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Tel: 407-740-8575
Fax: 407-740-0613
tmi@tminc.com

Ms. Blanca Bayo, Director
Division of the Commission Clerk & Administrative Services
Florida Public Service Commission
2450 Shumard Oak Boulevard
Tallahassee, FL 32399-0870

020801-TX

RE: Application of **Adventist Health Systems/Sunbelt, Inc. d/b/a Florida Hospital Medical Center** for Authority to Provide Alternative Local Exchange Service

Dear Ms. Bayo:

Enclosed is the original and three (3) copies of the application of Adventist Health Systems/Sunbelt, Inc. d/b/a Florida Hospital Medical Center for authority to provide alternative local exchange service. Also enclosed is a check for the application fee of \$250.

Please return a date stamped the copy of this cover letter in the self-addressed stamped envelope which has been provided for this purpose. Any questions pertaining to this filing may be addressed to me at (407) 740-8575.

Sincerely,

Thomas M. Forte
Consultant to Florida Hospital Medical Center

Enclosure

TMF/ks

cc: James Becker – Florida Hospital
file: Florida Hospital - FL Local
tms: FL10200

DISTRIBUTION CENTER
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Check received with GPO and forwarded to [unclear] receipt. Fiscal to forward [unclear] check to RAR with [unclear] deposit.
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**** FLORIDA PUBLIC SERVICE COMMISSION ****

**DIVISION OF REGULATORY OVERSIGHT
CERTIFICATION SECTION**

**APPLICATION FORM
for
AUTHORITY TO PROVIDE
ALTERNATIVE LOCAL EXCHANGE SERVICE
WITHIN THE STATE OF FLORIDA**

020801-TX

Instructions

- ◆ This form is used as an application for an original certificate and for approval of the assignment or transfer of an existing certificate. In the case of an assignment or transfer, the information provided shall be for the assignee or transferee (See Page 12).
- ◆ Print or type all responses to each item requested in the application and appendices. If an item is not applicable, please explain why.
- ◆ Use a separate sheet for each answer which will not fit the allotted space.
- ◆ Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of **\$250.00** to:

**Florida Public Service Commission
Division of Records and Reporting
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850
(850) 413-6770**

- ◆ If you have questions about completing the form, contact:

**Florida Public Service Commission
Division of Regulatory Oversight
Certification Section
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850
(850) 413-6480**

APPLICATION

1. This is an application for / (check one):

- Original certificate** (new company).
- Approval of transfer of existing certificate:** Example, a non-certificated company purchases an existing company and desires to retain the original certificate of authority.
- Approval of assignment of existing certificate:** Example, a certificated company purchases an existing company and desires to retain the certificate of authority of that company.
- Approval of transfer of control:** Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. Name of company:

Adventist Health Systems/Sunbelt, Inc.

3. Name under which the applicant will do business (fictitious name, etc.):

d/b/a Florida Hospital Medical Center

4. Official mailing address (including street name & number, post office box, city, state, zip code):

601 East Rollins Street
Orlando, FL 32803

5. **Florida address (including street name & number, post office box, city, state, zip code):**

601 East Rollins Street
Orlando, FL 32803

6. **Structure of organization:**

- | | |
|--|---|
| <input type="checkbox"/> Individual | <input checked="" type="checkbox"/> Corporation |
| <input type="checkbox"/> Foreign Corporation | <input type="checkbox"/> Foreign Partnership |
| <input type="checkbox"/> General Partnership | <input type="checkbox"/> Limited Partnership |
| <input type="checkbox"/> Other | |

7. **If individual, provide:**

Name:

Title:

Address:

City/State/Zip:

Telephone:

Fax #:

E-Mail Address:

Website:

8. **If incorporated in Florida, provide proof of authority to operate in Florida:**

- (a) The Florida Secretary of State corporate registration number: 726307

9. **If foreign corporation, provide proof of authority to operate in Florida:**

- (a) The Florida Secretary of State corporate registration number:

10. **If using fictitious name d/b/a, provide proof of compliance with fictitious name statute (Chapter 965.29, FS) to operate in Florida:**

- (a) The Florida Secretary of State corporate registration number:

11. **If limited liability partnership, provide proof of registration to operate in Florida:**

- (a) The Florida Secretary of State registration number:

12. **If a partnership**, provide Name, title and address of all partners and a copy of the partnership agreement:

Name:

Title:

Address:

City/State/Zip:

Telephone:

Fax #:

E-Mail Address:

Website:

13. **If a foreign limited partnership**, provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable.

(a) The Florida Registration number:

14. Provide F.E.I. Number, (if applicable): 12094488

15. **Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:**

(a) **adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings.**

Provide explanation.

None of the officers, directors, or any of the ten largest stockholders have ever been previously adjudged bankrupt, mentally incompetent, or found guilty of any felony.

(b) **an officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.**

None of the officers, directors, or any of the ten largest stockholders have ever been an officer, director, partner or stockholder in anyother Florida certificated telephone company.

