Consolidated Financial Statements

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health
Years Ended December 31, 2010 and 2009
With Report of Independent Auditors

Ernst & Young LLP

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Contents

Ernst & Young LLP
The Plaza in Clayton Suite 1300
190 Carondelet Plaza
St. Louis, MO 63105-3434

Tel: +1 314 290 1000
Fax: +1 314 290 1882
www.ey.com

Report of Independent Auditors

The Board of Directors
Parkview Health System, Inc.

We have audited the accompanying consolidated balance sheets of Parkview Health System, Inc. and subsidiaries (the Corporation) as of December 31, 2010 and 2009, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 Corporation'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 Corporation'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 Parkview Health System, Inc. and subsidiaries at December 31, 2010 and 2009, and the consolidated results of their operations and changes in their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

April 26, 2011

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Consolidated Balance Sheets
(In Thousands)

	December 31	
	2010	**2009**
Assets		
Current assets:		
Cash and cash equivalents	**$ 21,209**	$ 42,881
Patient accounts receivable, less allowances for bad debts of $28,868 and $33,737 in 2010 and 2009, respectively	**120,743**	129,972
Inventories	**10,915**	10,618
Prepaid expenses and other current assets	**20,271**	20,081
Collateral from securities lending agreement *(Note 6)*	**6,318**	19,922
Total current assets	**179,456**	223,474
Investments *(Note 6):*		
Board-designated debt reserve and capital replacement funds	**650,549**	790,508
Securities pledged	**7,660**	21,134
Other investments	**122**	113
	658,331	811,755
Property and equipment *(Note 7):*		
Cost	**1,223,956**	945,264
Less accumulated depreciation and amortization	**500,642**	452,151
	723,314	493,113
Other assets:		
Interest rate swaps	**6,197**	7,955
Deferred financing costs, net	**3,146**	3,197
Investments in joint ventures	**4,237**	2,998
Goodwill and intangible assets, net (*Note 3)*	**45,735**	40,555
Other assets	**29,522**	10,514
	88,837	65,219
Total assets	**$ 1,649,938**	$ 1,593,561

	December 31	
	2010	**2009**
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 71,351**	$ 49,098
Salaries, wages, and related liabilities	**41,308**	44,636
Accrued interest	**2,944**	2,801
Estimated third-party payor settlements	**6,208**	6,373
Payable under securities lending agreement *(Note 6)*	**7,835**	21,821
Current portion of long-term debt *(Note 8)*	**32,250**	14,100
Total current liabilities	**161,896**	138,829
Noncurrent liabilities:		
Long-term debt, less current portion *(Note 8)*	**596,091**	595,006
Interest rate swaps *(Note 9)*	**46,390**	30,252
Accrued pension obligations *(Note 10)*	**11,205**	23,288
Other	**12,318**	9,654
	666,004	658,200
Net assets:		
Parkview Health System, Inc.	**802,315**	777,667
Noncontrolling interest in subsidiaries	**14,926**	14,350
Total unrestricted net assets	**817,241**	792,017
Temporarily restricted net assets	**4,020**	3,738
Permanently restricted net assets	**777**	777
Total net assets	**822,038**	796,532
Total liabilities and net assets	**$ 1,649,938**	$ 1,593,561

See accompanying notes.

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Consolidated Statements of Operations and Changes in Net Assets
(In Thousands)

	Year Ended December 31 2010	2009
Revenues:		
Net patient care service revenue	**$ 808,283**	$ 808,645
Other revenue	**29,597**	28,576
	837,880	837,221
Expenses:		
Salaries and benefits	**413,898**	382,316
Supplies	**121,655**	116,407
Purchased services	**97,446**	98,398
Utilities, repairs, and maintenance	**35,242**	34,475
Depreciation and amortization	**50,556**	55,855
Provision for bad debts	**55,701**	56,802
Other	**30,584**	21,961
	805,082	766,214
Operating income before impairment charges	**32,798**	71,007
Write-down of asset due to impairment *(Note 4)*	**(4,385)**	–
Operating income	**28,413**	71,007
Nonoperating income (expense):		
Interest, dividends, and realized gains (losses) on sales of investments, net *(Note 6)*	**16,588**	(9,489)
Unrealized gains on investments, net *(Note 6)*	**27,381**	112,464
Interest expense	**(21,606)**	(14,276)
Realized and unrealized (losses) gains on interest rate swaps, net	**(17,880)**	61,394
Other *(Note 2)*	**(878)**	(10,081)
Excess of revenues over expenses	**32,018**	211,019
Excess of revenues over expenses attributable to noncontrolling interest in subsidiaries	**8,623**	9,445
Excess of revenues over expenses attributable to Parkview Health System, Inc. and subsidiaries	**$ 23,395**	$ 201,574

See accompanying notes.

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

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

(In Thousands)

	Year Ended December 31, 2010		
	Total	Controlling Interest	Noncontrolling Interest
Unrestricted net assets			
Excess of revenues over expenses	$ 32,018	$ 23,395	$ 8,623
Distributions to noncontrolling interests	(8,059)	–	(8,059)
Pension-related changes other than net periodic pension cost	3,309	3,309	–
Other	(2,044)	(2,056)	12
Increase in unrestricted net assets	25,224	24,648	576
Temporarily restricted net assets			
Contributions	508	508	–
Investment income	74	74	–
Net assets released from restrictions	(527)	(527)	–
Other	227	227	–
Increase in temporarily restricted net assets	282	282	–
Increase in net assets	25,506	24,930	576
Net assets at beginning of year	796,532	782,182	14,350
Net assets at end of year	$ 822,038	$ 807,112	$ 14,926

See accompanying notes.

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

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

(In Thousands)

	Year Ended December 31, 2009		
	Total	Controlling Interest	Noncontrolling Interest
Unrestricted net assets			
Excess of revenues over expenses	$ 211,019	$ 201,574	$ 9,445
Distributions to noncontrolling interests	(10,061)	–	(10,061)
Pension-related changes other than net periodic pension cost	47,786	47,786	–
Other	4,524	4,524	–
Increase (decrease) in unrestricted net assets	253,268	253,884	(616)
Temporarily restricted net assets			
Contributions	506	506	–
Investment income	33	33	–
Net assets released from restrictions	(53)	(53)	–
Other	(298)	(298)	–
Increase in temporarily restricted net assets	188	188	–
Permanently restricted net assets			
Contributions	1	1	–
Increase in permanently restricted net assets	1	1	–
Increase (decrease) in net assets	253,457	254,073	(616)
Net assets at beginning of year	543,075	528,109	14,966
Net assets at end of year	$ 796,532	$ 782,182	$ 14,350

See accompanying notes.

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended December 31	
	2010	2009
Operating activities		
Increase in net assets	**$ 25,506**	$ 253,457
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for bad debts	**55,701**	56,802
Depreciation and amortization	**50,556**	55,855
Unrealized loss (gain) on interest rate swaps	**17,837**	(72,974)
Amortization of deferred financing costs and discount	**480**	1,051
Gain on bond refinancing	**–**	(3,466)
(Gain) loss from disposal of property and equipment	**440**	501
Write-down of assets due to impairment	**4,385**	–
Pension-related changes other than net periodic pension cost	**(3,309)**	(47,786)
Changes in operating assets and liabilities:		
Patient accounts receivable	**(40,528)**	(69,741)
Inventories	**82**	2,287
Prepaid expenses and other current assets	**14,438**	13,517
Trading securities	**153,423**	(138,493)
Investment in equity method joint ventures	**–**	(133)
Accounts payable, accrued expenses, and other current liabilities	**3,900**	(67,529)
Estimated third-party payor settlements	**(164)**	1,502
Accrued pension obligation	**(8,774)**	(9,723)
Collateral (posted) returned on swaps	**(17,080)**	33,439
Other	**8,089**	14,255
Net cash provided by operating activities	**264,982**	22,821
Investing activities		
Property and equipment additions, net	**(280,701)**	(121,305)
Business acquisitions	**(16,972)**	(27,119)
Proceeds from sale of property and equipment	**195**	997
Net cash used in investing activities	**(297,478)**	(147,427)
Financing activities		
Principal payments of long-term debt	**(10,720)**	(7,575)
Proceeds from issuance of long-term debt	**29,337**	485,042
Early refunding of long-term debt	**–**	(329,345)
Distributions to noncontrolling interests	**(8,059)**	(10,061)
Other	**266**	(917)
Net cash provided by financing activities	**10,824**	137,144
(Decrease) increase in cash and cash equivalents	**(21,672)**	12,538
Cash and cash equivalents at beginning of year	**42,881**	30,343
Cash and cash equivalents at end of year	**$ 21,209**	$ 42,881

Supplemental disclosures of cash flow information

The Corporation entered into capital lease obligations in the amounts of $32 and $5,504 for new equipment in 2010 and 2009, respectively.

