Consolidated Financial Statements and Other Financial Information

Orlando Health, Inc. and Controlled Affiliates
Years Ended September 30, 2010, 2009, and 2008
With Report of Independent Certified Public Accountants

Ernst & Young LLP

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Years Ended September 30, 2010, 2009, and 2008

Contents

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Report of Independent Certified Public Accountants

The Board of Directors
Orlando Health, Inc.

We have audited the accompanying consolidated balance sheets of Orlando Health, Inc. and Controlled Affiliates (the System) as of September 30, 2010, 2009, and 2008, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of 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. We were not engaged to perform an audit of the System's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Orlando Health, Inc. and Controlled Affiliates at September 30, 2010, 2009, and 2008, and the consolidated results of their operations, changes in their net assets, and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2010, on our consideration of Orlando Health, Inc. and Controlled Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Ernst & Young LLP

November 23, 2010

Orlando Health, Inc. and Controlled Affiliates

Consolidated Balance Sheets
(In Thousands)

	September 30		
	2010	**2009**	**2008**
Assets			
Current assets:			
Cash and cash equivalents	**$ 123,007**	$ 243,610	$ 110,621
Short-term investments	**176,170**	129,591	114,533
Assets limited as to use	**54,630**	48,816	48,716
Accounts receivable, less allowances for uncollectible accounts of $99,244 in 2010, $97,655 in 2009, and $64,024 in 2008	**216,797**	209,246	234,564
Other receivables	**24,386**	24,754	22,977
Other current assets	**39,665**	39,946	32,498
Total current assets	**634,655**	695,963	563,909
Assets limited as to use:			
Debt service and reserve funds held by bond trustee	**57,356**	57,434	59,206
Construction and equipment funds held by bond trustee	**–**	–	31,535
Designated by board for property and equipment	**260,307**	225,943	213,944
Designated by board for malpractice self-insurance	**75,014**	69,667	62,107
	392,677	353,044	366,792
Less amount required to meet current obligations	**(54,630)**	(48,816)	(48,716)
	338,047	304,228	318,076
Long-term investments	**161,487**	49,586	49,810
Investments in related parties	**20,098**	19,028	18,618
Other assets	**83,887**	64,934	63,865
Property and equipment, net	**865,683**	867,722	864,917
Total assets	**$ 2,103,857**	$ 2,001,461	$ 1,879,195
Liabilities and net assets			
Current liabilities:			
Accounts payable and accrued expenses	**$ 148,530**	$ 150,927	$ 135,768
Other current liabilities	**87,002**	83,986	66,797
Current portion of long-term debt	**14,657**	12,567	13,427
Total current liabilities	**250,189**	247,480	215,992
Long-term debt, less current portion	**766,131**	762,036	773,610
Accrued malpractice claims	**72,209**	68,265	57,440
Other noncurrent liabilities	**49,360**	49,158	34,561
Total liabilities	**1,137,889**	1,126,939	1,081,603
Net assets:			
Unrestricted	**899,844**	814,354	734,830
Temporarily restricted	**63,717**	57,767	61,700
Permanently restricted	**2,407**	2,401	1,062
Total net assets	**965,968**	874,522	797,592
Total liabilities and net assets	**$ 2,103,857**	$ 2,001,461	$ 1,879,195

See accompanying notes.

Orlando Health, Inc. and Controlled Affiliates

Consolidated Statements of Operations and Changes in Net Assets

(In Thousands)

	Year Ended September 30		
	2010	**2009**	**2008**
Unrestricted revenues and other support			
Net patient service revenue	**$ 1,636,362**	$ 1,577,284	$ 1,491,008
Other revenue	**57,347**	55,293	58,073
Net assets released from restrictions	**7,002**	5,253	4,831
Total unrestricted revenues and other support	**1,700,711**	1,637,830	1,553,912
Expenses			
Salaries and benefits	**807,498**	754,256	722,931
Supplies and other	**546,305**	528,873	496,203
Professional fees and purchased services	**34,458**	34,138	33,338
Provision for bad debts	**120,185**	130,054	144,816
Depreciation and amortization	**92,944**	90,061	82,423
Impairment	**–**	3,193	–
Interest	**37,958**	38,350	33,689
Total expenses	**1,639,348**	1,578,925	1,513,400
Income from operations	**61,363**	58,905	40,512
Nonoperating gains and losses			
Investment income (loss)	**39,508**	31,828	(8,335)
Loss on interest rate swap agreements	**(13,552)**	(17,419)	(17,340)
Loss on early extinguishment of debt	**(4,330)**	–	(7,641)
Loss on interest rate hedge terminations	**–**	–	(38,216)
Nonoperating gains (losses), net	**21,626**	14,409	(71,532)
Excess (deficiency) of revenues, other support, and gains over expenses and losses	**82,989**	73,314	(31,020)

Continued on next page.

Orlando Health, Inc. and Controlled Affiliates

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

(In Thousands)

	Year Ended September 30		
	2010	**2009**	**2008**
Unrestricted net assets			
Excess (deficiency) of revenues, other support, and gains over expenses and losses	**$ 82,989**	$ 73,314	$ (31,020)
Other changes in unrestricted net assets:			
Interest rate swap valuation changes reclassified to operations	**–**	–	38,216
Net loss on 1999 Swaps	**–**	–	(12,350)
Net assets released from restriction for property and equipment	**2,952**	6,554	4,583
Other	**(451)**	(344)	(989)
Increase (decrease) in unrestricted net assets	**85,490**	79,524	(1,560)
Temporarily restricted net assets			
Contributions	**14,330**	6,516	11,554
Net assets released from restrictions	**(9,954)**	(11,807)	(9,414)
Net realized and unrealized gains (losses) on investments	**1,574**	1,358	(428)
Increase (decrease) in temporarily restricted net assets	**5,950**	(3,933)	1,712
Permanently restricted net assets			
Contributions	**4**	1,338	40
Net realized and unrealized gains (losses) on investments	**2**	1	(3)
Increase in permanently restricted net assets	**6**	1,339	37
Increase in net assets	**91,446**	76,930	189
Net assets at beginning of year	**874,522**	797,592	797,403
Net assets at end of year	**$ 965,968**	$ 874,522	$ 797,592

See accompanying notes.

Orlando Health, Inc. and Controlled Affiliates

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended September 30		
	2010	**2009**	**2008**
Operating activities			
Change in net assets	**$ 91,446**	$ 76,930	$ 189
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization	**92,944**	90,061	82,423
Loss on interest rate swap agreements	**13,552**	17,419	17,340
Net unrealized (gains) losses on investments	**(8,528)**	(19,096)	32,210
Loss on early extinguishment of debt	**4,330**	–	7,641
Impairment	**–**	3,193	–
Loss on 1999 Swaps	**–**	–	12,350
Gain on sale of assets held for sale	**–**	–	(1,596)
Restricted contributions and investment income	**(15,910)**	(9,213)	(11,163)
Purchase of trading securities, net of sales	**(155,583)**	(10,437)	(8,583)
Changes in operating assets and liabilities:			
Accounts receivable, net	**(7,551)**	25,318	(33,794)
Other operating assets	**649**	(9,225)	(1,617)
Accounts payable and accrued expenses	**(2,397)**	15,159	19,288
Other operating liabilities	**5,734**	25,192	10,208
Net cash provided by operating activities	**18,686**	205,301	124,896
Investing activities			
Purchases of property, equipment and other noncurrent assets	**(112,305)**	(96,059)	(203,883)
(Increase) decrease in assets limited as to use	**(34,801)**	28,357	71,924
Other investing activities	**1,881**	(1,389)	2,654
Proceeds from sale of assets held for sale	**–**	–	3,694
Net cash used in investing activities	**(145,225)**	(69,091)	(125,611)
Financing activities			
Proceeds from issuance of long-term debt and line of credit draw	**257,551**	2,515	313,428
Repayments of long-term debt and line of credit draw	**(252,181)**	(14,949)	(288,159)
Swap termination payments	**(12,124)**	–	(41,541)
Long-term debt proceeds used for loan costs	**(3,220)**	–	(2,196)
Restricted contributions and investment income	**15,910**	9,213	11,163
Net cash provided by (used in) financing activities	**5,936**	(3,221)	(7,305)
(Decrease) increase in cash and cash equivalents	**(120,603)**	132,989	(8,020)
Cash and cash equivalents at beginning of year	**243,610**	110,621	118,641
Cash and cash equivalents at end of year	**$ 123,007**	$ 243,610	$ 110,621

See accompanying notes.