16. Who will serve as liaison to the Commission with regard to the following:

(a) The Application:

Name: James Becker
Title: Directory of Information Systems
Address: 601 East Rollins Street
City/State/Zip: Orlando, FL 32803
Telephone #: 407-330-9696
Fax #: 407-330-5593
E-Mail: jim.becker@flhosp.org
Website: www.flhosp.org

(b) Official point of contact for the ongoing operations of the company:

Name: James Becker
Title: Director of Information Systems
Address: 601 East Rollins Street
City/State/Zip: Orlando, FL 32803
Telephone #: 407-330-9696
Fax #: 407-330-5593
E-Mail: jim.becker@flhosp.org
Website: www.flhosp.org

(c) Complaints/Inquiries from customers:

Name: James Becker
Title: Director of Information Systems
Address: 601 East Rollins Street
City/State/Zip: Orlando, FL 32803
Telephone #: 407-330-9696
Fax #: 407-330-5593
E-Mail: jim.becker@flhosp.org
Website: www.flhosp.org

17. List the states in which the applicant:

- (a) **Has operated as an alternative local exchange company.**
Florida Hospital has not yet begun operations as an alternative local exchange company.
- (b) **Has applications pending to be certificated as an alternative local exchange company:**
Florida Hospital does not have any applications pending with other states.
- (c) **is certificated to operate as an alternative local exchange company.**
Florida Hospital has not yet begun operations as an alternative local exchange company, and therefore, has not been certificated in any state.
- (d) **has been denied authority to operate as an alternative local exchange company and the circumstances involved.**
Florida Hospital has not been denied authority to operate as an alternative local exchange company.
- (e) **has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.**
Florida is not yet operating as an alternative local exchange company, and therefore, has not had any regulatory penalties imposed.
- (f) **has been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity, and the circumstances involved.**
Florida Hospital has not been involved in any civil court proceeding with an interexchange carrier.

18. **Submit the following:**

- A. **Managerial capability: give resumes of employees/officers of the company that would indicate sufficient managerial experiences of each.**

Please see Exhibit 1 for resumes of key employees.

- B. **Technical capability: give resumes of employees/officers of the company that would indicate sufficient technical experiences or indicate what company has been contracted to conduct technical maintenance.**

Please see Exhibit 1 for resumes of key employees.

- C. **Financial capability.**

The application **should contain** the applicant's audited financial statements for the most recent 3 years. If the applicant does not have audited financial statements, it shall so be stated.

The unaudited financial statements should be signed by the applicant's chief executive officer and chief financial officer **affirming that the financial statements are true and correct** and should include:

1. the balance sheet:
2. income statement: and
3. statement of retained earnings.

NOTE: *This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.*

Further, the following (which includes supporting documentation) should be provided:

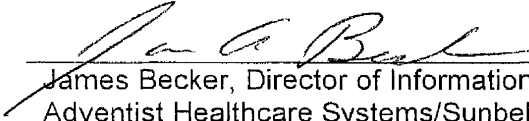
1. **written explanation** that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.
2. **written explanation** that the applicant has sufficient financial capability to maintain the requested service.
3. **written explanation** that the applicant has sufficient financial capability to meet its lease or ownership obligations.

THIS PAGE MUST BE COMPLETED AND SIGNED

APPLICANT ACKNOWLEDGMENT STATEMENT

1. **REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of \$50 is required.
2. **GROSS RECEIPTS TAX:** I understand that all telephone companies must pay a gross receipts tax of two and one-half percent on all intra and interstate business.
3. **SALES TAX:** I understand that a seven percent sales tax must be paid on intra and interstate revenues.
4. **APPLICATION FEE:** I understand that a non-refundable application fee of \$250.00 must be submitted with the application.

UTILITY OFFICIAL:


James Becker, Director of Information Systems
Adventist Healthcare Systems/Sunbelt, Inc.
d/b/a Florida Hospital Medical Center
Telephone:
Fax :
Address:

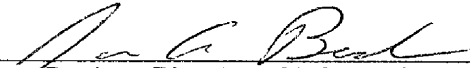
THIS PAGE MUST BE COMPLETED AND SIGNED

AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange company service in the State of Florida. I have read the foregoing and declare that, to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that, pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083."

UTILITY OFFICIAL:



James Becker, Director of Information Systems
Adventist Healthcare Systems/Sunbelt, Inc.
d/b/a Florida Hospital Medical Center
Telephone:
Fax :
Address:

INTRASTATE NETWORK (if available)

Chapter 25-24.825 (5), Florida Administrative Code, requires the company to make available to staff the alternative local exchange service areas only upon request.

1. **POP:** Addresses where located, and indicate if owned or leased.

1) _____ 2)

3) _____ 4)

2. **SWITCHES:** Address where located, by type of switch, and indicate if owned or leased.

1) _____ 2)

3) _____ 4)

3. **TRANSMISSION FACILITIES:** POP-to-POP facilities by type of facilities (microwave, fiber, copper, satellite, etc.) and indicate if owned or leased.