See accompanying notes.

1. Organization

Nature of Operations

Parkview Health System, Inc., d/b/a Parkview Health (PH or the Corporation), is a health care system that provides services in Northeast Indiana. PH's mission is to provide quality health care services to all who entrust their care to PH and to improve the health of the community. Services provided by PH include acute, nonacute, and tertiary care services on an inpatient, outpatient, and emergency basis; managed care contracting, health care diagnostics, and treatment services for individuals and families; home health care; and behavioral health care. The principal operating activities of PH are conducted by wholly owned or controlled affiliates and subsidiaries.

PH is the sole corporate member of Parkview Hospital, Inc. (PVH), which operates Parkview Hospital, a 512-bed acute care hospital located in Fort Wayne, Indiana. PVH also operates Parkview North Hospital, a 103-bed acute care hospital, and is the majority owner (60%) of the Orthopaedic Hospital at Parkview North LLC (ORTHO), which is a for profit joint venture hospital with a large orthopaedic physician group. ORTHO operates the Orthopaedic Hospital, a 36-bed orthopaedic specialty hospital. In addition, PH is the sole corporate member of Huntington Memorial Hospital, Inc., Whitley Memorial Hospital, Inc., Community Hospital of Noble County, Inc., and Community Hospital of LaGrange County, Inc., each of which operates an acute care community hospital and related facilities in the Northeast region of Indiana. These hospitals are collectively the "Hospital Affiliates."

PH and PVH are the sole members of Managed Care Services, LLC, which provides managed care network access for the Hospital Affiliates, as well as the sales and administration of PH's Preferred Provider Organization (PPO) product, Signature Care.

Parkview Physicians Group (PPG), a division of PH, is a multi-disciplinary group of employed physicians. PPG was developed to enhance the delivery of quality health care services in Northeast Indiana and has recently expanded into Northwest Ohio. Disciplines represented in PPG include primary care, ob-gyn, orthopaedics, colon and rectal surgery, cardiovascular surgery, general surgery, hospitalists/intensivists, podiatry, psychiatry, urology, cardiology, pulmonology and critical care, gastroenterology, rheumotology, and physiatry. PPG is the largest physician group headquartered in Northeast Indiana.

1. Organization (continued)

The legal entity names, marketing brand names, and the acronyms for each significant entity within PH are as follows:

Legal Name	Marketing Brand (d/b/a) Name	Acronym
Parkview Health System, Inc.	Parkview Health, including Parkview Physicians' Group	PH and PPG
Parkview Hospital, Inc.	Parkview Hospital	PVH
Orthopaedic Hospital at Parkview North, LLC	Parkview Ortho Hospital	ORTHO
Huntington Memorial Hospital	Parkview Huntington Hospital	PHH
Whitley Memorial Hospital, Inc.	Parkview Whitley Hospital	PWH
Community Hospital of Noble County, Inc.	Parkview Noble Hospital	PNH
Community Hospital of LaGrange County, Inc.	Parkview LaGrange Hospital	PLH
Managed Care Services, LLC	Managed Care Services	MCS
Parkview Foundation, Inc.	Parkview Foundation	PVHF
Whitley Memorial Hospital Foundation, Inc.	Parkview Whitley Hospital Foundation	PWHF
Community Hospital of Noble County Foundation, Inc.	Parkview Noble Hospital Foundation	PNHF
Huntington Memorial Hospital Foundation, Inc.	Parkview Huntington Hospital Foundation	PHHF

Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as net patient care service revenue. Other transactions are included with other revenue. Other revenue includes rentals of medical office buildings, investment income from affiliated foundations, and equity income of unconsolidated subsidiaries and joint ventures.

Changes in Reporting Entity

During 2010 and 2009, PH acquired several physician groups for a total purchase price of $16,972 and 21,956, respectively. The groups are included in PPG.

1. Organization (continued)

Community Benefits and Charity Care

The Corporation provides programs and services to address the needs of those in the communities it serves with limited financial resources, generally at no, or low, cost to those being served. Additional services are provided to beneficiaries of governmental programs (principally those relating to the Medicare and Medicaid programs) at substantial discounts from established rates and are considered part of the Corporation's benefit to the communities.

Assistance is also provided as needed to patients and their families for the submission of forms for insurance, financial counseling, and application to the Medicare and Medicaid programs for health service coverage. The costs of providing these programs and services are included in expenses.

Consistent with the Corporation's mission, care is provided to patients regardless of their ability to pay. Patients who meet certain criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue. Records are maintained to identify and monitor the level of charity care provided at the amount of standard charges foregone for services and supplies furnished. Included in the Corporation's charity care policy is a discount for uninsured patients.

PVH and each of the community hospitals administer community benefit programs for the areas in which they serve. PVH targets $3,000 annually for community benefit, while the community hospitals each target 10% of their excess of revenues over expenses annually to be designated for community benefit in their respective communities. These funds are controlled by the hospitals, and contributions made as part of their community benefit program are under the direction of their respective Board of Directors (the Board). The hospitals have a long tradition of community involvement, and their community benefit programs reflect their commitment and support to their respective communities and counties.

1. Organization (continued)

The Corporation and its subsidiaries have a commitment to improving the health of the citizens of the communities served. In all locations, PH has made a concerted effort to identify opportunities to partner with local organizations and to develop initiatives to improve the health of these communities. Health fairs and screenings are common efforts to identify problems before they become serious or life-threatening. Affiliates often partner with local organizations for community education, including the Minority Health Coalition, American Lung Association, SuperShot, YMCA, YWCA, Health Information Link, and American Heart Association. PH provides subsidies for the emergency medical services of the counties where its four community hospitals reside. An association with Fort Wayne Community Schools has provided nurses, dental care, and physicals to needy children. PH donations support nursing programs at Indiana University-Purdue University of Fort Wayne and the University of St. Francis. Efforts have helped provide health care to the medically underserved through support of the Neighborhood Health Clinic and Matthew 25. PH affiliates have supported homeless shelters, women's crisis shelters, safety councils, senior transportation programs, and poison control programs. Awareness and prevention programs dealing with safety, trauma, drugs, and alcohol are projects of PH.

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of PH and all majority owned or controlled subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation. The equity method of accounting is used for investments in joint ventures, partnerships, and companies where control or ownership is 20% to 50%. The cost method of accounting is used for investments in affiliated entities of less than 20%. For the years ended December 31, 2010 and 2009, PH's share of income (loss) recorded using the equity method approximated $1,895 and $1,900, respectively, and is recorded as other revenue in the consolidated statements of operations and changes in net assets.

2. Significant Accounting Policies (continued)

Use of Estimates

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

Financial Instruments

Financial instruments include cash and cash equivalents, short-term investments, patient and other accounts receivable, collateral from securities lending agreement, investments, accounts payable and accrued expenses, estimated third-party payor settlements, payable under securities lending agreement, long-term debt, derivative financial instruments (i.e., interest rate swaps), and certain other current assets and liabilities.

Cash and Cash Equivalents

Investments in highly liquid debt instruments with a maturity of three months or less when purchased, excluding amounts classified with Board-designated investments, are considered cash equivalents. The Corporation routinely invests in money market mutual funds. These funds generally invest in highly liquid U.S. government and agency obligations. Financial instruments that potentially subject the Corporation to concentrations of credit risk include the Corporation's cash and cash equivalents. The Corporation places its cash and cash equivalents with institutions with high credit quality. However, at certain times, such cash and cash equivalents may be in excess of government-provided insurance limits.