Orlando Health, Inc. and Controlled Affiliates

Notes to Consolidated Financial Statements

September 30, 2010

1. Organization

Orlando Health, Inc. (Orlando Health), formerly known as Orlando Regional Healthcare System, Inc., changed its name to Orlando Health, Inc. effective October 1, 2008. Orlando Health is a not-for-profit corporation, recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code, that controls a diversified healthcare delivery system headquartered in Orlando, Florida (collectively referred to as the System). Orlando Health includes the following hospitals operating in Central Florida: Orlando Regional Medical Center (ORMC), Dr. P. Phillips Hospital (formerly known as Sand Lake Hospital), Arnold Palmer Hospital for Children (APH), Winnie Palmer Hospital for Women and Babies (WPH), South Seminole Hospital, Lucerne Pavilion (Lucerne), and a home health services division. APH and WPH are jointly referred to as the Arnold Palmer Medical Center (APMC). Lucerne was formerly Orlando Regional Lucerne Hospital, a separately licensed hospital that was added to the license of ORMC on July 1, 2009.

On February 1, 2006, Orlando Health sold and transferred the property, plant, equipment, and inventory of St. Cloud Hospital, an 84-bed hospital, to OsceolaSC, LLC (OsceolaSC), a for-profit limited liability corporation, which is 20%-owned by the System and 80%-owned by Health Management Associates, Inc. (HMA), a publicly held company. The System's 20% interest in OsceolaSC is accounted for using the equity method with the accounts of OsceolaSC excluded from these consolidated financial statements.

In November 2008, Dr. P. Phillips Hospital opened a new hospital tower that added capacity for 94 more licensed beds, operating rooms, and other ancillary capacity. Renovations of the existing hospital building are still in progress.

Orlando Health controls several affiliates as the sole or majority member, sole shareholder, or through board appointment and approval of all major transactions. These affiliates operate a variety of healthcare-related services, including an outpatient cancer treatment center (M.D. Anderson Cancer Center Orlando), physician and rehabilitative services, a preferred provider organization, a group purchasing organization, a medical office building and outpatient center organization (Downtown Outpatient Building, LLC) created during 2009, and other healthcare-related services. These financial statements include the consolidated accounts of Orlando Health and its controlled affiliates. Significant transactions between entities have been eliminated.

Orlando Health has a 50% membership on the Board of Directors of South Lake Hospital, Inc. (South Lake), a not-for-profit acute care hospital. As Orlando Health does not hold a controlling interest, nor rights and obligations to profits and losses, the accounts of South Lake are excluded from the consolidated financial statements.

2. Significant Accounting Policies

Reclassifications

Certain amounts have been reclassified within the statements of cash flows for the years ended September 30, 2009 and 2008. Restricted contributions and investment income of $9,213,000 and $11,163,000 were reclassified from operating to financing activities for the years ended September 30, 2009 and 2008, respectively. In addition, $2,196,000 of long-term debt proceeds used for loan costs was reclassified from investing to financing activities for the year ended September 30, 2009.

For the year ended September 30, 2009, these corrections to classification reduced cash provided by operating activities from $214,514,000 as previously reported, to $205,301,000 as adjusted, and decreased net cash used in financing activities from $12,434,000 as previously reported to $3,221,000 as adjusted. For the year ended September 30, 2008, these corrections to classification reduced cash provided by operating activities from $136,059,000 as previously reported to $124,896,000 as adjusted, decreased net cash used in investing activities from $127,807,000 as previously reported to $125,611,000 as adjusted, and decreased net cash used in financing activities from $16,272,000 as previously reported to $7,305,000 as adjusted.

Use of Estimates

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

Cash and Cash Equivalents

Investments with maturities of three months or less when purchased are classified as cash equivalents. Cash deposits are federally insured in limited amounts.

Investments and Investment Income

Investments in marketable equity securities and all debt securities are stated at fair value in the consolidated balance sheets. All investments have been designated by management as trading securities. Investment income or loss, including realized and unrealized gains and losses, interest, and dividends, is included in excess (deficiency) of revenues, other support, and gains over expenses and losses, unless the income or loss is restricted by donor or law or capitalized to construction-in-progress. As of September 30, 2008 and 2009, long-term investments are comprised of donor related investments held by Orlando Health Foundation, Inc. (Foundation), a controlled affiliate of Orlando Health. At September 30, 2010, long-term investments include $49,443,000 held by the Foundation and $112,044,000 in unrestricted investments held by Orlando Health.

2. Significant Accounting Policies (continued)

Income Taxes

Orlando Health and the significant consolidating entities are not-for-profit corporations, recognized as tax-exempt under Section 501(a) as an organization described in Sections 501(c)(3) and 501(e) of the Internal Revenue Code of 1986, as amended. The other consolidating entities are organized as for-profit corporations, but have produced net operating losses to date. Accordingly, in accordance with the Income Taxes Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification, these entities have recognized deferred tax assets associated with their net operating losses, along with a full valuation allowance since it is unlikely that these deferred tax assets will be realized.

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under bond indenture agreements, and designated assets set aside by Orlando Health's Board of Directors for future capital investments and malpractice claims. The Board of Directors retains control of, and may use these designated assets for other purposes. Amounts required to meet related current liabilities are reported as current.

Property and Equipment

Property and equipment are recorded at cost, except for donated items, which are recorded at fair value at the date of the contribution. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized, as are interest costs during periods of construction. Depreciation is computed utilizing the straight-line method at rates estimated by management to amortize the cost of the various assets within the periods of expected use. Depreciation of assets recorded as capital leases is included in depreciation expense and accumulated depreciation.

Goodwill

Goodwill results from the excess of the purchase price over the fair value of net assets of investments accounted for under the equity method and acquisitions accounted for as purchases. Goodwill is amortized using the straight-line method over periods of up to 40 years. Amortization of goodwill associated with asset purchases is recorded as amortization expense. Unamortized goodwill is included in other assets.

On December 28, 2009, Orlando Health purchased certain assets of a physician group for $21,400,000 in cash. The purchased assets included $20,335,000 of goodwill, $500,000 in other intangible assets, and $565,000 of fixed assets. The goodwill and other intangible assets are being amortized over seven years.

2. Significant Accounting Policies (continued)

Investments in Related Parties

Investments in related parties in which the System owns or controls at least a 20% interest and less than a 50% voting interest are recorded using the equity method. Investments in related parties of less than a 20% interest are recorded using the cost method, and income is recognized only when cash dividends are received. Income or losses from equity investments and cash dividends received from cost method investments are included in other revenue.