<u>POP-to-POP</u>	<u>OWNERSHIP</u>
-------------------	------------------

1) _____

2) _____

3) _____

4) _____

CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT

I, (Name)
(Title) _____ of (Name of Company)

and current holder of Florida Public Service Commission Certificate Number #
_____, have reviewed this application and join in the petitioner's request for a:

- () sale
- () transfer
- () assignment

of the above-mentioned certificate.

UTILITY OFFICIAL:

James Becker, Director of
Adventist Healthcare Systems/Sunbelt, Inc.
d/b/a Florida Hospital Medical Center
Telephone:
Fax :
Address:

Adventist Health Systems/Sunbelt, Inc.
d/b/a Florida Hospital Medical Center

Exhibit I

Resumes of Key Employees

DONALD L. JERNIGAN, PH.D.
President, Florida Hospital
President, Florida Division of Adventist Health System

Mr. Jernigan, age 55, was appointed as President of Florida Hospital on November 1, 1999. Prior to that date, he was executive vice president of Adventist Health System since November, 1992. He was president of the Tennessee/Georgia Cluster and also the corporation's 310-bed Tennessee Christian Medical Center in Nashville, Tennessee from April 1987 to November 1992.

He previously had been a senior vice president of the Corporation in 1986 and early 1987. From November 1983 until December 1985, he was president of Metroplex Hospital in Killeen, Texas, and from July 1982 until October 1983, he was administrator of the Medical Arts Center in that same city.

He received a Doctor of Philosophy degree in Physical Chemistry in 1972 from Baylor University and a Bachelor of Science degree in chemistry from the University of Texas - Arlington in 1967.

Prior to his career in healthcare, Mr. Jernigan served in higher education in the positions of professor, chemistry department chairman, vice president for academic affairs and executive vice president. Mr. Jernigan served on active duty as an officer in the United States Navy. Mr. Jernigan is a Diplomate of the American College of Healthcare Executives. He is a member of Sigma Xi, the Scientific Research Society. He has been a board member of the United Way, a Senior Citizens Planning Commission, several chambers of commerce, an industrial development foundation and has been active in Rotary International. Mr. Jernigan chairs and serves on the board of many hospitals and organizations.

Revised 11/99

Adventist Health Systems/Sunbelt, Inc.
d/b/a Florida Hospital Medical Center

Exhibit 2

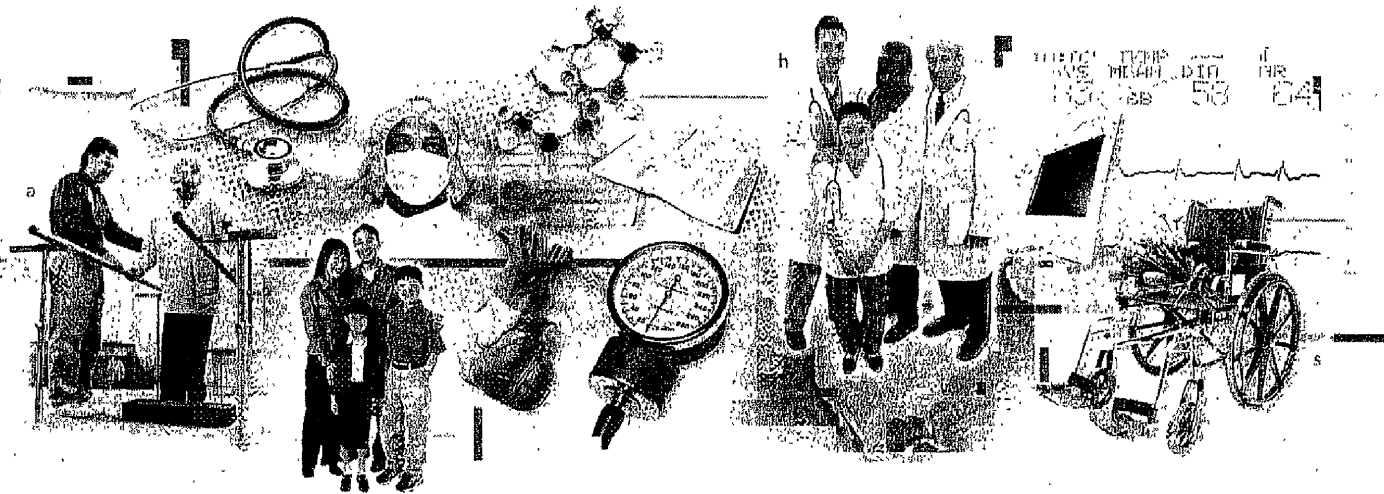
Financials

Audited
Financial
Statements

December 31, 2000

Florida Hospital Medical Center

A Division of Adventist Health System/Sunbelt, Inc.



