	5,781
Global macro	16,649	–	8,026	8,623
Insurance	17,359	–	8,219	9,140
Long/short	73,303	–	62,855	10,448
Relative value	9,865	–	9,865	–
Specialist credit	9,951	–	9,921	30
Structured credit	22,851	–	9,141	13,710
Total investments	3,079,256	43,459	2,988,065	47,732

Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012 (dollars in thousands)

	As of December 31, 2013 (cont.)			
	Total	Level 1	Level 2	Level 3
ASSETS WHOSE USE IS LIMITED				
Cash and cash equivalents	345,331	345,331	–	–
Debt securities				
U.S. government agencies and sponsored entities	360,528	10,645	349,883	–
Corporate bonds	15,459	–	15,459	–
Residential mortgage-backed	2,686	–	2,686	–
Commercial mortgage-backed	5,311	–	5,311	–
Collateralized debt obligations	1,475	–	1,475	–
Student loan asset-backed	661	–	661	–
Equity securities				
Domestic equities	7,128	7,128	–	–
Foreign equities	862	862	–	–
Domestic equity index securities	11,292	11,292	–	–
Foreign equity index securities	1,343	1,343	–	–
Alternative investments				
Commodity	2,843	–	2,843	–
Event driven	8,923	–	6,828	2,095
Global macro	6,035	–	2,909	3,126
Insurance	6,292	–	2,979	3,313
Long/short	26,569	–	22,782	3,787
Relative value	3,576	–	3,576	–
Specialist credit	3,607	–	3,596	11
Structured credit	8,283	–	3,314	4,969
Total assets whose use is limited	818,204	376,601	424,302	17,301
Collateral held under securities lending program	20,619	–	20,619	–
	$ 4,853,414	$ 1,355,395	$ 3,432,986	$ 65,033

For the years ended December 31, 2013 and 2012 (dollars in thousands)

The fair value of financial assets measured at fair value on a recurring basis at December 31, 2012, was as follows:

	Total	Level 1	Level 2	Level 3
ASSETS				
CASH AND CASH EQUIVALENTS	$ 654,893	$ 654,893	$ –	$ –
INVESTMENTS				
Debt securities				
U.S. government agencies and sponsored entities	2,247,645	39,999	2,207,646	–
Corporate bonds	115,719	181	115,538	–
Residential mortgage-backed	69,832	–	69,832	–
Commercial mortgage-backed	75,165	–	75,165	–
Collateralized debt obligations	24,177	–	24,177	–
Student loan asset-backed	16,552	–	16,552	–
Equity securities				
Domestic equities	4,892	4,892	–	–
Foreign equities	964	964	–	–
Alternative investments				
Event driven	14,933	–	8,860	6,073
Global macro	16,083	–	13,036	3,047
Insurance	21,306	–	8,225	13,081
Long/short	46,688	–	37,631	9,057
Relative value	9,669	–	9,669	–
Specialist credit	12,441	–	9,683	2,758
Structured credit	32,022	–	15,055	16,967
Total investments	2,708,088	46,036	2,611,069	50,983

Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012 (dollars in thousands)

	As of December 31, 2012 (cont.)			
	Total	Level 1	Level 2	Level 3
ASSETS WHOSE USE IS LIMITED				
Cash and cash equivalents	107,462	107,462	–	–
Debt securities				
U.S. government agencies and sponsored entities	396,035	9,421	386,614	–
Corporate bonds	12,309	–	12,309	–
Residential mortgage-backed	2,289	–	2,289	–
Commercial mortgage-backed	3,498	–	3,498	–
Collateralized debt obligations	1,041	–	1,041	–
Student loan asset-backed	1,793	–	1,793	–
Equity securities				
Domestic equities	13,086	13,086	–	–
Foreign equities	3,674	3,674	–	–
Alternative investments				
Event driven	5,658	–	3,357	2,301
Global macro	6,094	–	4,939	1,155
Insurance	8,072	–	3,116	4,956
Long/short	17,689	–	14,258	3,431
Relative value	3,663	–	3,663	–
Specialist credit	4,714	–	3,669	1,045
Structured credit	12,132	–	5,704	6,428
Total assets whose use is limited	599,209	133,643	446,250	19,316
Collateral held under securities lending program	3,060	–	3,060	–
	$ 3,965,250	$ 834,572	$ 3,060,379	$ 70,299

The changes in financial assets classified as Level 3 during the year ended December 31, 2013 were as follows:

	Alternative Investments					
	Beginning Balance	Gross Purchases	Gross Sales	Realized Gains (Losses)	Unrealized Gains (Losses)	Ending Balance
Event driven	$ 8,374	$ 1,500	$ (2,830)	$ 200	$ 632	$ 7,876
Global macro	4,202	8,000	–	–	(453)	11,749
Insurance	18,037	–	(5,000)	(374)	(210)	12,453
Long/short	12,488	–	–	–	1,747	14,235
Specialist credit	3,803	–	(3,591)	(26)	(145)	41
Structured credit	23,395	1,000	(6,984)	596	672	18,679
	$ 70,299	$10,500	$(18,405)	$ 396	$ 2,243	$65,033

Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012 (dollars in thousands)

The changes in financial assets classified as Level 3 during the year ended December 31, 2012 were as follows:

	Alternative Investments					
	Beginning Balance	Gross Purchases (Sales)	Transfers	Realized Gains (Losses)	Unrealized Gains	Ending Balance
Event driven	$ 8,413	$ (2,720)	$ –	$ 622	$ 2,059	$ 8,374
Global macro	–	4,000	–	–	202	4,202
Insurance	–	2,250	14,130	–	1,657	18,037
Long/short	–	11,000	–	–	1,488	12,488
Multi-strategy	5,682	(5,852)	–	(116)	286	–
Specialist credit	10,524	(9,269)	–	1,778	770	3,803
Structured credit	–	20,317	–	(1,270)	4,348	23,395
	$ 24,619	$19,726	$14,130	$ 1,014	$ 10,810	$70,299

Transfers between levels are determined as of the beginning of the period, which assumes the investment would be transferred at fair value at the beginning of the reporting period. Transfers from Level 2 to Level 3 occurred as a result of changes in the liquidity terms of an underlying fund. The revised liquidity terms of the underlying fund now include quarterly redemption terms with a 25% maximum redemption, which does not allow the System the ability to redeem the investment within the near term. Generally, the System defines near term as redemption of the entire investment within 90 days or less.

Financial assets are reflected in the accompanying consolidated balance sheets as follows:

	December 31 2013	December 31 2012
Cash and cash equivalents measured at fair value	$ 935,335	$ 654,893
Certificates of deposit	30,806	–
Total cash and cash equivalents	$ 966,141	$ 654,893
Investments measured at fair value	$ 3,079,256	$ 2,708,088
Alternative investments accounted for under the equity method	421,589	566,418
Accrued interest	13,761	11,100
Total investments	$ 3,514,606	$ 3,285,606
Assets whose use is limited measured at fair value	$ 818,204	$ 599,209
Alternative investments accounted for under the equity method	25,738	35,696
Accrued interest	1,756	1,770
Total assets whose use is limited	$ 845,698	$ 636,675

The fair values of the securities included in Level 1 were determined through quoted market prices. The fair values of Levels 2 and 3 financial assets were determined as follows:

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

Alternative investments – These underlying funds are valued using the NAV as a practical expedient to determine fair value. Several factors are considered in appropriately classifying the underlying funds in the fair value hierarchy. An underlying fund is generally classified as Level 2 if the System has the ability to withdraw its investment with the underlying fund at NAV at the measurement date or within the near term. An underlying fund is generally classified as Level 3 if the System does not have the ability to redeem its investment with the underlying fund at NAV within the near term. Those alternative investments classified as Level 3 as of December 31, 2013 and 2012, were classified as such because they could not be redeemed in the near term.

Collateral held under securities lending program – The System participates in securities lending transactions with the custodian of its investments (program), whereby a portion of its investments is loaned to certain brokerage firms in return for cash or similar debt securities from the brokers as collateral for the investments loaned. Any cash collateral is invested by the System in a securities lending quality trust (SLQT). The fair value of the System's interest in the SLQT is determined by considering its NAV and actual issuances and redemptions of interests in the SLQT. Currently, interests in the SLQT are purchased and redeemed at a constant NAV of $1.00 per unit for daily operational liquidity purposes, although redemptions for certain other purposes, such as termination of the System's participation in the program, may be in-kind. Any collateral in the form of debt securities is valued through the use of third-party pricing services that use evaluated bid prices adjusted for specific bond characteristics and market sentiment.

Other Fair Value Disclosures

The carrying values of accounts receivable, accounts payable, accrued liabilities and payable under the securities lending program are reasonable estimates of their fair values due to the short-term nature of these financial instruments.

The fair values of the System's fixed-rate bonds are estimated using Level 2 inputs based on quoted market prices for those or similar instruments. The estimated fair value of the fixed-rate bonds were approximately $3,219,000 and $2,987,000 as of December 31, 2013 and 2012, respectively. The carrying value of the fixed-rate bonds were approximately $3,095,000 and $2,728,000 as of December 31, 2013 and 2012, respectively. The carrying amount approximates fair value for all other long-term debt (note 7).

For the years ended December 31, 2013 and 2012 (dollars in thousands)

13. Subsequent Events

The System evaluated events and transactions occurring subsequent to December 31, 2013 through March 11, 2014, the date the accompanying consolidated financial statements were issued. During this period, there were no subsequent events that required recognition in the accompanying consolidated financial statements. Additionally, there were no nonrecognized subsequent events that required disclosure.

14. Fourth Quarter Results of Operations (Unaudited)

The System's operating results for the three months ended December 31, 2013 are presented below:

Revenue	
Patient service revenue	$ 1,961,557
Provision for bad debts	(129,216)
Net patient service revenue	1,832,341
EHR incentive payments	30,135
Other	85,680
Total operating revenue	1,948,156
Expenses	
Employee compensation	928,633
Supplies	351,487
Professional fees	125,672
Purchased services	129,015
Other	121,571
Interest	34,934
Depreciation and amortization	112,248
Total operating expenses	1,803,560
Income from Operations	144,596
Nonoperating Gains	
Investment income	28,915
Gain on early extinguishment of debt	25
Total nonoperating gains	28,940
Excess of revenue and gains over expenses	173,536
Less: Deficiency of revenue and gains over expenses attributable to noncontrolling interests	609
Excess of Revenue and Gains over Expenses Attributable to Controlling Interests	174,145
Other changes in unrestricted net assets, net	36,874
Decrease in temporarily restricted net assets, net	(3,686)
Increase in Net Assets	$ 207,333

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Report of Independent Certified Public Accountants

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

We have audited the accompanying consolidated financial statements of Adventist Health System Sunbelt Healthcare Corporation and Subsidiaries (the System), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations and 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 Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of the System at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

Orlando, Florida
March 11, 2014