Impairment of Long-Lived Assets

The System evaluates the financial recoverability of long-lived assets, including goodwill, by comparing their carrying value to the expected future undiscounted cash flows. If such evaluations indicate that the carrying value of the assets has been impaired, the assets are adjusted to their fair values. Additionally, long-lived assets held for sale are similarly evaluated by comparison of the carrying value to fair value less costs to sell. If the carrying value exceeds fair value less costs to sell, the assets are adjusted to fair value less costs to sell. Adjustments are reported as impairment expense. During the year ended September 30, 2009, $3,193,000 in previously capitalized planning and architectural costs included in construction in progress were deemed impaired. The costs were associated with a hospital expansion plan, which has changed due to economic conditions. The amount is included in impairment expense.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the System has been limited by donors to a specific time period or purpose. Temporarily restricted net assets are primarily available for property and equipment purchases. Permanently restricted net assets have been restricted by donors to be maintained by the System in perpetuity. Income from restricted funds is used for the restricted purpose as stipulated by the donor.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the System are reported at fair value as of the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value as of the date the gift is received. The gifts are reported as either temporarily or permanently restricted contributions if they are received with donor stipulations that limit their use. When a stipulated time restriction ends or a restricted purpose is accomplished, temporarily restricted net assets are released from restrictions.

Excess (Deficiency) of Revenues, Other Support, and Gains Over Expenses and Losses

The consolidated statements of operations and changes in net assets include excess (deficiency) of revenues, other support, and gains over expenses and losses, which is analogous to income from continuing operations for a for-profit enterprise. Nonoperating gains and losses represent activities peripheral to direct patient care services and include investment income (loss), loss on interest rate swap agreements, loss on early extinguishment of debt, and loss on interest rate hedge terminations. Changes in unrestricted net assets that are excluded from excess

2. Significant Accounting Policies (continued)

(deficiency) of revenues, other support, and gains over expenses and losses, consistent with industry practice, include changes in fair value for derivative financial instruments that qualify as cash flow hedges, 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.

Net Patient Service Revenue

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established charges. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments.

The System provides discounts from established charges to uninsured patients. Such discounts are reflected in net patient service revenue and totaled approximately $56,965,000, $52,649,000, and $60,381,000 for the years ended September 30, 2010, 2009, and 2008, respectively.

Net patient service revenue is reported at estimated net realizable amounts due from patients and third-party payors for medical services rendered, and includes adjustments resulting from reviews and audits of prior year Medicare and Medicaid cost reports. Such adjustments are considered in the recognition and estimation of revenue in the period that services are rendered, and in future periods as the adjustments become known or as cost report years are no longer subject to such reviews and audits. During the year ended September 30, 2010, the Medicaid program audited and settled cost reports for two years, which resulted in a $7,843,000 increase in net patient service revenue. The combined effect from changes of all prior year cost report settlements and adjustments was an increase in net patient service revenue of approximately $13,070,000, $5,400,000, and $2,600,000 for the years ended September 30, 2010, 2009, and 2008, respectively.

The Centers for Medicare and Medicaid Services (CMS) utilizes Recovery Audit Contractors (RAC) to retroactively review the propriety of payments to hospitals for services rendered. During the RAC demonstration project, CMS began recouping amounts previously paid to the System based upon a review of medical records. The System was a part of the demonstration project that reviewed claims from 2002 to 2006, and for 2008 claims, will be subject to the RAC program that was made permanent by Section 302 of the Tax Relief and Healthcare Act of 2006. The System included its history of successful appeals of previously denied claims in estimating its valuation allowances for exposure to RAC audits. The complexities of the Medicare program rules and the nature of the RAC audit process provide at least a reasonable possibility that the System's valuation allowances for exposure to the RAC audit may change in the near term. The effect of the recouping of amounts previously paid to the System was a reduction in net patient service revenue of approximately $2,218,000, $2,657,000, and $5,235,000 for the years ended September 30, 2010, 2009, and 2008, respectively.

During the year ended September, 30, 2010, Orlando Health received $3,623,000 of federal stimulus money through the State of Florida Medicaid Low Income Pool program and recognized the receipt as other revenue.

2. Significant Accounting Policies (continued)

Approximately 25%, 26%, and 24% of net patient service revenue was earned under the Medicare and Medicare HMO programs, and 16%, 14%, and 14% under state Medicaid and Medicaid HMO programs (including patients whose qualification for the Medicaid program is pending), for the years ended September 30, 2010, 2009, and 2008, 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.

Allowance for Doubtful Accounts

The provision for bad debts is based upon management's assessment of historical and expected collections of accounts receivable considering business and economic conditions, trends in healthcare coverage, and other collection indicators. Accounts receivable are written off and charged to the provision for bad debts after collection effort has been followed in accordance with the System's policies. Recoveries are treated as a reduction to the provision for bad debts. Periodically, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category. Results of this review are then used to make modifications to establish an appropriate allowance for uncollectible receivables and provision for bad debts.

Charity Care

The System provides care to patients who meet certain criteria under its charity care policy at no charge or at amounts less than its established charges. Because the System does not pursue collection of amounts determined to qualify as charity care, such amounts are excluded from net patient service revenue. Patients are eligible for charity care if their household income is less than 200% of the federal poverty level guidelines, or the amount of their medical bill is more than 25% of their annual household income, not to exceed 400% of the federal poverty level guidelines. Charity care is provided to all patients meeting these criteria, including those participating in a county program for which the System receives minimal reimbursement. Charity care provided was approximately 5.3%, 6.5%, and 6.2% of total services rendered during the years ended September 30, 2010, 2009, and 2008, respectively, based on total charges for all services in those years. The estimated cost of charity care delivered was approximately $79,870,000, $94,123,000, and $84,200,000 during the years ended September 30, 2010, 2009, and 2008, respectively. Cost is estimated based on the ratio of expenses (excluding bad debt expense) to established patient service charges.

Estimated Malpractice Costs

The provision for estimated medical malpractice claims is an estimate of the ultimate cost of reported claims and claims incurred but not reported.

Derivative Instruments and Hedging Activities

Derivative instruments are recorded at their fair value as either an asset or liability. Accounting for changes in the fair value depends on whether the derivative has been designated as part of a hedging relationship and on the type of hedging relationship. Derivative instruments designated as hedging instruments are further designated as either fair

2. Significant Accounting Policies (continued)

value hedges or cash flow hedges, depending on the exposure being hedged. The System's derivative instruments are limited to cash flow hedging relationships, whose purpose is to hedge the variability in future cash flows attributed to interest rate fluctuations. The change in fair value of those derivative instruments, less any ineffective portion thereof, that meet the criteria of an effective hedge is reported as other changes in unrestricted net assets. The ineffective portion of the derivative instruments that do meet hedge accounting criteria is recognized in excess (deficiency) of revenues, other support, and gains over expenses and losses, as are changes in fair value on derivative instruments not meeting hedge accounting requirements.

In March 2008, new reporting requirements issued related to the Derivatives and Hedging Topic of the FASB Accounting Standards Codification requires enhanced disclosures about an entity's derivative and hedging activities, and is thereby intended to improve the transparency of financial reporting. The disclosure requirements were effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The System adopted the requirements effective March 31, 2009. The only effect of the requirements was to provide additional information about the System's derivatives and hedging activity. The only derivatives the System has entered into are the interest rate swap agreements. The System has no other derivative instruments or hedging transactions. The Construction Loan Swap is a 30-day LIBOR swap and all of the other swaps are 68% of 30-day LIBOR swaps. In all cases, Orlando Health pays fixed rates and receives variable rates, and none of the swaps meet hedge accounting requirements. After the 1999 interest rate swap agreements were terminated in 2008, valuation changes of all interest rate swaps are accounted for in the nonoperating gains and losses section of the consolidated statements of operations and changes in net assets.

Functional Expenses

The System does not present expense information by functional classification since substantially all of its activities and resources are derived from the provision of healthcare services in a manner similar to that of a business enterprise. Other financial indicators included in these consolidated financial statements are important in evaluating how well management has discharged its stewardship responsibilities.