ADVENTIST

HEALTH SYSTEM

111 N. Orlando Avenue

Winter Park, FL 32789

407-647-4400

**Audited
Financial
Statements**

December 31, 2000

Florida Hospital Medical Center

**A Division of
Adventist Health System/Sunbelt, Inc.**

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Balance Sheet

December 31, 2000

ASSETS

Current Assets

Cash and cash management deposits (note 2)	\$ 156,084,020
Current portion of assets whose use is limited (note 5)	3,345,355
Investments (note 3)	106,848,998
Patient accounts receivable, less allowance for uncollectible accounts of \$68,030,550 (note 1)	55,643,021
Other receivables (notes 1 and 13)	70,636,470
Inventories	18,428,728
Prepaid expenses and other current assets	11,019,321
	<hr/>
	422,005,913

Property and Equipment (note 4) 684,598,149

Assets Whose Use is Limited (note 5) 82,377,446

Other Assets (note 6) 40,864,296

\$1,229,845,804

LIABILITIES AND EQUITY

Current Liabilities

Accounts payable and accrued liabilities	\$ 83,549,141
Estimated settlements to third parties	24,206,139
Other current liabilities (note 13)	19,605,906
Current maturities of long-term debt (note 7)	14,162,868
	<hr/>
	141,524,054

Long-term Debt, net of current maturities (notes 5, 7 and 8) 555,432,748

Other Noncurrent Liabilities 2,411,987

Equity

Unrestricted	493,830,157
Temporarily restricted	36,646,858
	<hr/>
	530,477,015

Contingencies (notes 11 and 12)

\$1,229,845,804

Florida Hospital
Medical Center

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

Statement of Income and Changes in Equity

For the year ended
December 31, 2000

Revenue	
Patient service (note 13)	\$872,452,168
Investment income (notes 2, 3 and 5)	4,810,894
Other	<u>32,007,685</u>
	909,270,747
Expense	
Employee compensation (note 10)	418,472,918
Supplies	160,089,422
Professional fees (note 13)	32,285,460
Provision for bad debts	61,830,596
Other	90,943,886
Interest	30,839,978
Depreciation	<u>67,980,030</u>
	862,442,290
Income from Operations	46,828,457
Nonoperating Gains, Net (note 5)	<u>1,113,310</u>
Net Income	47,941,767
Unrestricted Equity	
Unrealized loss on other than trading investments (note 5)	(10,745,571)
Transfers to affiliated entities (note 13)	(31,663,201)
Contributions of property and equipment	152,473
Net assets released from restrictions for property and equipment	<u>318,347</u>
Increase in unrestricted equity	6,003,815
Temporarily Restricted Equity	
Gifts and grants	7,252,178
Investment income	990,575
Net assets released from restrictions for payment of operating expenses	(4,750,730)
Net assets released from restrictions for property and equipment	<u>(318,347)</u>
Increase in temporarily restricted equity	3,173,676
Increase in equity	9,177,491
Equity, beginning of year	<u>521,299,524</u>
Equity, end of year	<u><u>\$530,477,015</u></u>

Statement of Cash Flows

*For the year ended
December 31, 2000*

Cash Provided by Operating Activities	\$132,950,216
Cash Provided by (Used in) Investing Activities	
Purchase of property and equipment	(63,239,753)
Decrease in assets whose use is limited	10,347,939
Increase in investments	(29,366,927)
Other investing activities	2,549,525
Purchase of Winter Park Memorial Hospital	(78,729,343)
	<u>(158,438,559)</u>
Cash Provided by (Used in) Financing Activities	
Additional long-term borrowings	66,587,101
Transfers to affiliated entities	(31,663,201)
Payment of deferred financing costs	(808,603)
	<u>34,115,297</u>
Increase in Cash and Cash Management Deposits	8,626,954
Cash and cash equivalents from Winter Park Memorial Hospital	2,730
Cash and cash management deposits at beginning of year	147,454,336
Cash and Cash Management Deposits at End of Year	<u><u>\$156,084,020</u></u>
Cash Provided by (Used in) Operating Activities	
Increase in equity	\$ 9,177,491
Depreciation—operating	67,980,030
Transfers to affiliated entities	31,663,201
Unrealized loss on other than trading securities	10,745,571
Amortization of goodwill	383,712
Changes in operating assets and liabilities:	
Patient accounts receivable	11,217,886
Other receivables	(6,530,065)
Inventories	(1,454,552)
Prepaid expenses and other current assets	(4,841,687)
Other assets	5,746,754
Accounts payable and accrued liabilities	5,481,805
Estimated settlements to third parties	10,749,013
Other current liabilities	(4,039,784)
Other noncurrent liabilities	(3,329,159)
	<u><u>\$132,950,216</u></u>

**Florida Hospital
Medical Center**

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

Notes to Financial Statements

*For the year ended
December 31, 2000*

1. Significant Accounting Policies

Reporting Entity

Florida Hospital Medical Center (Hospital) is a not-for-profit, 1,772 bed, general acute care hospital. The Hospital is located on seven campuses in the Central Florida area. The Hospital is a division of Adventist Health System/Sunbelt, Inc. (Corporation), a not-for-profit entity exempt from state and federal income taxes.

