

Reid Hospital and Health Care Services, Inc.

Accountants' Report and Consolidated Financial Statements

December 31, 2010 and 2009

Reid Hospital and Health Care Services, Inc.

December 31, 2010 and 2009

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Independent Accountants' Report on Consolidated Financial Statements and Supplementary Information

Board of Directors
Reid Hospital and Health Care Services, Inc.
Richmond, Indiana

We have audited the accompanying consolidated balance sheets of Reid Hospital and Health Care Services, Inc. (Hospital) 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 Hospital'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 of America. 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Reid Hospital and Health Care Services, Inc. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, in 2010, the Hospital changed its method of accounting for noncontrolling interests in its consolidated financial statements.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplementary consolidating information is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of operations of the individual entities. The consolidating information has been subjected to the procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

BKD, LLP

April 18, 2011

Reid Hospital and Health Care Services, Inc.

Consolidated Balance Sheets December 31, 2010 and 2009

Assets

	2010	2009
Current Assets		
Cash and cash equivalents	\$ 12,416,732	\$ 13,081,009
Assets limited as to use - current	2,955,000	2,855,000
Patient accounts receivable, net of allowance; 2010 - \$20,800,000, 2009 - \$20,200,000	48,289,942	34,537,927
Supplies	2,597,378	2,651,706
Prepaid expenses and other	6,260,530	4,529,351
Total current assets	72,519,582	57,654,993
Investments Limited As To Use		
Internally designated	167,170,600	159,134,036
Internally designated - fair value option	24,956,874	32,933,799
Held by trustee	8,285,842	8,266,780
	200,413,316	200,334,615
Less amounts required to meet current obligations	2,955,000	2,855,000
	197,458,316	197,479,615
Property and Equipment, at cost	430,716,804	413,127,806
Less accumulated depreciation	112,790,286	82,528,298
	317,926,518	330,599,508
Other Assets		
Interest in net assets of Reid Hospital & Health Care Services Foundation, Inc.	21,295,562	18,874,618
Deferred financing costs	6,612,798	6,805,952
Other	1,970,198	1,822,130
	29,878,558	27,502,700
Total assets	\$ 617,782,974	\$ 613,236,816

Liabilities and Net Assets

Current Liabilities		
Accounts payable and accrued expenses	\$ 17,545,089	\$ 9,861,429
Salaries, wages and related liabilities	10,229,098	9,139,938
Estimated amounts due to third-party payers	609,915	229,981
Current maturities of long-term debt	2,955,000	2,855,000
Total current liabilities	31,339,102	22,086,348
Long-Term Debt	185,430,000	188,385,000
Interest Rate Swap Agreement Liability	11,446,870	8,028,622
Pension Plan and Postretirement Benefits	7,305,772	15,311,320
Total liabilities	235,521,744	233,811,290
Net Assets		
Unrestricted	358,975,188	359,144,527
Noncontrolling interest	1,990,480	1,406,381
Temporarily restricted	21,135,572	18,844,628
Permanently restricted	159,990	29,990
Total net assets	382,261,230	379,425,526
Total liabilities and net assets	\$ 617,782,974	\$ 613,236,816