Recent Accounting Pronouncements

In August 2010, the FASB issued ASU No. 2010-23, *Measuring Charity Care for Disclosure (ASU 2010-23)*. The provisions of ASU 2010-23 are intended to reduce the diversity in how charity care is calculated and disclosed by health care entities. Charity care is required to be measured at cost, defined as the direct and indirect costs of providing the charity care. As Orlando Health does not recognize revenue when charity care is provided, ASU 2010-23 will have no effect on the consolidated statements of operations and changes in net assets. ASU 2010-23 only requires additional disclosures, including the method used to estimate the cost of charity care. This new guidance is effective for fiscal years beginning after December 15, 2010, with early application permitted. Orlando Health will adopt the new disclosure requirements in its consolidated financial statements for the year ended September 30, 2012, however significant changes to Orlando Health's current disclosures are not expected.

2. Significant Accounting Policies (continued)

In August 2010, the FASB issued ASU No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries (ASU 2010-24)*. ASU 2010-24 prohibits the netting of insurance recoveries against a related claim liability and requires the claim liability to be calculated without consideration of insurance recoveries. This guidance is effective for fiscal years beginning after December 15, 2010, with early application permitted. Orlando Health will adopt ASU 2010-24 in the first quarter of fiscal year 2012. Management has determined that as of September 30, 2010, this guidance would have no impact on Orlando Health's consolidated financial position or results of operations.

FASB Statement No. 164, Not-for-Profit Entities: Mergers and Acquisitions – Including an amendment of FASB Statements No. 142 (Statement 164, codified primarily within ASC 958-805), provides guidance for business combinations entered into by not-for-profit organizations. It requires mergers to be accounted for using the carryover method and acquisitions to be accounted for using the acquisition method. Statement 164 allows for recognition of a contribution when net assets are received without transferring consideration, or if the consideration transferred is less than the fair value of the net assets received. Statement 164 amends ASC 350 to include not-for-profit entities within its scope, thus requiring not-for-profit entities to cease amortizing goodwill and other indefinite-lived intangible assets and perform impairment testing on at least an annual basis. Statement 164 amends ASC 810 to include not-for-profit entities within the scope of the content resulting from the issuance of FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements. Statement 164 is effective for mergers for which the merger date is on or after the beginning of the initial reporting period of the new entity that begins on or after December 15, 2009. Statement 164 is effective for acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2009. Statement 164 requires entities to perform a transitional intangible impairment test within six months of the beginning of the fiscal year beginning after December 15, 2009. Orlando Health has adopted this standard effective October 1, 2010, and will be required to perform a transitional impairment analysis by March 31, 2011. Amortization of goodwill will cease as of October 1, 2010, which is expected to reduce amortization expense by approximately $4,000,000 for the fiscal year ended September 30, 2011.

3. Fair Value Measurements

Reporting requirements issued related to the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification (Fair Value Topic) defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The reporting requirements were effective for fiscal years beginning after November 15, 2007. Orlando Health adopted the requirements effective for the year ended September 30, 2009, and the effect of such is reflected herein. The only impact of adoption was the use of additional information to value interest rate swap agreements, which reduced the liability at September 30, 2009, by $4,157,000 from what would have been recorded prior to adoption. All other fair value measurement methods were already consistent with the requirements of the Fair Value Topic.

The Fair Value Topic defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs in measuring fair value, and establishes a three level hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

3. Fair Value Measurements (continued)

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Level 1 primarily consists of financial instruments such as money market securities, certain U.S. Treasury and agency securities, U.S. corporate debt securities, and listed equity securities.

Level 2 – Observable pricing inputs other than quoted prices included within Level 1, including quoted market prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable or are derived principally from, or corroborated by, observable market data by correlation or other means.

Level 3 – Unobservable pricing inputs that are supported by little or no market activity, are significant to the fair value of the assets or liabilities, and reflect our own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The System has no financial assets or financial liabilities with significant Level 3 inputs.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument in accordance with the provisions of the Fair Value Topic:

***Cash and cash equivalents*:** The carrying amount reported in the consolidated balance sheets approximates fair value.

***Short-term investments, long-term investments, and assets limited as to use*:** The carrying amount reported in the consolidated balance sheets is fair valued, based on quoted market prices, or estimated using quoted market prices for similar securities.

***Long-term debt*:** Fair value of fixed rate debt is estimated based on applicable quoted interest rate yield curves applied to the outstanding issues as of the end of each period. The carrying value of variable-rate debt approximates its fair value.

Interest rate swap agreements: Assets are included in other assets, and liabilities are included in other noncurrent liabilities. Estimates are based on quoted market prices or estimated based on derivative pricing models that involve adjusting the periodic mid-market values to incorporate nonperformance risk of Orlando Health when the financial instrument is a liability or the nonperformance risk of the counterparty when the financial instrument is an asset.

The derivative valuations determined by mid-market quotations are considered Level 2 assets or liabilities since quoted prices can be obtained from a number of dealer counterparties and other independent market sources based on observable interest rates and yield curves for the full term of the asset or liability.

3. Fair Value Measurements (continued)

Estimated fair values of the System's financial instruments, other than derivatives, are as follows:

	Financial Asset (Liability) September 30		
	2010	**2009**	**2008**
		(In Thousands)	
Fair value			
Cash and cash equivalents	**$ 123,007**	$ 243,610	$ 110,621
Long-term debt	**(817,462)**	(790,894)	(758,236)
Carrying value			
Cash and cash equivalents	**123,007**	243,610	110,621
Long-term debt	**(780,788)**	(774,603)	(787,037)

The estimated fair value of interest rate swap agreements that hedge interest rate fluctuations on variable rate bonds and loans is presented below. These amounts are included in other noncurrent liabilities in the accompanying consolidated balance sheets.

	Asset (Liability) September 30		
	2010	**2009**	**2008**
		(In Thousands)	
2004 Swap	**$ –**	$ (623)	$ (118)
2007A1A2 Swaps	**(24,609)**	(16,903)	(10,273)
2008D-G Swaps	**(8,405)**	(16,150)	(6,596)
Construction Loan Swap	**(2,820)**	(730)	–

3. Fair Value Measurements (continued)

The following table represents the fair value hierarchy of the System's financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2010:

	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Financial assets:				
U.S. Treasury and agency obligations	$ 283,469	$ –	$ –	$ 283,469
U.S. corporate bonds	216,204	–	–	216,204
Equity securities	141,141	–	–	141,141
Cash and cash equivalents	53,144	–	–	53,144
Municipal bonds	27,523	–	–	27,523
Mortgage-backed obligations	7,992	–	–	7,992
Hedge fund	861	–	–	861
	$ 730,334	$ –	$ –	$ 730,334
Financial liabilities:				
Interest rate swap agreements	$ –	$ 35,834	$ –	$ 35,834

4. Investments

Investment income (loss) is comprised of the following:

	Year Ended September 30		
	2010	**2009**	**2008**
		(In Thousands)	
Interest income	**$ 16,156**	$ 17,045	$ 18,550
Change in unrealized gains (losses)	**14,808**	19,096	(32,210)
Realized gains (losses) on sales of securities	**8,544**	(4,313)	5,325
	$ 39,508	$ 31,828	$ (8,335)

4. Investments (continued)

The composition of short-term investments, long-term investments, and assets limited as to use is presented below:

	September 30		
	2010	**2009**	**2008**
		(In Thousands)	
U.S. Treasury and agency obligations	**$ 283,469**	$ 201,135	$ 211,464
U.S. corporate bonds	**216,204**	137,458	88,771
Equity securities	**141,141**	108,380	93,196
Cash and cash equivalents	**53,144**	62,309	72,990
Municipal bonds	**27,523**	22,939	33,520
Mortgage-backed obligations	**7,992**	–	–
Hedge Fund	**861**	–	–
Flexible draw and repurchase agreements	**–**	–	31,194
	$ 730,334	$ 532,221	$ 531,135

5. Investments in Related Parties

Downtown Outpatient Building, LLC

On June 29, 2009, Orlando Health's controlled affiliate, Healthnet Services, Inc. (Healthnet), created a new Florida limited liability company, Downtown Outpatient Building, LLC (DOB) for the purpose of developing a medical office and outpatient services building on the downtown campus, next to ORMC. DOB is a controlled affiliate of Orlando Health since Healthnet is currently the sole owner, and is consolidated into these Orlando Health consolidated financial statements. On July 8, 2010, Orlando Health purchased the partially completed medical office building from DOB. The purchase was made at a price equal to the construction costs incurred to date by DOB. Orlando Health paid off the original construction loan with proceeds of the new construction loan and took assignment of DOB's interest rate swap with the bank.