The Hospital provides a full range of inpatient and outpatient services as permitted by the license issued to it from the State of Florida. Activities associated with the provision of health care services within the hospital setting are the major and central operations of the Hospital. Revenues and expenses arise from and are recorded based upon the hospital activities.

The Hospital also engages in activities and transactions that do not relate to the direct care of patients within the hospital setting and are therefore incidental or peripheral to the Hospital's major ongoing operations. Activities and transactions that are incidental or peripheral to the operations of the Hospital are recorded as nonoperating gains or losses.

The Corporation was organized by the Southern Union Conference of Seventh-day Adventists and the Southwestern Union Conference of Seventh-day Adventists to own and operate Adventist hospitals and other health care organizations. The Corporation is a controlled affiliate of Adventist Health System Sunbelt Health Care Corporation d/b/a Adventist Health System (Parent Corporation). The Parent Corporation was organized to provide managerial, financial and other services to the Corporation and other affiliated hospitals and organizations (collectively referred to as the System) engaged in the delivery of health care.

SunSystem Development Corporation (Development) is a charitable foundation operated by the System for the benefit of its hospitals. The board of directors is appointed by the board of directors of the System. Florida Hospital Medical Center Foundation (Foundation) operates as a division of Development and has a service area community board of directors appointed or approved by the Corporation and is involved in philanthropic activities for the Hospital. The accounts of the Foundation are included in the accounts of the Hospital.

Use of Estimates

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

Patient Service Revenue and Contractual Programs

The Hospital serves certain patients whose medical care costs are not paid at established rates. These patients include patients sponsored under government programs such as Medicare and Medicaid, patients sponsored under private contractual agreements and charity patients who have limited ability to pay.

Notes to Financial Statements

*For the year ended
December 31, 2000*

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated 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.

Revenue from the Medicare and Medicaid programs accounted for approximately 34% of the Hospital's net patient revenue for the year ended December 31, 2000. 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. Adjustments to revenue related to prior periods decreased patient service revenue by approximately \$696,000 for the year ended December 31, 2000.

Patient service revenue is reported net of discounts, adjustments and charity write-offs. Patient service revenue is approximately 43% of established charges for the year ended December 31, 2000. Charges foregone, based on established rates exclusive of charity and bad debt write-offs, approximate \$1,144,139,000 for the year ended December 31, 2000.

A patient is classified as a charity patient based on established policies of the Hospital. These policies define charity services as those services for which no payment is anticipated. In assessing a patient's ability to pay, the Hospital utilizes the federal poverty income levels, as well as the relationship between the charges and the patient's income. Charity services at established charges provided by the Hospital approximate \$43,950,000 for the year ended December 31, 2000. These amounts represent approximately 2% of all established charges for the year ended December 31, 2000.

The Hospital's patient acceptance policy is based on its mission statement and its charitable purposes. Accordingly, the Hospital accepts patients in immediate need of care, regardless of their ability to pay. This policy results in the Hospital's assumption of higher than normal patient receivables credit risk. To the extent the Hospital realizes additional losses resulting from such higher credit risk for patients that are not identified or do not meet the previously described charity definition, such additional losses are included in the provision for bad debts.

Contributed Resources

Resources restricted by donors for specific operating purposes or a specified time period are held in temporarily restricted equity until expended for the intended purpose, at which time they are reported as other revenue. Resources restricted by donors for additions to property and equipment are held in temporarily restricted equity until expended, at which time they are reported as transfers to unrestricted equity. Gifts, grants and bequests not restricted by donors are reported as nonoperating gains, net.

Nonoperating Gains, Net

Nonoperating gains, net represent the net operations of activities or transactions incidental or peripheral to the direct care of patients within the hospital setting and primarily include home health services, equity income of affiliates and certain investment income.

Notes to Financial Statements

*For the year ended
December 31, 2000*

Functional Expenses

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

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.

Investments

Investment securities are recorded at market value. The cost of securities sold is based on the specific identification method. Investment income or loss (including realized gains and losses, interest and dividends) is included in investment income and nonoperating gains, net, unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from net income unless the investments are trading securities.

Sale of Patient Accounts Receivable

The System and certain of its member affiliates maintain a program for the continuous sale of substantially all patient accounts receivable to Highlands County Health Facilities Authority (Highlands) on a nonrecourse basis. The sales price is the net realizable value of patients accounts receivable. The accounts receivable sales are financed through \$235,000,000 of cash provided through a tax-exempt bond issue of Highlands (Bonds), and the remainder by a note on a subordinated basis with the Bonds and a note on a parity basis with the Bonds. At December 31, 2000, the portion of these notes applicable to the Hospital amount to \$42,104,276 and are included in other receivables (current). The note on a subordinated basis with the bonds is in an amount to provide the required over collateralization of the Bonds.

The cash proceeds from the accounts receivable sales are included in an investment pool managed by the Parent Corporation. Interest and dividend income and realized gains and losses from the Hospital's share of the investment pool are included in nonoperating gains, net. Changes in unrealized gains and losses are included in unrestricted equity.