Reid Hospital and Health Care Services, Inc.
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue	\$ 287,668,432	\$ 276,370,411
Other	6,211,144	6,161,144
Net assets released from restrictions used for operations	423,628	320,353
Total unrestricted revenues, gains and other support	<u>294,303,204</u>	<u>282,851,908</u>
Expenses and Losses		
Salaries, wages and benefits	138,048,407	126,702,653
Purchased services and professional fees	17,941,092	15,090,102
Supplies and other	88,448,483	81,009,309
Depreciation and amortization	32,678,620	30,927,717
Interest and amortization of financing costs	10,676,348	9,426,441
Provision for uncollectible accounts	28,600,758	31,895,297
Loss on disposal of property and equipment	302,026	1,304,765
Total expenses and losses	<u>316,695,734</u>	<u>296,356,284</u>
Operating Loss	<u>(22,392,530)</u>	<u>(13,504,376)</u>
Other Income (Expense)		
Investment return	4,633,654	6,943,335
Unrealized gain on trading securities, including reclassification	9,159,611	28,438,671
Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreement	(195,530)	3,919,383
Loss on bond refunding	-	(2,519,056)
Total other income	<u>13,597,735</u>	<u>36,782,333</u>
Excess (Deficiency) of Revenues Over Expenses	(8,794,795)	23,277,957
Excess of Revenues Over Expenses Attributable to Noncontrolling Interest	<u>(2,025,033)</u>	<u>(1,740,171)</u>
Excess (Deficiency) of Revenues Over Expenses Attributable to the Hospital	(10,819,828)	21,537,786
Other Changes in Unrestricted Net Assets		
Investment return - change in unrealized gains and losses on other-than-trading securities	5,889,441	4,283,646
Unrealized gains on investments reclassified as trading securities	-	(14,713,405)
Change in fair value of interest rate swap agreement	(3,418,248)	11,002,020
Amortization of 2005 interest rate swap agreement	195,530	195,530
Net assets released from restriction used for purchase of property and equipment	-	249,282
Net gain (loss) arising during the period related to defined-benefit plan	7,983,766	(1,004,443)
Change in noncontrolling interest	584,099	(666,526)
Increase (decrease) in unrestricted net assets	<u>414,760</u>	<u>20,883,890</u>
Temporarily Restricted Net Assets		
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	2,844,572	4,097,121
Net assets released from restriction	(423,628)	(569,635)
Increase in temporarily restricted net assets	<u>2,420,944</u>	<u>3,527,486</u>
Change in Net Assets	2,835,704	24,411,376
Net Assets, Beginning of Year	<u>379,425,526</u>	<u>355,014,150</u>
Net Assets, End of Year	<u>\$ 382,261,230</u>	<u>\$ 379,425,526</u>

Reid Hospital and Health Care Services, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	2010	2009
Operating Activities		
Change in net assets	\$ 2,835,704	\$ 24,411,376
Items not requiring (providing) cash		
Loss on sale of property and equipment	302,026	1,304,765
Depreciation and amortization	32,678,620	30,863,653
Provision for uncollectible accounts	28,612,368	31,895,297
Unrealized gain on investments	(23,032,818)	(18,157,123)
Realized gain on investments	(1,817,228)	(4,418,722)
Change in fair value of interest rate swap agreement	3,418,248	(15,116,933)
Undistributed portion of change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	(2,420,944)	(3,527,486)
Change in pension obligation	(21,782)	(2,074,655)
Loss on bond refunding	-	2,519,056
Changes in		
Patient accounts receivable	(42,364,383)	(32,322,249)
Estimated amounts due from and to third-party payers	379,934	50,638
Accounts payable and accrued expenses	743,761	1,287,539
Salaries, wages and related liabilities	1,089,160	(1,690,835)
Other current assets and liabilities	(1,824,919)	(6,067,033)
Net cash provided by (used in) operating activities	(1,422,253)	8,957,288
Investing Activities		
Purchase of investments	(30,099,606)	(104,488,456)
Proceeds from disposition of investments	46,887,185	105,379,759
Purchase of property and equipment	(13,174,603)	(15,109,330)
Proceeds from sale of property and equipment	-	61,851
Net cash provided by (used in) investing activities	3,612,976	(14,156,176)
Financing Activities		
Proceeds from issuance of long-term debt	-	99,850,000
Principal payments on long-term debt	(2,855,000)	(3,120,000)
Redemptions of long-term debt	-	(86,150,000)
Net cash provided by (used in) financing activities	(2,855,000)	10,580,000
Increase (Decrease) in Cash and Cash Equivalents	(664,277)	5,381,112
Cash and Cash Equivalents, Beginning of Year	13,081,009	7,699,897
Cash and Cash Equivalents, End of Year	\$ 12,416,732	\$ 13,081,009
Supplemental Cash Flows Information		
Interest paid (net of amount capitalized)	\$ 9,502,557	\$ 6,440,017
Property and equipment purchases in accounts payable	6,939,899	-