OsceolaSC, LLC

On February 1, 2006, the System received $47,607,000 for the property and equipment of St. Cloud Hospital, which had a net book value of $9,085,000, and recognized a $38,522,000 gain from the sale. The System simultaneously invested $9,600,000 of these proceeds into the newly formed OsceolaSC partnership for the System's 20% interest in OsceolaSC. The net cash received of $38,007,000 represents HMA's 80% interest in OsceolaSC. As a result of this transaction, the property and equipment of St. Cloud Hospital were released from the mortgage, securing repayment of Orlando Health's bond issues. Some of the plant and equipment of St. Cloud Hospital were financed with tax-exempt bonds, of which approximately $6,155,000 was redeemed or defeased in April 2006 as required under federal tax regulations. The System's equity investment in OsceolaSC is included in investments in related parties and amounted to $11,954,000, $10,884,000, and $10,474,000 at September 30, 2010, 2009, and 2008, respectively. Earnings on the investment are included in other revenue and amounted to $1,091,000, $916,000, and $542,000 for the years ended September 30, 2010, 2009, and 2008, respectively.

5. Investments in Related Parties (continued)

South Lake

Effective October 1, 1995, the System entered into an arrangement with South Lake County Hospital District (the District), whereby the two entities formed and jointly control South Lake, a Section 501(c)(3) not-for-profit corporation. Under the terms of the joint venture, the District leased its hospital assets to South Lake for 99 years. The System contributed $7,400,000 to the District for the purpose of establishing a new Foundation for health and other charitable services to South Lake County and contributed $500,000 to South Lake. In exchange for the cash contribution to the District, the System received an option to purchase the leased assets and transfer them to South Lake at any time throughout the 99-year lease period. These amounts are included in investments in related parties in the consolidated financial statements. The System has no rights to the profits or obligations for the losses of South Lake. The System agreed to extend a line of credit, not to exceed $7,400,000 to South Lake, if needed, with repayments including interest at the prime rate. The System provides management services to South Lake at cost according to the terms of a Management Agreement. During 2010 and 2009, the System amended the Management Agreement to provide that for eight months beginning on February 1, 2010, and eight months beginning on February 1, 2009, South Lake would be under no obligation to reimburse the System for the cost of the management services. The cost of the services provided during the years ended September 30, 2010 and 2009, was $6,999,000 and $6,431,000 respectively, of which $4,673,000 and $4,328,000, respectively, was not reimbursed.

The Corporation guaranteed South Lake Hospital's (South Lake) $38,000,000 Revenue Bonds, Series 1999 (1999 Bonds), dated July 1, 1999. On May 14, 2010, South Lake issued $34,330,000 of Revenue Bonds, Series 2010 (2010 Bonds), and used the proceeds to refund the 1999 Bonds for the purpose of reducing future debt service. The Corporation guarantees the 2010 Bonds. As of September 30, 2010, $34,330,000 of the 2010 Bonds was outstanding. As of the date of this filing, there have never been any payments made or requested under the line of credit or guaranty, and in the opinion of management of the Corporation, no funding of such guaranteed indebtedness will be necessary.

6. Property and Equipment

Property and equipment consist of the following:

	September 30		
	2010	**2009**	**2008**
		(In Thousands)	
Land and improvements	**$ 71,568**	$ 69,120	$ 68,448
Buildings	**613,386**	566,730	498,454
Equipment	**1,135,901**	1,083,739	955,421
	1,820,855	1,719,589	1,522,323
Less accumulated depreciation	**(993,909)**	(905,851)	(817,624)
	826,946	813,738	704,699
Construction-in-progress	**38,737**	53,984	160,218
	$ 865,683	$ 867,722	$ 864,917

Construction-in-progress represents numerous construction and renovation projects. Estimated costs to complete these projects as of September 30, 2010 are approximately $58,339,000, which includes $19,311,000 in remaining construction costs associated with a medical office building and outpatient center expected to be completed by the fall of 2011 and financed with a construction loan described below. The remainder of these projects will be funded by fund-raising activities, funds designated by the Board of Directors, proceeds from future bond issues, future cash flow, or unrestricted cash on hand.

Equipment includes approximately $4,523,000 of costs associated with information system projects-in-progress at September 30, 2010. Estimated costs to complete these projects as of September 30, 2010, are approximately $15,692,000, and are expected to be paid from future cash flow or unrestricted cash on hand.

The System leases property and equipment for a variety of purposes under operating leases. Operating lease expense is classified as supplies and other expenses and amounted to $17,037,000, $13,671,000, and $12,093,000 for the years ended September 30, 2010, 2009, and 2008, respectively.

7. Long-Term Debt

Long-term debt consists of the following:

	September 30		
	2010	**2009**	**2008**
		(In Thousands)	
Fixed rate hospital revenue bonds – secured			
Series 2009 – fixed rate plus net unamortized premium of $2,957,000 at September 30, 2010, interest rates from 3.0% to 5.375%, payable through 2027	**$ 244,092**	$ –	$ –
Series 2008A and B – fixed rate plus net unamortized premium of $1,036,000, $1,080,000, and $1,124,000 at September 30, 2010, 2009, and 2008, respectively, interest rates from 4.00% to 5.25%, payable through 2036	**152,461**	154,330	155,799
Series 2008C – fixed rate less net unamortized discount of $1,541,000, $1,591,000, and $1,640,000 at September 30, 2010, 2009, and 2008 respectively, interest rates from 5.250% to 5.375%, payable 2029 through 2042	**78,684**	78,634	78,585
Series 2006B – fixed rate plus unamortized premium of $695,000, $720,000, and $746,000 at September 30, 2010, 2009, and 2008, respectively, interest rates from 4.750% to 5.125%, payable 2034 through 2040	**75,345**	75,370	75,396
Series 1999D and E – fixed rate less net unamortized discount of $292,000 and $323,000 at September 30, 2009 and 2008, respectively	**–**	103,463	104,657
Series 1996A and Series 1996C – fixed rate plus unamortized premium of $1,531,000, $1,770,000, and $2,018,000 at September 30, 2010, 2009, and 2008 respectively, interest rates from 3.75% to 6.25%, payable through 2022	**66,306**	69,150	71,848
Variable rate hospital revenue demand bonds – secured			
Series 2008E	**54,130**	54,130	54,130
Series 2008D, F and G	**–**	125,230	125,230
Series 2007A1 and A2	**90,000**	90,000	90,000
Series 2004	**–**	21,035	27,505
Notes payable and other indebtedness			
Construction Loan – secured, variable interest rate of 30-day LIBOR plus 3.5%	**19,079**	2,515	–
1991 Orange County Health Facilities Authority	**–**	–	2,131
Capital leases and other	**691**	746	1,756
Total debt, net of premiums and discounts	**780,788**	774,603	787,037
Less current portion, excluding premiums and discounts	**(14,657)**	(12,567)	(13,427)
Total long-term debt	**$ 766,131**	$ 762,036	$ 773,610

7. Long-Term Debt (continued)

Aggregate principal amounts of long-term debt outstanding, excluding premiums and discounts, are due during the following years ending September 30: $14,657,000 in 2011, $15,640,000 in 2012, $16,468,000 in 2013, $35,684,000 in 2014, $17,952,000 in 2015, and $675,708,000 thereafter.