2. Significant Accounting Policies (continued)

Patient Accounts Receivable, Estimated Third-Party Payor Settlements, and Net Patient Care Service Revenue

Patient accounts receivable and net patient care service revenue are reported at the estimated net realizable amounts due from patients, third-party payors (including insurers), and others for services rendered and include estimated retroactive revenue adjustments due to settlement of 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 settled and are no longer subject to such audits, reviews, and investigations.

The Corporation grants credit to patients and does not require collateral or other security for the delivery of health care services. However, assignment of benefit payments payable under patients' health insurance programs and plans (e.g., Medicare, Medicaid, health maintenance organizations, and commercial insurance policies) is routinely obtained, consistent with industry practice.

Allowances for Bad Debts

The provision for bad debts is based upon management's assessment of historical and expected net collections considering business and economic conditions, trends in health care coverage, and other collection indicators. Periodically, management assesses the adequacy of the allowance for bad debts based upon these indicators and accounts receivable payor composition and aging and considering historical write-off experience by payor category and aging. The results of this review are then used to make any modifications to the provision for bad debt and to establish an appropriate allowance for bad debts. In addition, PH follows established guidelines for placing certain past-due patient balances with collection agencies.

Inventories

Inventories consist primarily of drugs and supplies and are stated at the lesser of cost or market, and are valued using the average cost method.

2. Significant Accounting Policies (continued)

Investments

Investments in equity and debt securities are measured at fair value. With respect to hedge funds, these investments are recorded under the equity method of accounting, based on information provided by the funds' managers. Generally, the net asset value reflects the contributed capital, as well as an allocated share of the underlying limited partnership's realized and unrealized gains and losses. The fair value of underlying investments held by the limited partnerships is determined by the respective general partners.

Investment income or loss (including realized gains and losses on the sale of investments, unrealized gains and losses on investments, and changes in the carrying value of hedge funds), with the exception of investment income or loss, as defined, related to the various PH foundations, is reported as other nonoperating income (expense) unless the income is restricted by donor or law. Investment income or loss apportioned to the foundations is reported in other operating revenue. The cost of securities sold is based on the specific-identification method.

Board-designated funds represent certain funds from operations and other sources designated by the Board to be used for future capital asset replacements, for the retirement of long-term debt, and for other purposes. The Board retains control over these investments and may, at its discretion, subsequently designate the use of these investments for other purposes. Funds are invested in accordance with Board-approved policies, which, among other matters, require diversification of the investment portfolio, establish credit risk parameters, and limit the investment in any single organization. Substantially all investment transactions are managed by professional investment managers and are held in custody at a financial institution. All Board-designated funds are classified as trading securities.

Investment securities purchased and sold are reported based on trade date. Due to the period lag between the trade and settlement date, PH reports receivables for securities sold but not settled and reports liabilities for securities purchased but not settled. Theses receivables and payables are settled from within the investment portfolio and are presented on a net basis within investments in the consolidated balance sheets.

2. Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value at date of donation. Interest costs incurred as part of the related construction are capitalized during the period of construction. Depreciation is provided on a straight-line basis over the expected useful lives of the various classes of assets. Estimated useful lives range from 5 to 25 years for land improvements, 5 to 40 years for buildings, and 3 to 15 years for equipment. Amortization of capital leased assets is included within depreciation expense.

Goodwill

PH records goodwill arising from a business combination as the excess of purchase price and related costs over the fair value of identifiable tangible and intangible assets acquired and liabilities assumed. Beginning in 2010, PH annually reviews, as of the first day of the fourth quarter, the carrying value of goodwill for impairment. In addition, a goodwill impairment assessment is performed if an event occurs or circumstances change that would make it more likely than not that the fair value of a reporting unit is below its carrying amount. Management has determined that the Corporation is the reporting unit at which fair value is measured. If such circumstances suggest that the recorded amounts of any of these assets cannot be recovered, the carrying values of such assets are reduced to fair value. If the carrying value of any of these assets is impaired, a material charge may be incurred to results of operations.

Intangible Assets

Costs allocated to customer relationships and other intangible assets are based on their fair value at the date of acquisition. The cost of intangible assets is amortized on a straight-line basis over the assets' estimated useful life ranging from three (3) to twenty (20) years.

2. Significant Accounting Policies (continued)

Impairment

Fixed assets and amortizable intangible assets are reviewed for impairment whenever conditions indicate that the carrying amount may not be recoverable. In evaluating the recoverability of long-lived assets, such assets are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets. Such impairment tests compare estimated undiscounted cash flows to the recorded value of the asset. If an impairment is indicated, the asset is written down to its fair value or, if fair value is not readily determinable, to an estimated fair value based on discounted cash flows, and a corresponding loss is recorded.

Derivative Financial Instruments

PH investment fund managers use derivative financial instruments in the investment portfolio to moderate changes in value due to fluctuations in financial markets. PH has not designated its derivatives related to marketable securities as hedges, and the change in fair value of these derivatives is recognized as a component of unrealized gains (losses) on investments, net.

As part of its debt management program, the Corporation has entered into several interest rate swap arrangements. Derivative instruments are recognized as either assets or liabilities in the consolidated balance sheets at fair value. The Corporation does not account for any of its interest rate swap agreements as hedges, and accordingly, changes in the fair value of interest rate swap agreements are recorded in the consolidated statements of operations and changes in net assets as nonoperating income (expense). Included in other nonoperating income (expense) in the consolidated statements of operations and changes in net assets are net settlement payments on interest rate swaps.

2. Significant Accounting Policies (continued)

Effective January 1, 2006, management elected to de-designate those derivative instruments that had previously qualified and been reported as hedging instruments. At the point of de-designation, there existed a balance of accumulated gains in unrestricted net assets totaling $6,141. This accumulated gain was to be reclassified to other income over the period that the instrument impacts income (i.e., when interest expense on the hedged debt is incurred). Amortization was scheduled to occur through 2029. As a result of the 2009 bond issuance and early termination of three interest rate swap agreements, $4,263 was immediately recognized in other nonoperating income (expense) in the 2009 consolidated statement of operations and changes in net assets. Amortization resulted in the recording of approximately $43 and $139 of accumulated gains in the consolidated statements of operations and changes in net assets for each of the years ending 2010 and 2009, respectively. Approximately $924 and $967 of unamortized accumulated gains were accumulated as a component of unrestricted net assets at December 31, 2010 and 2009, respectively.

Pension Plans

PH’s retirement program, called Trusted Choices Retirement Program, offers a defined-contribution plan. Contributions to the defined-contribution plan are based upon benefit service points and a combination of age and years of benefit service. Contributions are calculated as a percentage of eligible pay. In addition, active employees at December 31, 2004, were provided a one-time choice to remain in PH’s defined-benefit plan or freeze their defined-benefit plan benefits and move to the employer funded defined-contribution plan. Definitions of eligibility, pay, benefit service, and vesting under the defined-benefit plan are the same as the defined-contribution plan. Contributions to these plans include amortization of prior service costs plus interest thereon and are funded currently.

In addition to participation in the defined-contribution plan and/or defined-benefit plan, eligible employees are provided a voluntary opportunity to participate in a 403(b) or a 401(k) plan based upon the tax status of the employing corporation. The 403(b) and 401(k) plans have match provisions. Benefits for eligible employees are based on the employee’s compensation.

2. Significant Accounting Policies (continued)

Malpractice Insurance

The Corporation and its affiliates are subject to pending and threatened legal actions that arise in the normal course of their activities. Medical malpractice coverage is provided through a program of self-insurance and commercial insurance and considers limitations imposed by the Indiana Medical Malpractice Act, as amended (the Act). The Act limits the amount of individual claims to $1,250 (effective July 1, 1999), of which $1,000 would be paid by the State of Indiana Patient Compensation Fund and $250 by the Corporation or by its commercial insurer, The Medical Protective Company.