Inventories

Inventories are stated at the lower of cost or market under 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 which 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.

Notes to Financial Statements

For the year ended
December 31, 2000

Assets Whose Use is Limited

Certain of the Hospital's assets are limited as to use through board resolution and under the terms of bond indentures. Interest and dividend income and realized gains and losses on assets whose use is limited are reported as investment income and nonoperating gains, net. Changes in unrealized gains and losses are included in unrestricted equity.

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 interest method.

Goodwill

Goodwill represents the excess of the purchase price of acquired net assets over their fair value at the date of acquisition. These amounts are included in other assets (noncurrent) and are being amortized utilizing the straight-line method over four to twenty year periods.

Bond Discounts

Bonds payable are included in long-term debt, net of related original issue discounts. Such discounts are being amortized over the life of the bonds using the interest method.

Temporarily Restricted Equity

At December 31, 2000, temporarily restricted equity is available to provide support for various programs at the Hospital.

2. Cash Management Deposits

The Hospital, along with other member affiliates of the System, participate in a cash management program managed by the Parent Corporation. This cash management program maintains separate accounts for each division and member affiliate at one central bank. Cash management deposits have the general characteristics of demand deposits in that the Hospital may deposit additional funds at any time and also effectively may withdraw funds at any time without prior notice or penalty, subject to limitations set by controls established by the Parent Corporation. Certain deposits are federally insured in limited amounts. Amounts are transferred each day to or from a central investment pool maintained by the Parent Corporation. Interest and dividend income and realized gains and losses from cash management deposits are included in nonoperating gains, net. Changes in unrealized gains and losses are included in unrestricted equity.

The central investment pool funds are invested in fixed income instruments and equity instruments, all carried at market value, as well as cash and cash equivalents. Cash management deposits total \$144,633,119 and are comprised of the following:

Fixed income instruments	
Corporate	37%
Federally insured and asset backed	18
United States government	4
Equity instruments	
Domestic	10
Foreign	6
Partnership investment trusts	25
	<hr/>
	100%
	<hr/>

Florida Hospital
Medical Center

Notes to Financial Statements

For the year ended
December 31, 2000

3. Investments

Investments included in current assets are comprised of the following:

Fixed income instruments	
Corporate	37%
Federally insured and asset backed	18
United States government	4
Equity instruments	
Domestic	10
Foreign	6
Partnership investment trusts	25
	100%

See Note 5 for details of investment income for the year ended December 31, 2000.

4. Property and Equipment

Property and equipment consist of the following:

Land and improvements	\$ 95,862,838
Buildings and improvements	369,439,148
Equipment	674,681,379
	1,139,983,365
Less allowances for depreciation	(489,941,506)
	650,041,859
Construction in progress	34,556,290
	\$ 684,598,149

During periods of construction of new properties, interest costs on construction borrowings are capitalized to the respective property accounts. Such capitalized interest on tax-exempt borrowings is reduced by earnings on related investments held by bond trustees. Interest capitalized, net of interest income, during the year ended December 31, 2000 approximated \$3,114,000.

5. Assets Whose Use is Limited

Assets whose use is limited is comprised of investments held by bond trustees and investments designated by the board, principally for the replacement and expansion of property and equipment. Amounts to be used for the payment of current liabilities are classified as current assets. A summary of the major limitations as to the use of these assets consists of the following:

Investments held by bond trustees	
Bond sinking funds	\$ 991,118
Interest funds	2,197,711
Debt service reserve funds	50,093,040
Construction funds	5,237,195
	58,519,064
Designated by board for property and equipment replacement	27,203,737
	85,722,801
Less amounts to pay current liabilities	(3,345,355)
	\$82,377,446

Notes to Financial Statements

For the year ended
December 31, 2000

Indenture requirements of tax-exempt financings by the Hospital 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 payment of debt to bondholders. The Hospital board has resolved to fund depreciation on certain assets as a means of reserving capital for the replacement and expansion of depreciable capital assets.

Assets whose use is limited is invested in fixed income instruments, equity instruments and cash and cash equivalents. The securities, plus cash and cash equivalents, consist of the following:

Fixed income instruments	
United States government	\$33,329,417
Federally insured and asset backed	19,841,238
Corporate	10,718,116
Foreign governments	743,611
Accrued interest	855,621
	<u>65,488,003</u>
Equity instruments	
Domestic	2,717,653
Foreign	1,566,935
	<u>4,284,588</u>
Partnership investment trusts	6,858,062
Cash and cash equivalents	9,092,148
	<u>\$85,722,801</u>

Investment income, excluding changes in unrealized gains and losses, from cash and cash management deposits, investments classified as current and assets whose use is limited for the year ended December 31, 2000 amounted to \$873,258 of interest and dividend income and \$1,341,445 of net realized gains. Of these amounts, \$4,810,894 is included in investment income and \$(2,596,191) is included in nonoperating gains, net in the statement of income and changes in equity. Unrealized losses of \$10,745,751 are included as a reduction of unrestricted equity in the statement of income and changes in equity.