Master Trust Indenture

An Amended and Restated Master Indenture (Master Indenture), dated as of August 1, 1999, was executed by Orlando Health. All obligations issued under the Master Indenture are equally and ratably secured by (i) a mortgage on substantially all real property and a security interest in certain tangible personal property of Orlando Health pursuant to a Mortgage and Security Agreement, dated as of August 1, 1999, by Orlando Health in favor of the Master Trustee, and (ii) a pledge of the accounts (as defined in Article 9 of the Florida Uniform Commercial Code) and the Gross Revenue of Orlando Health. The Master Indenture provides for specific restrictive covenants, including a debt service coverage requirement. Orlando Health, Inc. is the only member of the Obligated Group under the terms of the Master Indenture, and is subject to these covenants. None of Orlando Health's controlled affiliates are members of the Obligated Group. Financial information of the Obligated Group is included in the Other Financial Information appearing on pages 31 and 32.

Hospital Revenue Bonds, Series 1999A-E

In September 1999, the Orange County Health Facilities Authority (Authority) issued Hospital Revenue Bonds, Series 1999A, B, and C auction rate bonds (1999ABC Bonds), and Series 1999 D and E fixed rate bonds (1999DE Bonds) for Orlando Health. A portion of the proceeds of the 1999ABC Bonds and 1999DE Bonds were used to advance refund certain existing indebtedness (Series 1996A and C) of Orlando Health. The 1999ABC Bonds and 1999DE Bonds were secured under the terms of the Master Indenture. The 1999ABC Bonds were refunded by the Series 2008D-G Bonds described below. On January 15, 2010, the 1999DE Bonds were redeemed as described below. As of September 30, 2010, $57,005,000 of the Series 1996A and C bonds remain outstanding, but Orlando Health is no longer the obligor as this portion was refunded.

Hospital Revenue Bonds, Series 2004

On December 17, 2004, the Authority issued $52,070,000 in Hospital Revenue Bonds, Series 2004 (2004 Bonds) for Orlando Health to refund the remaining Series 1993B fixed rate bonds. The 2004 Bonds were variable rate demand bonds, secured by the terms of the Master Indenture, and supported by an irrevocable and extendable letter of credit. The 2004 Bonds were redeemed on January 15, 2010, as described below.

Hospital Revenue Bonds, Series 2005A, 2006A, 2008A, and 2008B

On May 16, 2005, the Authority issued $51,050,000 in Series 2005A Bonds (2005A Bonds) for Orlando Health to refund the remaining Series 1993 Bonds, and provide $15,000,000 in funding for certain prior capital expenditures. The Series 2005A Bonds were issued as insured Select Auction Variable Rate Securities (SAVRS), secured under the terms of the Master Indenture.

7. Long-Term Debt (continued)

On January 25, 2006, the Authority issued $106,800,000 in Series 2006A-1 and A-2 bonds (2006A Bonds) for Orlando Health to refund the remaining Series 2002 Bonds, and provide $6,809,000 to finance and reimburse Orlando Health for construction and equipment costs for improvements at ORMC. The Series 2006A Bonds were issued as insured Auction Rate Securities (ARS), secured under the terms of the Master Indenture.

On May 15, 2008, the 2005A Bonds and 2006A Bonds were converted to insured fixed rate bonds, and were re-offered and sold as Series 2008A and Series 2008B bonds (2008AB Bonds), respectively. The 2008AB Bonds are secured under the terms of the Master Indenture.

Hospital Revenue Bonds, Series 2006B

On January 25, 2006, the Authority issued $74,650,000 in Series 2006B Bonds (2006B Bonds) for Orlando Health to finance and reimburse Orlando Health for a portion of the construction and equipment costs of the new WPH. The 2006B Bonds are uninsured fixed rate bonds, secured under the terms of the Master Indenture.

Hospital Revenue Bonds, Series 2007A, 2007B, and 2008C

On January 25, 2007, the Authority issued $90,000,000 in Hospital Revenue Bonds, Series 2007A-1, A-2 (2007A Bonds), and $60,000,000 in 2007B Bonds (2007B Bonds) for Orlando Health to finance and reimburse Orlando Health for construction and equipment costs of improvements that include a new patient tower at Dr. P. Phillips Hospital. The Series 2007A Bonds and 2007B Bonds were issued as insured variable rate demand bonds, secured under the terms of the Master Indenture.

On June 18, 2008, the Authority issued $80,200,000 in Hospital Revenue Bonds, Series 2008C for Orlando Health to repay a $55,500,000 line of credit draw used to refund the 2007B Bonds, reimburse Orlando Health for certain prior capital expenditures, fund a debt service reserve fund, and pay costs of issuance. The Series 2008C Bonds are uninsured fixed rate bonds, secured under the terms of the Master Indenture.

Hospital Revenue Bonds, Series 2008D-G

On June 18, 2008, the Authority issued $179,360,000 in Hospital Revenue Bonds, Series 2008D, E, F, and G (2008D-G Bonds) for Orlando Health. Together with the debt service reserve funds from the 1999ABC Bonds, the proceeds were used to refund the 1999ABC Bonds, pay costs of issuance, and pay the termination value of interest rate swap agreements that hedged the variable rate exposure of the 1999ABC Bonds. The Series 2008D-G Bonds were variable rate demand bonds, secured under the terms of the Master Indenture, and supported by irrevocable and extendable letters of credit with an initial combined amount of $179,360,000 plus 40 days of interest that expire on June 18, 2011. On December 23, 2009, the Series 2008D, F and G bonds were redeemed as described below.

The Series 2008E bonds remain outstanding and are supported by an irrevocable and extendable letter of credit. On May 27, 2009, Orlando Health changed its letter of credit provider on the Series 2008E bonds in the amount of $54,130,000. The 2008E bonds were remarketed and a Remarketing Supplement was issued on that date. BB&T Capital Markets is now the remarketing agent on the Series 2008E Bonds.

7. Long-Term Debt (continued)

Hospital Revenue Bonds, Series 2009

On December 16, 2009, the Authority issued $241,135,000 of fixed rate Hospital Revenue Bonds (2009 Bonds) on behalf of Orlando Health. The proceeds from the sale of the 2009 Bonds were used to currently refund the bonds described below and pay the costs of issuance of the 2009 Bonds, including swap termination payments related to some of the refunded bonds.

Bonds Redeemed on January 15, 2010

1999D Bonds – $31,397,031 of the proceeds of the 2009 Bonds were deposited into an escrow fund for the benefit of the owners of the Series 1999D Bonds. The funds were used to redeem the Series 1999D Bonds on January 15, 2010 at a price of 101% plus accrued interest.

1999E Bonds – $58,657,178 of the proceeds of the 2009 Bonds were deposited into an escrow fund for the benefit of the owners of the Series 1999E Bonds. The funds were used to redeem the Series 1999E Bonds at a price of 101% plus accrued interest through January 15, 2010.

2004 Bonds – $14,335,010 of the proceeds of the 2009 Bonds was deposited in a bond fund for the benefit of the owners of the Series 2004 Bonds. The funds were used to redeem the Series 2004 Bonds at a price of 100% plus accrued interest through January 15, 2010.

Bonds Redeemed on December 23, 2009

2008D Bonds – $54,130,010 of the proceeds of the Bonds was deposited in a bond fund for the benefit of the owners of the Series 2008D Bonds. The funds were used to redeem the Series 2008D Bonds at a price of 100% plus accrued interest.

2008F Bonds – $35,550,000 of the proceeds of the Bonds were deposited in a bond fund for the benefit of the owners of the Series 2008F Bonds. The funds were used to redeem the Series 2008F Bonds at a price of 100% plus accrued interest.

2008G Bonds – $35,550,000 of the proceeds of the Bonds were deposited and held in a bond fund for the benefit of the owners of the Series 2008G Bonds. The funds were used to redeem the Series 2008G Bonds at a price of 100% plus accrued interest.