Malpractice claims for incidents that may give rise to litigation have been asserted against the Corporation by various claimants. The claims are in various stages of resolution, and some may ultimately be brought to trial. There are also reported incidents that have occurred through December 31, 2010, that may result in the assertion of additional claims. There may be other claims from unreported incidents arising from services provided to patients. The reserve for medical malpractice includes amounts for claims and related legal expenses for these incurred but not reported incidents. This reserve is actuarially determined by combining industry data and the Corporation's historical experience. Accrued malpractice losses have been discounted at 5% in both 2010 and 2009 and, in management's opinion, provide adequate reserve for loss contingencies. At December 31, 2010 and 2009, management has accrued its best estimate of these contingent losses to the extent the incidents fall within the limits of the Corporation's self-insurance program. Included in accounts payable and accrued expenses is $600 for each year presented, and $3,270 and $3,082 at December 31, 2010 and 2009, respectively, is reported as an other liability in the consolidated balance sheets.

The Corporation established a restricted trust for claims not covered by commercial insurance for the purpose of setting aside assets based on actuarial funding recommendations. Under the trust agreements, the trust assets can only be used for payment of malpractice and general liability losses, related expenses, and the cost of administering the trust. The balance of the trust was $4,120 and $2,943 at December 31, 2010 and 2009, respectively. The trust is included in Board-designated debt reserve and capital replacement funds in the accompanying consolidated balance sheets.

2. Significant Accounting Policies (continued)

Income Taxes

The Internal Revenue Service has determined that the Corporation and certain affiliated entities are tax-exempt organizations as defined in Section 501(c)(3) of the Internal Revenue Code. Certain subsidiaries of the Corporation are taxable entities, the tax expense and liabilities of which are not material to the consolidated financial statements.

Performance Indicator

Excess of revenues over expenses as reflected in the accompanying consolidated statements of operations and changes in net assets includes operating income and nonoperating income and expense. Contributions of long-lived assets, pension-related changes, net assets released from restriction, and distributions to noncontrolling interests are excluded from excess of revenues over expenses.

Operating and Nonoperating Income (Expense)

Activities directly associated with the furtherance of PH's mission are considered operating activities. Other activities that result in gains or losses peripheral to PH's primary mission are considered to be nonoperating. Nonoperating activities include interest, dividends, and realized gains (losses) on sales of investments, net, unrealized gains (losses) on investments, net, interest expense, realized and unrealized gains (losses) on interest rate swaps, net, and other.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity. Investment return is allocated to unrestricted and temporarily restricted net assets based on the respective net asset balances and the wishes of the donor. The net assets are generally restricted for indigent and other patient services, medical education and research programs, facilities, and medical supplies and equipment.

2. Significant Accounting Policies (continued)

Reclassifications

Certain 2009 amounts were reclassified to conform to the 2010 presentation. Such reclassifications had no effect on previously reported excess of revenues over expenses or net assets.

Distributions

Certain consolidated subsidiaries of PH have members who hold a noncontrolling ownership interest. Upon authorization for the Boards of Directors of those subsidiaries, cash available for distribution, or a portion thereof, arising from operations may be distributed to PH and the noncontrolling members ratably in accordance with the members' respective membership interests.

Adoption of New Accounting Standards

Accounting guidance was recently issued for mergers and acquisitions involving not-for-profit entities. This guidance establishes principles to assist not-for-profit entities in determining if a combination is to be accounted for as a merger or an acquisition. The guidance applies the carryover (similar to pooling) method to accounting for a merger, and the purchase accounting method to accounting for an acquisition, and clarifies the valuation basis to be used in determining the values of the assets and liabilities acquired. In addition, this guidance makes provisions related to goodwill fully applicable to not-for-profit entities. Effective January 1, 2010, PH adopted this guidance and ceased amortization of goodwill and indefinite lived intangible assets at that date. A transitional impairment test was performed as of January 1, 2010, and no impairment was indicated. All business combinations that occurred during the year ended December 31, 2010, were deemed to be acquisitions and were accounted for in accordance with this guidance.

2. Significant Accounting Policies (continued)

In December 2007, the Financial Accounting Standards Board (the FASB) issued accounting guidance related to noncontrolling (minority) interest in a consolidated subsidiary. This guidance, among other matters, requires the recognition of a noncontrolling interest as net assests in the consolidated financial statements and separate from the parent's net assets. The amount of net income (loss) attributable to the noncontrolling interest is included in consolidated excess (deficiency) of revenues over expenses in the consolidated statements of operations and changes in net assets. PH adopted the guidance on January 1, 2010, and reclassified amounts from other liabilities to unrestricted net assets, which results in the presentation of $14,350 of noncontrolling interests at December 31, 2009. PH attributed income of $8,623 and $9,445 for the twelve months ended December 31, 2010 and 2009, respectively, to the noncontrolling interests based on the ownership percentage of the noncontrolling interests in certain of PH's consolidated subsidiaries. These amounts are reflected in the unrestricted net assets in the consolidated balance sheets, net of distributions.

In January 2010, accounting guidance was issued to further expand disclosure requirements related to fair value measurements. Additional disclosures under this guidance include disclosing transfers in and out of Level 1 and Level 2 fair value measurements and the reasons for those transfers, valuation techniques, and inputs used to measure Level 2 and Level 3 fair value measurements, and purchases, sales, issuances, and settlements separately within the Level 3 fair value measurements rollforward. PH adopted this guidance effective January 1, 2010, except for the disclosure of rollforward activities for Level 3 fair value measurements, which will become effective for interim and annual periods beginning after December 15, 2010. See Note 4.

(Dollars in Thousands)

3. Goodwill and Intangible Assets

The following tables summarize goodwill and other intangibles as of December 31, 2010 and 2009:

Goodwill balance at January 1, 2009	$	22,195
Amortization		(2,474)
Acquisitions		18,908
Goodwill balance at December 31, 2009		38,629
Acquisitions		**4,339**
Goodwill balance at December 31, 2010	**$**	**42,968**

	December 31, 2010		**December 31, 2009**	
	Original Amount	**Accumulated Amortization**	**Original Amount**	**Accumulated Amortization**
Intangible assets	**$ 3,178**	**$ 411**	$ 2,239	$ 313

Amortization expense of $98 and $2,787 was recognized in 2010 and 2009, respectively, and is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets.

During the year ended December 31, 2010, PH acquired several physician groups. The business combinations were recorded using the purchase accounting method. Goodwill of $4,339 was recognized upon purchase, which represents the excess of purchase price over identifiable assets and liabilities.

4. Fair Value Measurement

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification defines fair value and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. Fair value is 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. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

Certain of PH's financial assets and financial liabilities are measured at fair value on a recurring basis, including money market, fixed income and equity instruments, and interest rate swap contracts. The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date.

Level 2 – Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived or supported from observable data as of the reporting date.

Level 3 – Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are not observable from objective sources. In evaluating the significance of inputs, management generally classifies assets or liabilities as Level 3 when their fair value is determined using unobservable inputs that individually, or in the aggregate, represent more than 10% of the fair value of the assets or liabilities. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

(Dollars in Thousands)

4. Fair Value Measurement (continued)

The fair value of financial assets and liabilities measured at fair value on a recurring basis was determined using the following inputs at December 31, 2010:

	Total	Level 1	Level 2	Level 3
Assets				
Investments:				
Cash and short-term investments	$ 22,683	$ 14,975	$ 7,708	$ –
U.S. government and agency obligations	119,503	116,490	3,013	–
Corporate bonds	44,820	–	44,820	–
Mortgage- and asset-backed securities	15,824	–	15,824	–
Domestic equities	63,063	58,149	4,914	–
International equities	29,597	–	29,597	–
Mutual funds:				
Equity type	126,441	126,441	–	–
Fixed income type	173,433	–	173,433	–
Real estate held for investment	23,655	–	–	23,655
Total investments	619,019	316,055	279,309	23,655
Deferred compensation plan assets – mutual funds	6,879	6,879	–	–
Interest rate swaps	6,197	–	6,197	–
Collateral from securities lending program – cash and short-term investments	6,318	–	6,318	–
Total assets	$ 638,413	$ 322,934	$ 291,824	$ 23,655
Liabilities				
Interest rate swaps	$ (46,390)	$ –	$ (46,390)	$ –
Total liabilities	$ (46,390)	$ –	$ (46,390)	$ –