6. Other Assets

Other assets consist of the following:

Contributions receivable	\$11,979,316
Deferred financing costs	12,662,650
Goodwill	6,335,848
Other noncurrent assets	9,886,482
	<u>\$40,864,296</u>

Notes to Financial Statements

For the year ended
December 31, 2000

7. Long-Term Debt

Long-term debt consists of the following:

Fixed rate Hospital Revenue Bonds, interest rates from 4.35% to 7.00%, payable through 2030	\$492,219,620
Variable rate Hospital Revenue Bonds, payable through 2027	80,681,411
Capitalized leases payable	4,765,607
Payable to related parties	213,518
Other indebtedness	1,526,719
Unamortized original issue discounts	<u>(9,811,259)</u>
	569,595,616
Less current maturities	<u>(14,162,868)</u>
	<u>\$555,432,748</u>

Long-term debt has been issued primarily on a tax-exempt basis. The Corporation, along with certain other affiliates controlled by the Parent Corporation, comprise the Adventist Health System/Sunbelt Obligated Group (Obligated Group). The Obligated Group is a group of not-for-profit corporations which are jointly and severally liable under a Master Trust Indenture (MTI) to make all payments required with respect to obligations under the MTI. Total obligations under the MTI were approximately \$1,588,297,000 at December 31, 2000. At December 31, 2000, the Obligated Group had unrestricted net assets of approximately \$1,093,026,000. The Bonds are secured under the MTI which provides, among other things, for the deposit of revenues 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 Obligated Group.

The variable rate bonds are supported by remarketing and bank letter of credit agreements. These agreements generally provide the System the option to market the obligations at the then prevailing market rates for periods ranging from seven days to the maturity dates. The obligations have been primarily marketed for seven day periods during 2000, with interest rates ranging from 3% to 6%. The bank letter of credit agreements provide, among other things, that in the event a market for these obligations is not sustained, the bank would purchase the obligations at rates which vary with the prime rate and would be payable over a period no longer than five years after the expiration of the letter of credit agreements.

Maturities of long-term debt consist of the following:

2001	\$ 14,162,868
2002	14,824,404
2003	14,092,558
2004	14,120,689
2005	14,628,890
Thereafter	497,766,207

Cash paid for interest, net of amounts capitalized, approximated \$29,974,000 during the year ended December 31, 2000.

Notes to Financial Statements

For the year ended
December 31, 2000

8. Advance-Refunded Long-Term Debt

From time to time, the System on behalf of the Hospital has advance-refunded certain of its long-term obligations by the issuance of refunding debt instruments under terms more favorable to the Hospital. These transactions have resulted in the in-substance defeasance of the advance-refunded obligations. The Hospital will not be required to make any future payments on these obligations that have been advance-refunded. Accordingly, these advance-refunded obligations, along with the related restricted investments, have been removed from the Hospital's balance sheet in accordance with generally accepted accounting principles. Amounts of advance-refunded obligations outstanding that have been removed from the balance sheet consist of the following:

Department of Health and Human Service Notes, refunded January 1980	\$ 290,000
Hospital Revenue Bonds, refunded October 1980	290,000
Hospital Revenue Bonds and Hospital Revenue Refunding Bonds, refunded October 1983	<u>76,591,150</u>
	<u>\$77,171,150</u>

9. Acquisition

Pursuant to an asset purchase agreement (Agreement), on July 1, 2000, the Corporation purchased Winter Park Memorial Hospital (Winter Park), a 278 licensed acute care bed facility in Winter Park, Florida. Winter Park, which will operate as a campus of the Hospital, provides a broad range of acute care services. The Corporation acquired the assets of Winter Park for approximately \$69,542,000, plus an amount representing net working capital of approximately \$9,187,000, and the assumption of certain liabilities. The acquisition was accounted for by the purchase method of accounting, and, accordingly, goodwill in the amount of approximately \$5,137,000 was recorded for the excess of the purchase price over the fair market value of assets acquired. Goodwill is being amortized on a straight-line basis over a 15-year period. The operations of Winter Park have been included in the Hospital's consolidated financial statements since the acquisition date.

Assets and liabilities acquired from Winter Park, and recorded by the Corporation as of July 1, 2000, consist of the following:

Current assets	\$11,830,626
Property and equipment	62,235,480
Other noncurrent assets	7,686,705
Current liabilities	<u>(3,023,468)</u>
Cash paid	<u>\$78,729,343</u>

10. Retirement Plan

The Hospital participates with other Seventh-day Adventist health care entities in a defined contribution retirement plan (Plan) that covers substantially all full-time employees who are at least 20 years of age. The Plan is exempt from the Employee Retirement Income Security Act of 1974. The Plan provides, among other things, that the employer will contribute 2.5% of wages, plus additional amounts for very high and very low paid employees. Additionally, the Plan provides that the employer will match 25% of the employee's contributions up to an additional amount of 1% of the contributing employee's wages.