7. Long-Term Debt (continued)

Construction Loan

On June 30, 2009, DOB entered into a five-year credit agreement and promissory note (Construction Loan) with a bank whereby the bank provided advances up to a maximum of $37,500,000 to fund construction of a medical office and outpatient services building. Interest on the loan was equal to 30-day LIBOR plus 3.5%, payable monthly at interest only for two years, then principal and interest on a 30-year amortization for the remaining three years, with all principal due at the end of the five years. The Construction Loan was secured by a lien on DOB's 75-year ground lease from Orlando Health, as well as its building and personal property.

On July 8, 2010, as part of the purchase of the medical office building from DOB, the Corporation received a new $15,836,800 loan from the same bank, which was the same amount as the original loan. The loan may increase to a total of $37,500,000. The new loan (also referred to as the Construction Loan) is a variable rate loan that matures on June 30, 2014. It is secured under the Master Indenture by gross revenues of Orlando Health and the mortgage.

Interest Rate Swap Agreements

In an effort to reduce costs of issuance and take advantage of low interest rates in effect at various times, Orlando Health has entered into interest rate swap arrangements which fix the interest rate on portions of variable rate bonds. The notional amounts under interest rate swap agreements hedging bonds are substantially the same as the principal maturities of the respective outstanding bond series. The construction loan swap will hedge the majority of the construction loan at the maximum loan amount. Net interest receipts and payments are recognized as an adjustment to interest expense or as capitalized interest during periods of construction. With the exception of the 1999 Swaps discussed below, the swap agreements are not accounted for under hedge accounting criteria. Therefore, changes in the value of the swap agreements (except for the 1999 swaps) are included in loss on interest rate swap agreements.

1999 Swaps

On September 26, 1999, Orlando Health entered three floating to fixed cost of funds interest rate swap agreements (1999 Swaps) on an initial $159,000,000 combined notional amount, adjusted for routine principal payments of the insured 1999ABC Bonds. The purpose of the 1999 Swaps was to hedge against interest rate fluctuations on the 1999ABC Bonds. In accordance with the terms of the 1999 Swaps, Orlando Health paid fixed rates of 5.18% and 5.25% and received the actual variable interest rates on the 1999 SAVRS applied to the notional amounts. The 1999 Swaps were to expire between the years 2022 and 2026. The 1999 Swaps were considered effective cash flow hedges, and accordingly, valuation adjustments were recorded in other changes in unrestricted net assets.

On April 3, 2008, in accordance with a provision of the swap agreements, the 1999 Swaps were converted to percent of LIBOR swaps and valuation changes from that date through termination were recorded as nonoperating gains and losses. As of that date, the 1999 Swaps' value was a liability of $38,216,000. From April 3, 2008 through June 18, 2008, the value of the 1999 Swap changed to a liability of $35,845,000, and the valuation change for that period was recorded as nonoperating gains and losses. On June 18, 2008, the 1999 Swaps were terminated as part of the refunding of the 1999ABC Bonds, and Orlando Health paid the counterparty $35,800,000 to settle the swap liability.

7. Long-Term Debt (continued)

Since the 1999 Swaps were not held to maturity, and $38,216,000 of cumulative valuation adjustments were previously recognized as changes in unrestricted net assets, the cumulative valuation change was reclassified to nonoperating gains and losses.

2008D-G Swaps (converted from 2006A Swaps and 2007B Swap)

On December 8, 2005, the System entered into two floating to fixed interest rate swap agreements (2006A Swaps) effective January 25, 2006. The original purpose of the 2006A Swaps was to hedge the risk of interest rate fluctuations associated with the 2006A Bonds. On June 18, 2008, the terms of the 2006A Swaps were amended to hedge variable rate exposure on the 2008 D-G Bonds. On June 19, 2008, a swap settlement payment of $2,100,000 was paid to the counterparty.

On June 14, 2006, the System entered into a forward starting floating-to-fixed interest rate swap agreement (2007B Swap) with an effective date of January 25, 2007. The purpose of the 2007B Swap was to hedge the risk of interest rate fluctuations associated with the 2007B Bonds. Since the 2007B Bonds were redeemed in 2008, the swap terms were amended for the purpose of hedging fluctuations in interest rates on the 2008D-G Bonds. The revision was effective June 18, 2008, and resulted in a $3,596,000 settlement payment to the counterparty.

The combined amended 2006A Swaps and amended 2007B Swap are referred to as the 2008D-G Swaps, with amended terms effective as of June 18, 2008. All but $13,100,000 of the 2008D-G Bonds are hedged with the 2008D-G Swaps.

Construction Loan Swap

On June 30, 2009, DOB entered into a forward starting floating to fixed interest rate swap agreement (Construction Loan Swap) effective October 1, 2010 and terminating January 1, 2014. The purpose of the Construction Loan Swap is to hedge the risk of interest rate fluctuations associated with the majority of the Construction Loan. DOB assigned the Construction Loan Swap to Orlando Health when Orlando Health obtained the new Construction Loan on July 8, 2010. The Construction Loan Swap is not insured and has no collateral requirements for either party. There were no changes in the terms of the swap.

7. Long-Term Debt (continued)

The following summarizes outstanding swap positions as of September 30, 2010:

	Construction Loan Swap	2008D-G Swaps	2007A1A2 Swaps
		(In Thousands)	
Initial Notional Amount	$ 32,000*	$ 55,000	$ 90,000
Notional Amount at September 30, 2010	$ –	$ 54,130	$ 90,000
Current Bond or Loan Hedged	Construction Loan	2008D-G Bonds	2007A1A2 Bonds
Original Bond or Loan Hedged	Construction Loan	2006A Bonds	2007A1A2 Bonds
Maturity date	1/1/2014	10/1/2026	10/1/2026
Fixed rate paid	3.630%	3.385%	3.860%
Floating rate received	100% 30-day USD-LIBOR-BBA	68% 30-day USD-LIBOR-BBA	68% 30-day USD-LIBOR-BBA

*Effective October 1, 2010

7. Long-Term Debt (continued)

The following summarizes swap asset (liability) positions held during each year:

	Construction Loan Swap	2008D-G Swaps	2007A1A2 Swaps	2004 Swap	2007B Swap	2006A Swaps	1999 Swaps	Total
				(In Thousands)				
Cumulative position at September 30, 2007	$ –	$ –	$ (2,757)	$ 444	$ (1,838)	$ 1,178	$(25,866)	$(28,839)
Net losses during the year ended September 30, 2008	–	(6,596)	(5,565)	(562)	(3,710)	(3,278)	(9,979)	(29,690)
Cumulative position at termination date during the year ended September 30, 2008	–	–	–	–	(3,596)	(2,100)	(35,845)	(41,541)
Cumulative position at September 30, 2008	–	(6,596)	(10,273)	(118)	–	–	–	(16,987)
Net losses during the year ended September 30, 2009	(730)	(9,554)	(6,630)	(505)	–	–	–	(17,419)
Cumulative position at September 30, 2009	(730)	(16,150)	(16,903)	(623)	–	–	–	(34,406)
Net losses during the year ended September 30, 2010	(2,090)	(3,645)	(7,706)	(111)	–	–	–	(13,552)
Cumulative position of terminated swaps at termination date during the year ended September 30, 2010	–	11,390	–	734	–	–	–	12,124
Cumulative position at September 30, 2010	$ (2,820)	$ (8,405)	$(24,609)	$ –	$ –	$ –	$ –	$(35,834)

7. Long-Term Debt (continued)

Interest Costs

During periods of construction, interest costs on construction borrowings are capitalized to the respective property accounts. Capitalized interest is reduced by earnings on the investments held by the bond trustee for construction. Capitalized interest costs amounted to $1,553,000, $2,517,000, and $4,751,000 for the years ended September 30, 2010, 2009, and 2008, respectively.