(Dollars in Thousands)

4. Fair Value Measurement (continued)

The fair value of financial assets and liabilities measured at fair value on a recurring basis was determined using the following inputs at December 31, 2009:

	Total	Level 1	Level 2	Level 3
Assets				
Investments:				
Cash and short-term investments	$ 137,233	$ 112,510	$ 24,723	$ –
U.S. government and agency obligations	206,090	198,383	7,707	–
Corporate bonds	93,245	–	93,245	–
Mortgage- and asset-backed securities	82,040	–	82,040	–
Domestic equities	36,121	36,121	–	–
International equities	20,042	–	20,042	–
Mutual funds	169,185	169,185	–	–
Real estate held for investment	23,322	–	–	23,322
Total investments	767,278	516,199	227,757	23,322
Deferred compensation plan assets – mutual funds	4,332	4,332	–	–
Interest rate swaps	7,955	–	7,955	–
Collateral from securities lending program – cash and short-term investments	19,922	–	19,922	–
Total assets	$ 799,487	$ 520,531	$ 255,634	$ 23,322
Liabilities				
Interest rate swaps	$ (30,252)	$ –	$ (30,252)	$ –
Total liabilities	$ (30,252)	$ –	$ (30,252)	$ –

4. Fair Value Measurement (continued)

Certain of PH's investments are made through alternative investments and private investment funds, primarily partnership trusts. PH accounts for its ownership in these funds under the equity method, and as a result, investments totaling $55,260 and $52,688 as of December 31, 2010 and 2009, respectively, are excluded from the fair value disclosure. Deferred compensation plan assets are included in other assets in the consolidated balance sheets.

Following is a description of the Corporation's valuation methodologies for assets and liabilities measured at fair value. Fair value for Level 1 is based upon quoted market prices. The fair values of the interest rate swap contracts included in Level 2 are determined based on the present value of expected future cash flows using discount rates appropriate with the risks involved. The fair values of other fixed income securities included in Level 2 are based on quoted market prices for similar assets. The valuations reflect a credit spread adjustment to the LIBOR discount curve in order to reflect the credit value adjustment for nonperformance risk. The credit spread adjustment is derived from other comparably rated entities' bonds priced in the market. Fair value for Level 3 assets, which includes investments in real estate, is based on unobservable market data that includes third-party independent appraisals.

The carrying values for cash and cash equivalents, patient and other accounts receivable, accounts payable and accrued expenses, estimated third-party payor settlements, payable under securities lending agreements, and certain other current assets and liabilities are reasonable estimates of their fair value due to the short-term nature of these financial instruments.

The carrying value of the Corporation's tax-exempt, variable rate, and other debt approximates fair value. The fair value of the fixed rate debt (all of which is tax-exempt) is estimated using discounted cash flow analyses based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the Corporation's tax-exempt, fixed rate debt at December 31, 2010 and 2009, was approximately $331,807 and $348,243, respectively, compared to book value of $312,930 and $322,005, respectively.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

(Dollars in Thousands)

4. Fair Value Measurement (continued)

In December, 2010, it was determined that a condition of impairment existed for certain fixed assets of Parkview Whitley Hospital. Operations at the current location will transfer to the new Parkview Whitley Hospital, currently targeted for completion in October 2011, and plans are for the current hospital building to subsequently be razed. The total amount of impairment reported during the year ended December 31, 2010, was $4,385. The fair value of these assets was estimated based on the present value of the cash flows expected to be generated over the remaining useful life of the related assets, and the impairment reflects the difference between the carrying amount of the assets and estimated fair value. The methodology used to compute the fair value of the impaired assets falls in Level 3 of the fair value hierarchy. The impairment is reported as a reduction to operating income in the consolidated statements of operations and changes in net assets.

The following table is a rollforward of the consolidated balance sheet amounts for financial instruments classified by the Corporation within Level 3 of the valuation hierarchy defined above:

	Financial Assets – Investments in Real Estate	Financial Liabilities – Interest Rate Swaps
Fair value at January 1, 2009	$ 29,667	$ (101,204)
Transfers out of Level 3	–	30,252
Purchases	2,698	–
Sales or retirements	(2,606)	11,580
Unrealized (losses) gains included in deficit of revenue over expenses	(6,437)	59,372
Fair value at December 31, 2009	$ 23,322	$ –
Fair value at January 1, 2010	**$ 23,322**	**$ –**
Transfers out of Level 3	**–**	**–**
Purchases	**447**	**–**
Sales or retirements	**–**	**–**
Unrealized losses included in excess of revenue over expenses	**(114)**	**–**
Fair value at December 31, 2010	**$ 23,655**	**$ –**

4. Fair Value Measurement (continued)

PH transfers assets and liabilities in and/or out of Level 3 as significant inputs, including performance attributes, used for the fair value measurement to become observable or unobservable.

5. Net Patient Care Service Revenue

Certain agreements with third-party payors provide for payments at amounts different from established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: Certain inpatient care services are paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. Certain services are paid based on cost reimbursement methodologies subject to certain limits. Physician services are reimbursed based upon established fee schedules. Outpatient services are reimbursed utilizing prospectively determined rates.

Medicaid: Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.

Other: Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Differences between established rates and payment under these agreements are reflected as contractual allowances. PH also recorded traditional charity care revenue foregone of $47,214 and $42,011 for the years ended December 31, 2010 and 2009, respectively, as a reduction to net patient service revenue.

5. Net Patient Care Service Revenue (continued)

Medicare and Medicaid revenue accounted for approximately 41% and 14%, respectively, of charges at established rates for the year ended December 31, 2010, and approximately 42% and 13%, respectively, of charges for the year ended December 31, 2009. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The Corporation believes that it is in substantial compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of wrongdoing. While no such regulatory inquiries have been made, compliance with health care industry laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimated settlements could change. It is also reasonably possible that recorded settlements could change by a material amount in the near term. PH received Medicare and Medicaid settlements and resolutions on prior year filed and appealed cost reports and other matters, which increased net patient service revenue by $3,060 and $13,879 in 2010 and 2009, respectively.

Components of accounts receivable at established rates at December 31, 2010 and 2009, include Medicare, 31% and 28%, respectively; Medicaid, 13% and 15%, respectively; commercial insurers, 41% and 43%, respectively; and other, 15% and 14%, respectively. One managed care payor, Wellpoint, Inc., represented 14% of patient accounts receivables at December 31, 2010 and 2009.

(Dollars in Thousands)

6. Investments

The composition of investments is as follows:

	December 31 2010	December 31 2009
Cash and short-term investments	**$ 22,683**	$ 137,233
Fixed income securities:		
U.S. government and agency obligations	**119,503**	206,090
Corporate and other bonds	**44,820**	93,245
Mortgage- and asset-backed securities	**15,824**	82,040
Domestic equities	**63,063**	36,121
International equities	**29,597**	20,042
Mutual funds	**299,874**	169,185
Hedge funds	**55,260**	52,688
Real estate held for investment	**23,655**	23,322
Gross investment	**674,279**	819,966
Amounts due to brokers	**(18,253)**	(42,308)
Amounts due from brokers	**2,305**	34,097
Net investments	**$ 658,331**	$ 811,755

PH's investments are exposed to various kinds and levels of risk. Fixed income securities expose PH to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed income securities is affected, particularly those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligation. Liquidity risk is affected by the willingness of market participants to buy and sell given securities.

Equity securities expose PH to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets, both foreign and domestic. Performance risk is the risk associated with a particular company's operating performance. Liquidity risk, as previously defined, tends to be higher for international equities and small capitalization equity companies.