Notes to Financial Statements

*For the year ended
December 31, 2000*

Prior to January 1, 1992, the Hospital participated in a multiemployer, noncontributory defined benefit retirement plan (Old Plan) administered by the General Conference of Seventh-day Adventists and exempt from the Employee Retirement Income Security Act of 1974. During 1992, the Old Plan was suspended and the Plan was established. The Hospital, along with the other participants in the Old Plan, intend to make future voluntary contributions to the Old Plan to fund any difference between the present value of the Old Plan benefits and the market value of the Old Plan assets. Future funding amounts and the funding time period have not been determined by the Old Plan administrators; however, the impact of any such future decisions is not expected to be material to the financial statements of the Hospital.

Contributions to the Plan are determined by the administrators annually. These contributions to the Plan are included in employee compensation in the amount of \$10,955,413 for the year ended December 31, 2000.

11. Medical Malpractice

The System and other Seventh-day Adventist health care organizations participate in a revocable trust (Trust) to provide occurrence based, retrospectively rated coverage for claims in excess of a specified level (Excess Level). The System established a separate self-insured revocable trust (Separate Trust) which covers the System's facilities for the claims below the Excess Level. An Excess Level of \$2,000,000 was established for the year ended December 31, 2000.

Prior to January 1, 1991, the System participated in a self-insured trust (Prior Trust) with other Seventh-day Adventist health care organizations. Effective April 1, 2000, the liabilities of the Prior Trust were reinsured by a commercial insurance company and the Prior Trust was terminated. The assets of the Prior Trust were distributed to the participants.

The Trust was organized as a Bermuda based captive insurance company of which the System had an ownership position. Effective July 15, 2000, the liabilities of the Trust were reinsured by a commercial insurance company and the Trust was terminated. Claims above the Excess Level are now covered by a commercial insurance company.

The assets and liabilities related to the Separate Trust are recorded in the Parent Corporation's financial statements.

12. Contingencies

The Hospital is involved in litigation 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 Hospital's financial position.

Notes to Financial Statements

*For the year ended
December 31, 2000*

13. Transactions with Related Organizations

Certain transactions are made with the Parent Corporation on a routine basis. These transactions are comprised of management fees (includes fees for management, data processing and other services provided by the Parent Corporation), employee health insurance premiums, allocated amounts for medical malpractice and other fees (includes legal fees, taxes, professional fees, etc., initially paid for by the Parent Corporation). Transactions processed by the Parent Corporation consist of the following:

Management fees	\$11,823,217
Health insurance premiums	26,290,138
Medical malpractice	11,572,839
Other fees	7,182,827
	<u>\$56,869,021</u>

During 2000, the Hospital transferred \$20,975,076 to the Parent Corporation to assist in funding various System operating and capital needs. The Hospital made equity transfers totalling \$10,688,125 to certain controlled affiliates of the Corporation during the year ended December 31, 2000. The equity transfers provided capital to these entities. These transfers are not expected to be repaid, nor did the Hospital receive anything of immediate economic value.

In addition to transactions with the Parent Corporation, certain transactions are made from time to time with other organizations principally related through common affiliations with the Seventh-day Adventist Church. Receivables from and payables to related organizations are principally related to the Parent Corporation and other affiliated organizations. These amounts consist of the following:

Receivables from related organizations included in other receivables (current)	\$23,430,273
Payables to related organizations included in other current liabilities	(14,420,312)

The Hospital serves patients under a contractual agreement with a managed care provider which is a controlled affiliate of the Corporation. Payments under this contractual agreement are based upon discounts from established charges. Services under the agreement represented approximately \$17,739,000 of the Hospital's revenue from patient service for the year ended December 31, 2000. Premiums paid to the affiliate for employee health benefits approximated \$21,941,000 and are included in employee compensation for the year ended December 31, 2000.

14. Fair Values of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Investments

The fair values of investments, including investments included in cash management deposits and assets whose use is limited, are estimated based on quoted market prices for those or similar instruments. See notes 3 and 5.

Notes to Financial Statements

*For the year ended
December 31, 2000*

Long-Term Debt

The fair values of the Hospital's fixed rate bonds are estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Hospital for debt of the same remaining maturities. The carrying amount approximates fair value of all other long-term debt.

The estimated fair values of the Hospital's cash and cash management deposits, investments and assets whose use is limited approximate the carrying amounts as of December 31, 2000. The estimated fair value of the Hospital's bonds payable is approximately \$566,242,000 as of December 31, 2000.

**Report of
Independent
Certified
Public
Accountants**

Board of Directors
Florida Hospital Medical Center

We have audited the accompanying balance sheet of Florida Hospital Medical Center, a division of Adventist Health System/Sunbelt, Inc., as of December 31, 2000, and the related statements of income and changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Florida Hospital Medical Center at December 31, 2000, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

Orlando, Florida
February 14, 2001

Florida Hospital
Medical Center