The total of interest cost expensed and capitalized approximates interest paid.

8. Line of Credit

Orlando Health has $10,000,000 available under a line of credit with a local bank. At September 30, 2010, none of the available line of credit had been drawn. Interest on the line of credit is based on LIBOR, adjusted monthly and payable quarterly.

During March and April 2008, Orlando Health temporarily increased its available line of credit to $71,000,000 and drew $55,500,000 to partially fund the redemption of $60,000,000 in outstanding 2007B Bonds. In June 2008, Orlando Health repaid the full amount drawn.

9. Employee Retirement Plan

Certain employees of the System are eligible to participate in a defined contribution retirement plan (403b). Plan participants may elect to contribute up to the lesser of $16,500 or 50% of their annual compensation. Upon completion of one year of continuous service and having attained age 21, the System contributes 1.25% of the participants' compensation plus 50% of the participants' contributions, up to 3% of the participants' compensation. The System's expense under the employee retirement plan amounted to $16,722,000, $15,469,000, and $14,050,000 for the years ended September 30, 2010, 2009, and 2008, respectively.

10. Malpractice Insurance

The System is self-insured for medical malpractice risk not covered under a commercial malpractice policy. Losses are accrued based on estimates provided by the System's consulting actuary, and are based on actuarial assumptions that incorporate the System's past experience and other considerations, including the nature of each claim or incident, and relevant trends. The accrued liability for self-insured claims amounted to $96,278,000, $91,020,000, and $76,587,000 on a discounted basis at September 30, 2010, 2009, and 2008, respectively, of which $24,070,000, $22,755,000, and $19,147,000 are included in other current liabilities. The System has on deposit, in a revocable trust, cash and investments totaling $75,014,000, $69,667,000, and $62,107,000 at September 30, 2010, 2009, and 2008, respectively, to be used for the payment of self-insured claims in the future. Medical malpractice expense of $30,243,000, $33,166,000, and $24,963,000 for the years ended September 30, 2010, 2009, and 2008, respectively, is included in supplies and other expenses.

11. Commitments

The System leases equipment and space under operating leases with various lease terms. Aggregate future minimum lease payments under these leases total $51,576,000 and are payable during the following years ending September 30: $12,165,000 in 2011, $11,159,000 in 2012, $7,107,000 in 2013, $5,942,000 in 2014, $4,795,000 in 2015, and $10,408,000 thereafter.

On August 30, 2007, Orlando Health entered into an agreement to purchase land at a purchase price of $3,277,500. A cash deposit of $3,277,500 was paid October 1, 2007, and held in escrow until the transaction closed on December 18, 2009.

12. Concentrations of Credit Risk

The System grants credit without collateral to its patients, most of whom are local residents, insured under third-party payor agreements. The mix of receivables from patients and third-party payors before allowances for doubtful accounts is as follows:

	September 30		
	2010	**2009**	**2008**
Medicare	**18%**	21%	22%
Medicaid	**26**	24	19
Other third-party payors	**31**	26	38
Patients	**25**	30	21

13. Subsequent Events

In preparing these financial statements, the System has evaluated events and transactions for potential recognition and disclosure through November 23, 2010, the date the consolidated financial statements were available to be issued. During this period, there were no subsequent events that required recognition in the consolidated financial statements. Additionally, there were no unrecognized subsequent events that required disclosure.

Other Financial Information

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Report of Independent Certified Public Accountants on Other Financial Information

The Board of Directors
Orlando Health, Inc.

Our 2010 audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating balance sheet at September 30, 2010, and consolidating statement of operations for the year ended September 30, 2010, on pages 31 and 32 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audit of the 2010 basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2010 basic consolidated financial statements taken as a whole.

Ernst & Young LLP

November 23, 2010

Orlando Health, Inc. and Controlled Affiliates

Consolidating Balance Sheet

September 30, 2010
(In Thousands)

	Consolidated	Eliminations	Obligated Group	Controlled Affiliates
Assets				
Current assets:				
Cash and cash equivalents	$ 123,007	$ –	$ 113,262	$ 9,745
Short-term investments	176,170	–	176,170	–
Assets limited as to use	54,630	–	54,630	–
Accounts receivable, net	216,797	–	213,207	3,590
Other receivables	24,386	(6,388)	15,502	15,272
Other current assets	39,665	–	39,322	343
Total current assets	634,655	(6,388)	612,093	28,950
Assets limited as to use:				
Debt service and reserve funds held by bond trustee	57,356	–	57,356	–
Designated by board for property and equipment	260,307	–	260,307	–
Designated by board for malpractice self-insurance	75,014	–	75,014	–
	392,677	–	392,677	–
Less amount required to meet current obligations	(54,630)	–	(54,630)	–
	338,047	–	338,047	–
Long-term investments	161,487	–	112,044	49,443
Investments in related parties	20,098	(200)	8,343	11,955
Other assets	83,887	(66,375)	127,917	22,345
Property and equipment, net	865,683	–	861,468	4,215
Total assets	$ 2,103,857	$ (72,963)	$ 2,059,912	$ 116,908
Liabilities and net assets				
Current liabilities:				
Accounts payable and accrued expenses	$ 148,530	$ –	$ 144,287	$ 4,243
Other current liabilities	87,002	(4,618)	83,708	7,912
Current portion of long-term debt	14,657	–	14,657	–
Total current liabilities	250,189	(4,618)	242,652	12,155
Long-term debt, less current portion	766,131	–	766,131	–
Accrued malpractice claims	72,209	–	72,209	–
Other noncurrent liabilities	49,360	(9,623)	43,844	15,139
Total liabilities	1,137,889	(14,241)	1,124,836	27,294
Net assets:				
Unrestricted	899,844	(200)	877,464	22,580
Temporarily restricted	63,717	(56,503)	57,031	63,189
Permanently restricted	2,407	(2,019)	581	3,845
Total net assets	965,968	(58,722)	935,076	89,614
Total liabilities and net assets	$ 2,103,857	$ (72,963)	$ 2,059,912	$ 116,908

Orlando Health, Inc. and Controlled Affiliates

Consolidating Statement of Operations

Year Ended September 30, 2010
(In Thousands)

	Consolidated	Eliminations	Obligated Group	Controlled Affiliates
Unrestricted revenues and other support				
Net patient service revenue	$ 1,636,362	$ –	$ 1,598,861	$ 37,501
Other revenue	57,347	(8,603)	50,366	15,584
Net assets released from restrictions	7,002	(12,310)	3,536	15,776
Total unrestricted revenues and other support	1,700,711	(20,913)	1,652,763	68,861
Expenses				
Salaries and benefits	807,498	–	752,573	54,925
Supplies and other	546,305	(19,371)	533,177	32,499
Professional fees and purchased services	34,458	–	33,479	979
Provision for bad debts	120,185	–	117,599	2,586
Depreciation and amortization	92,944	–	91,855	1,089
Interest	37,958	–	37,958	–
Total expenses	1,639,348	(19,371)	1,566,641	92,078
Income (loss) from operations	61,363	(1,542)	86,122	(23,217)
Nonoperating gains and losses				
Investment income	39,508	–	36,941	2,567
Loss on interest rate swap agreements	(13,552)	–	(12,017)	(1,535)
Loss on early extinguishment of debt	(4,330)	–	(3,723)	(607)
Nonoperating losses, net	21,626	–	21,201	425
Excess (deficiency) of revenues, other support, and gains over expenses and losses	$ 82,989	$ (1,542)	$ 107,323	$ (22,792)

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Orlando Health, Inc.

We have audited the consolidated financial statements of Orlando Health, Inc. (the System) as of and for the year ended September 30, 2010, and have issued our report thereon dated November 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors of Orlando Health, Inc., others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

November 23, 2010

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