(Dollars in Thousands)

6. Investments (continued)

Hedge funds are not necessarily readily marketable. The funds often employ complex strategies, including short sales on securities and trading on future contracts, options, foreign currency contracts, other derivative instruments, and private equity investments, and the composition of the individual investments within these funds is not readily determinable. The hedge fund investments are partnership interests in limited partnerships. These investments are not publicly traded, and the net asset value (NAV) is based upon information provided by the fund manager. The hedge funds have restrictions on the timing of withdrawals ranging from one to three months, which may reduce liquidity.

The real estate investments present valuation risks, as they are not actively traded, and the value is determined based upon independent third-party appraisals and management estimates. Additionally, these investments present a concentration of risk, as they are held within the same geographic region, Northeast Indiana.

The composition of investment return recognized in the consolidated statements of operations and changes in net assets is as follows:

	Year Ended December 31	
	2010	**2009**
Investment income:		
Unrealized gains on investments, net	**$ 27,686**	$ 114,151
Dividend and interest income	**11,547**	17,163
Net realized gains (losses) on the sale of investments	**6,026**	(26,362)
Total investment return	**$ 45,259**	$ 104,952
Included in other revenue	**$ 1,290**	$ 1,977
Included in interest, dividends, and realized gains on sales of investments, net	**16,588**	(9,489)
Included in unrealized gains on investments, net	**27,381**	112,464
Total investment return	**$ 45,259**	$ 104,952

(Dollars in Thousands)

6. Investments (continued)

Securities Lending

The Corporation participates in securities lending transactions, whereby a portion of its investments are loaned to a broker in return for cash, letters of credit, or U.S. government securities from the broker as collateral for securities loaned. The Corporation participates in a program with its trustee to reinvest the cash collateral received in other short-term investments. The Corporation earns income on the collateral pledged while related securities are outstanding, but has risk of loss on the collateral received due to the reinvestment program. In the accompanying consolidated balance sheets, the fair value of securities purchased with the cash collateral held for loaned marketable securities was $6,318 and $19,922 at December 31, 2010 and 2009, respectively, and is reported as a current asset. A payable for repayment of cash collateral received, upon settlement of the lending arrangement, is reported as other current liabilities of $7,835 and $21,821 at December 31, 2010 and 2009, respectively.

7. Property and Equipment

The costs of property and equipment consist of the following:

	December 31	
	2010	**2009**
Land and improvements	**$ 57,300**	$ 53,700
Buildings	**412,245**	391,183
Equipment	**428,447**	393,193
Construction in progress	**325,964**	107,188
	$ 1,223,956	$ 945,264

(Dollars in Thousands)

7. Property and Equipment

The cost of commitments to complete construction-in-progress projects is estimated to be $137,622 at December 31, 2010. Depreciation expense recorded in the consolidated statements of operations and changes in net assets was $47,074 and $48,554 at December 31, 2010 and 2009, respectively. Amortization expense on capital leases recorded in the consolidated statements of operations and changes in net assets was $3,384 and $4,413 at December 31, 2010 and 2009, respectively. Assets under capital leases at December 31, 2010 and 2009, were $21,065 and $23,310, respectively. Accumulated amortization on capital leases at December 31, 2010 and 2009, was $16,128 and $16,496, respectively.

8. Long-Term Debt

Long-term debt consists principally of tax-exempt bonds as follows:

Description	Interest Rates	December 31 2010	December 31 2009
Tax-exempt, variable rate demand bonds:			
Series 2010A due through 2040	1.32%	**$ 12,900**	$ –
Series 2009BCD due through 2031	0.29% – 0.32%	**223,665**	223,665
Series 2007 due through 2032	0.33%	**23,145**	23,765
Series 2001 due through 2031	0.33% – 0.35%	**18,400**	19,425
Tax-exempt, fixed rate serial and term bonds:			
Series 2009A due through 2031	4.0% – 5.88%	**257,620**	265,530
Series 1998 due through 2028	4.5% – 5.4%	**55,310**	56,475
Various notes to banks	Various	**24,286**	10,601
Mortgages on real estate	Various	**12,458**	8,793
Other	Various	**1,065**	112
Capital leases	Various	**4,811**	6,461
		633,660	614,827
Less unamortized original issue discount		**5,319**	5,721
		628,341	609,106
Less current portion		**32,250**	14,100
		$ 596,091	$ 595,006

(Dollars in Thousands)

8. Long-Term Debt (continued)

The scheduled maturities and mandatory redemptions of long-term debt are as follows:

Year ending December 31:	
2011	$ 32,250
2012	16,135
2013	15,325
2014	13,820
2015	13,404
Thereafter	542,726
	$ 633,660

Total interest paid was approximately $24,164 in 2010 and $16,193 in 2009. Interest cost of $2,558 in 2010 and $1,903 in 2009 was capitalized as part of the cost of construction.

Obligations Through Use of Master Indenture

PH and PVH have issued tax-exempt revenue, revenue refunding, and variable rate demand bonds through the use of a Master Indenture, as amended and supplemented. The various agreements require PH and PVH not to incur indebtedness secured by an encumbrance and not to mortgage certain facilities except under certain circumstances. The agreements require the maintenance of debt service coverage ratios and contain certain other restrictive covenants.

On May 4, 2010, PH issued $30,000 of variable rate, tax-exempt private placement bonds using the Master Indenture and through the Indiana Finance Authority. The proceeds of the bonds and certain other funds of PH will be used to finance the construction and furnishing of the new Parkview Whitley Hospital. The funds will be drawn as required through construction. The amount drawn through December 31, 2010, is $12,900. The bonds bear interest monthly, and interest is paid monthly.

8. Long-Term Debt (continued)

In August 2009, PH and PVH issued $265,530 of fixed rate, tax-exempt revenue bonds (the Series 2009A Bonds), and $223,665 of variable rate, tax-exempt revenue bonds (the Series 2009B Bonds, the Series 2009C Bonds, and the Series 2009D Bonds), using the Master Indenture and through the Indiana Finance Authority. The proceeds of the bonds were used to refund all but $19,425 of the outstanding Indiana Health Facility Financing Authority Revenue Bonds, Series 2001A, 2001B, and 2001C (collectively, the Series 2001 Bonds), refund all of the outstanding Indiana Health and Educational Facility Financing Authority Revenue Bonds, Series 2005A and 2005B (collectively, the Series 2005 Bonds), pay certain costs related to the termination of a portion of swaps related to the Series 2001 Bonds, pay costs of issuance and costs of refunding, and to finance, refinance, or reimburse certain costs for capital expenditures at the Parkview Hospital facilities. In conjunction with this refinancing, PH recorded a gain on debt refinancing of $3,466, which is included in other nonoperating income (expenses) in the consolidated statement of operations and changes in net assets for the year ended December 31, 2009. Interest on the Series 2009A Bonds is paid semiannually. Interest on the Series 2009BCD Bonds bears interest weekly, and interest is paid monthly.

PH entered into three direct-pay Letters of Credit agreements (the LOCs) issued by National City Bank (Series 2009B Bonds), Wells Fargo Bank (Series 2009C Bonds), and Citibank (Series 2009D Bonds) to enhance the marketability of the bonds. Under the terms of the LOCs, if bonds are not successfully remarketed and thereby purchased by the banks, the principal maturities of the bonds purchased are accelerated over the subsequent three-year period commencing at least one year and one day from the draw on the LOC, and PH would pay a defined rate, based on a formula in the agreements, at a minimum rate of 8.5% for the first 90 days after bank purchase and 10.5% thereafter. The current LOCs expire August 26, 2012. At December 31, 2010, all bonds had been successfully remarketed.

8. Long-Term Debt (continued)

On March 15, 2007, PLH issued $24,930 of adjustable rate, tax-exempt revenue bonds. The bonds were issued through the Indiana Health and Education Facility Financing Authority. The proceeds of the Series 2007 Bonds and certain other funds of PLH were used to finance the construction and furnishing of a new hospital facility and to pay financing costs. These Series 2007 Bonds bear interest at a weekly rate, and interest is paid monthly. The Series 2007 Bonds are secured by an irrevocable direct-pay Letter of Credit issued by National City Bank that matures on March 16, 2012. This LOC has a maximum rate of 15%. At December 31, 2010, all bonds had been successfully remarketed. The borrower's obligations under the bond documents are secured by a security interest in and lien upon all of the borrower's real and personal property.

In November 2001, PH and PVH issued $220,000 of variable rate, tax-exempt auction revenue bonds (the Series 2001 Bonds) using the Master Indenture and through the Indiana Health Facility Financing Authority. These Series 2001 Bonds auction every 28 days. If the auction fails, the interest rate for the next 28-day cycle is the 7-Day AA Composite Commercial Paper Rate times 175%. The bonds have a maximum rate of 15%. Beginning in February 2008 and continuing through December 31, 2010, PH's Series 2001 Bonds failed to attract sufficient bids to be remarketed. As a result of the failed auctions, interest rates are set based upon a formula contained in the bond documents. The interest rate formula is based upon the 7-day AA Composite Commercial Paper rate times a factor. This factor can vary from 125% to 225%, depending upon the credit rating of the bond. The bond rating is equal to the rating of either the insurer of the debt or the issuer, whichever is higher. At December 31, 2010 and 2009, the factor was 175%. The Series 2001 Bonds are secured by a financial guaranty insurance policy provided by Ambac Assurance Corporation (Ambac). Ambac is rated Baa1 by Moody's, while PH has retained its Moody's rating of A1.

In November 1998, PH and PVH issued $144,610 of fixed rate, tax-exempt revenue bonds (the Series 1998 Bonds) using the Master Indenture through the Hospital Authority of the City of Fort Wayne, Indiana. The Series 1998 Bonds consist of serial and term bonds and require annual principal or mandatory sinking fund redemption, with interest payable semiannually.

8. Long-Term Debt (continued)

Debt Guarantee

At December 31, 2010, the Corporation had guaranteed approximately $3,473 of certain outstanding debt obligations of unconsolidated entities. If the unconsolidated entities default on their debt obligation, the Corporation would then be responsible for the obligation.

9. Interest Rate Swaps and Other Derivatives

PH utilizes a combination of swap agreements with the objective to mitigate the impact interest rate fluctuations have on its interest payments. PH utilizes fixed payor, fixed spread basis, fixed receiver, and forward fixed payor contracts entered into with various third parties. Interest rate swap contracts between PH and a third party (counterparty) provide for the periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and include counterparty credit risk. This is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for PH’s counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. The interest rate swap contracts contain collateral provisions applicable to both parties to mitigate credit risk. PH does not anticipate nonperformance by its counterparties. The fair value of the certain fixed payor and fixed spread basis swaps obligations exceeded contractual thresholds and triggered the necessity of PH to post collateral with the counterparties. Collateral required to be posted by PH totaled $20,386 and $3,306 at December 31, 2010 and 2009, respectively, and is included with other assets on the consolidated balance sheets. PH’s policy is to present the collateral on a gross basis in the consolidated balance sheets.

(Dollars in Thousands)

9. Interest Rate Swaps and Other Derivatives (continued)

The following table is a summary of the outstanding positions under these interest rate swap agreements at December 31, 2010 and 2009:

				Notional Amount	
Expiration Date		**PH Pays**	**PH Receives**	**December 31 2010**	**December 31 2009**
2020 – 2031	(1)	3.47% – 3.71%	67% of one-month LIBOR	**$ 39,550**	$ 40,575
2028 – 2033	(1)	3.26% – 3.48%	62.4% of one-month LIBOR + 0.29% margin	**104,175**	108,165
2028 – 2033	(2)	3.26% – 3.48%	62.4% of one-month LIBOR + 0.29% margin	**75,000**	75,000
2011 – 2016	(2)	BMA/SIFMA Index	3.61% – 4.0%	**90,000**	90,000
2037	(1)	3.74%	61.8% of one-month LIBOR + 0.31% margin	**149,530**	150,000
2014 – 2025	(3)	BMA/SIFMA Index	68% of one-month LIBOR + 0.37% – 0.52% margin	**180,000**	180,000
				$ 638,255	$ 643,740

(1) The objective of these interest swaps is to mitigate interest rate fluctuations and synthetically fix certain variable rate exposure.

(2) The objective of these interest rate swaps is to create a basis swap.

(3) The objective of these interest rate swaps is to take advantage of yield curve differences and mitigate risk on future bond offerings. These interest rate swaps are not associated with outstanding debt.

(Dollars in Thousands)

9. Interest Rate Swaps and Other Derivatives (continued)

The fair value of derivative instruments at December 31, 2010 and 2009, is as follows:

Derivatives Not Designated as Hedging Instruments	Balance Sheet Classification	December 31 2010	December 31 2009
Interest rate contracts	Other assets	**$ 6,197**	$ 7,955
Interest rate contracts	Other liabilities	**(46,390)**	(30,252)
Investments	Board-designated debt reserve and capital replacement funds	**–**	(617)
Total derivatives		**$ (40,193)**	$ (22,914)

The effects of derivative instruments on the consolidated statements of operations and changes in net assets for the years ended December 31, 2010 and 2009, are as follows:

Derivatives Not Designated as Hedging Instruments	Location of Gain or Loss on Derivatives Recognized in Excess of Revenues Over Expenses	Amount of Gain or Loss on Derivatives Recognized in Excess of Revenue Over Expenses	
		December 31	
		2010	2009
Interest rate contracts – Unrealized gains (losses)	Realized and unrealized (losses) gains on interest rate swaps, net	**$ (17,880)**	$ 72,974
Interest rate contacts – Realized losses	Realized and unrealized (losses) gains on interest rate swaps, net	**–**	(11,580)
Interest rate contracts – Net cash payments	Other – nonoperating	**(1,466)**	(12,899)
Investments	Realized and unrealized gains on investments, net	**403**	2,715
Total derivatives		**$ (18,943)**	$ 51,210

(Dollars in Thousands)

9. Interest Rate Swaps and Other Derivatives (continued)

Interest rate swap settlement payments, net were $7,670 in 2010, of which $6,204 was capitalized as part of the cost of construction.

10. Pension Plans

Defined-Benefit Pension Plan

The Corporation sponsors a noncontributory, defined-benefit pension plan (the Plan) covering eligible employees employed prior to January 2005. Plan benefits are based on years of service and an employee's compensation during a consecutive five-year term of employment within the 10 years prior to benefit determination, which results in the highest earnings. An employee became a plan participant upon reaching age 21 and completing at least one year of eligible service. A year of eligible service is credited to an employee upon the completion of at least 1,000 hours of service in a calendar year. The Corporation's funding policy is to contribute annually the amount necessary to fully fund the Plan's Accumulated Benefit Obligation (ABO).

The following table sets forth the funded status of the Plan and accrued pension obligation as of December 31, as actuarially determined:

	December 31	
	2010	**2009**
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	**$ 259,842**	$ 257,279
Service cost	**7,605**	8,343
Interest cost	**15,836**	14,709
Actuarial loss (gain)	**17,427**	(14,426)
Benefits paid	**(6,977)**	(6,063)
Projected benefit obligation at end of year	**293,733**	259,842
Change in plan assets		
Plan assets at fair value at beginning of year	**236,554**	176,482
Actual return on plan assets	**32,651**	43,635
Corporation and subsidiary contributions	**20,300**	22,500
Benefits paid	**(6,977)**	(6,063)
Plan assets at fair value at end of year	**282,528**	236,554
Funded status of the Plan	**$ (11,205)**	$ (23,288)

(Dollars in Thousands)

10. Pension Plans (continued)

	Year Ended December 31	
	2010	**2009**
Items not yet recognized as a component of net periodic pension cost		
Net actuarial loss	**$ 69,268**	$ 72,401
Prior service cost	**452**	628
	$ 69,720	$ 73,029

Changes in plan assets and benefit obligation recognized in unrestricted net assets during 2010 and 2009 include:

	Year Ended December 31	
	2010	**2009**
Unrecognized actuarial loss (gain)	**$ 3,067**	$ (41,167)
Amortization of actuarial loss	**(6,200)**	(6,443)
Amortization of prior service cost	**(176)**	(176)
	$ (3,309)	$ (47,786)

The actuarial loss and prior service cost included in unrestricted net assets and expected to be recognized in the net periodic pension cost during the year ended December 31, 2011, total $5,263 and $176, respectively.

(Dollars in Thousands)

10. Pension Plans (continued)

	Year Ended December 31 2010	2009
Periodic benefit cost		
Service cost	**$ 7,605**	$ 8,343
Interest cost	**15,836**	14,709
Expected return on plan assets	**(18,271)**	(16,894)
Amortization of unrecognized net loss	**6,200**	6,443
Amortization of unrecognized prior service cost	**176**	176
Net periodic benefit cost	**$ 11,546**	$ 12,777

	December 31 2010	2009
Accumulated benefit obligation	**$ 267,476**	$ 233,762
Plan assets at fair market value	**282,528**	236,554
Funded status (based on accumulated benefit obligation)	**$ 15,052**	$ 2,792

The weighted-average assumptions used to determine benefit obligations at December 31 and net periodic benefit costs for the years then ended are as follows:

	2010	2009
Assumptions – benefit obligations:		
Discount rate	**5.69%**	6.18%
Expected return on plan assets	**8.00**	8.00
Rate of compensation increase	**3.50**	3.50
Assumptions – net periodic benefit cost:		
Discount rate	**6.18%**	5.79%
Expected return on plan assets	**8.00**	8.00
Rate of compensation increase	**3.50**	3.50

(Dollars in Thousands)

10. Pension Plans (continued)

The amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the Plan. The reduction in the discount rate between years resulted in an increase in the pension benefit obligation of $19,967.

The principal long-term determinant of a portfolio's investment return is its asset allocation. The Plan's allocation is weighted toward growth assets (59%) versus fixed income (41%). In addition, management believes its active strategies have added value relative to passive benchmark returns. The expected long-term rate of return assumption is based on the mix of assets in the Plan, the long-term earnings expected to be associated with each asset class, and the additional return expected through active management. This assumption is periodically benchmarked against peer plans.

The Plan's weighted-average asset allocations at December 31, 2010 and 2009, by asset category, are as follows:

	2010	**2009**
Equity securities	**59%**	54%
Debt securities	**39**	42
Short-term investments	**2**	4
Total	**100%**	100%

The Corporation's policy on investment allocation for the Plan consists of an allocation of 40% to 70% for growth investments and 30% to 60% for fixed income investments. Within the growth investment classification, the Plan's asset strategy encompasses equity and equity-like instruments that are of both public and private market investments. These equity and equity-like instruments are public equity securities that are well diversified and invested in U.S. and international companies.

(Dollars in Thousands)

10. Pension Plans (continued)

The fair value of pension plan assets was determined using the following inputs at December 31, 2010:

		Fair Value Measurements Using:		
	Fair Value	**(Level 1)**	**(Level 2)**	**(Level 3)**
Mutual funds	**$ 275,591**	**$ 235,021**	**$ 40,570**	**$ –**
Guaranteed investment contract	**6,937**	**–**	**–**	**6,937**
	$ 282,528	**$ 235,021**	**$ 40,570**	**$ 6,937**

Fair value methodologies for Level 1 and Level 2 investments are consistent with the inputs described in Note 3. The fair value of the Level 3 interest in the guaranteed investment contract (GIC) is based on information reported by the issuer of the GIC at year-end.

The fair value of pension plan assets was determined using the following inputs at December 31, 2009:

		Fair Value Measurements Using:		
	Fair Value	**(Level 1)**	**(Level 2)**	**(Level 3)**
Mutual funds	$ 227,942	$ 197,827	$ 30,115	$ –
Guaranteed investment contract	8,612	–	–	8,612
	$ 236,554	$ 197,827	$ 30,115	$ 8,612

(Dollars in Thousands)

10. Pension Plans (continued)

The following table is a rollforward of the pension plan assets classified within Level 3 of the valuation hierarchy:

	Financial Assets – GIC
Fair value at January 1, 2009	$ 9,605
Purchases, issuances, and settlements	(1,406)
Actual return on plan assets	413
Fair value at January 1, 2010	**8,612**
Purchases, issuances, and settlements	**(2,003)**
Actual return on plan assets	**328**
Fair value at December 31, 2010	**$ 6,937**

Estimated future benefit payments:	
2011	$ 8,537
2012	9,555
2013	10,761
2014	12,141
2015	13,628
2016-2019	94,475

The Corporation expects to contribute $10,000 to its defined-benefit pension plan in 2011.

10. Pension Plans (continued)

Defined-Contribution and Other Pension Plans

Eligible employees hired after December 31, 2004, and employees who were active at December 31, 2004, and elected at that time to participate in the defined-contribution plan and freeze their benefits in the defined-benefit plan, participate in the defined-contribution plan. The accrued liability for the defined-contribution pension plan is $9,915 and $7,139 at December 31, 2010 and 2009, respectively, and is recorded as a current liability on the consolidated balance sheets. During 2010 and 2009, expense for this plan totaled $9,005 and $7,195, respectively, and is reported as salaries and benefits.

Contributions to the tax-sheltered annuity and 401(k) plans are based on a percentage of eligible employee salaries, as defined. The contributions for the tax-shelter annuity and 401(k) plans were $5,741 and $5,160 in 2010 and 2009, respectively, and were reported as salaries and benefits.

(Dollars in Thousands)

11. Commitments and Contingencies

Certain property and equipment is leased using noncancelable operating lease arrangements. Rental expense associated with the operating leases was $16,234 and $10,600 for the years ended December 31, 2010 and 2009, respectively. The leases expire in various years through 2020. Future minimum lease payments required under noncancelable operating leases for property and equipment as of December 31, 2010, are as follows:

Year Ending December 31	Operating Leases	Capital Leases
2011	$ 4,959	$ 1,934
2012	4,205	1,330
2013	3,660	1,275
2014	3,282	705
2015	3,195	6
Thereafter	18,477	–
Total minimum lease payments	$ 37,778	5,250
Less amount representing interest		439
Present value of net minimum lease payments		$ 4,811

12. Functional Expenses

The Corporation, as an integrated health care delivery system, provides and manages the health care needs of its patients and members. Aggregate direct expenses for these services as a percent of total expenses were approximately 87% and 88% for the years ended December 31, 2010 and 2009, respectively.

13. Indiana Medicaid Disproportionate Share

Under Indiana law (IC 12-15-16 (1-3)), health care providers qualifying as State of Indiana Medicaid Acute Disproportionate Share and Medicaid Safety Net Hospitals (DSH providers) are eligible to receive Indiana Medicaid Disproportionate Share (State DSH) payments. The amount of these additional DSH funds is dependent on regulatory approval by agencies of the federal and state governments and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors. DSH payments by the state of Indiana are paid according to the fiscal year of the state, which ends on June 30 of each year, and are based on the cost of uncompensated care provided by the DSH providers during their respective fiscal year ended during the state fiscal year.

In 2009, PH recognized income of $18,510 from Indiana Supplemental Partial Payment to Privately Owned Hospitals payments, which pertained to state fiscal year 2009. As a result of these payments, PH recorded a favorable change in estimate of $9,255 in 2009.

In 2010, PH recognized income of $2,353 from Indiana Supplemental Partial Payment to Privately Owned Hospitals payments, which pertained to state fiscal year 2010. PH recorded a favorable change in estimate of $1,442 in 2010.

The State DSH payments to Parkview Huntington, Parkview Noble, and Parkview Hospital are included in the consolidated statements of operations and changes in net assets when notified by the state of Indiana and applied to the most recent year for which audited financial statements have not been issued. The following summary of Parkview Health gives effect to using historical information to report the State DSH revenue recognized by Parkview Health and the state fiscal year to which the revenue relates.

At December 31, 2010 and 2009, PH recorded State DSH payments receivable of $0.

14. Subsequent Events

PH evaluated events and transactions occurring subsequent to December 31, 2010 through April 26, 2011, the date the consolidated financial statements were issued. During this period, there were no subsequent events that required recognition or disclosure in the consolidated financial statements.

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