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2010 and 2009

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Principles of Consolidation

Reid Hospital and Health Care Services, Inc. (Hospital), located in Richmond, Indiana, is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital provides short-term acute inpatient, outpatient and emergency care to residents of Wayne county and surrounding counties. Admitting physicians are primarily practitioners in the local area.

The Hospital owns 47% of Reid MOB, LLC (Reid MOB). The Hospital maintains control of the Board of Managers and also maintains certain reserve powers, resulting in control of Reid MOB. The purpose of Reid MOB is to own, operate and serve as landlord for a medical office building and outpatient care center located on the new campus of Reid Hospital and Health Care Services, Inc. During 2007, the medical office building and outpatient care center was complete and placed in service.

The Hospital owns 55% and holds a controlling interest in an ambulatory surgery center, Reid Outpatient Surgery and Endoscopy, LLC (ROSE).

The Hospital owns 100% of Reid Physician Associates, Inc. (RPA) and Reid Anesthesia, LLC (RA, LLC), which are not-for-profit corporations as described in Section 501(c)(3) of the Code, which exempts them from income taxes on related income pursuant to Section 501(a) of the Code. RPA was formed in 2008 and provides physician services. RA, LLC was formed in 2009 and provides anesthesia and management services. RPA, Reid MOB, ROSE and RA, LLC are included in the accompanying consolidated financial statements.

The Hospital holds a 50% equity ownership interest in Reid-ANC Home Care Services, LLC, which is accounted for under the equity method.

The consolidated financial statements include the accounts of the Hospital and its controlled subsidiaries, Reid MOB, ROSE, RPA and RA, LLC. All material intercompany accounts and transactions have been eliminated in consolidation. Investments in organizations where the Hospital's ownership percentage is 50% or less are accounted for under the equity method and are included with other assets on the consolidated balance sheets.

Effective January 1, 2010, the Company adopted the provisions of Financial Accounting Standards Board Accounting Standards Codification Topic 810 (ASC Topic 810) *Consolidation*. Upon adoption, minority interest previously presented in the mezzanine section of the balance sheet has been retrospectively reclassified as noncontrolling interest within net assets. In addition, the consolidated excess (deficiency) of revenues over expenses presented in the consolidated statements of operations have been retrospectively revised to include the excess of revenues over expenses attributable to the noncontrolling interest. Beginning January 1, 2010, losses attributable to the noncontrolling interest will be allocated to the noncontrolling interest even if the carrying amount of the noncontrolling interest is reduced below zero. Any changes in ownership after January 1, 2010, that do not result in a loss of control will be prospectively accounted for as equity transactions in accordance with Topic 810.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2010 and 2009

Use of Estimates

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

Cash and Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2010 and 2009, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposits.

One or more of the financial institutions holding the Hospital's cash accounts are participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

For financial institutions opting out of the FDIC's Transaction Account Guarantee Program or interest-bearing cash accounts, the FDIC's insurance limits were permanently increased to \$250,000, effective July 21, 2010. At December 31, 2010, the Hospital's cash accounts exceeded federally insured limits by approximately \$13,000,000.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Certain investments are reported on the equity method of accounting. Other investments include investments in limited partnerships and are valued on the income tax basis of accounting, which approximates the equity method of accounting. The fair value for these investments are not readily determinable. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the consolidated statements of operations and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2010 and 2009

Assets Limited as to Use

Assets limited as to use include assets held by trustees and assets set aside by the Board of Directors for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital are included in current assets.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Hospital bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Supplies

The Hospital states supply inventories at the lower of cost, determined using the first-in, first-out (FIFO) method or market.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

The Hospital capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest incurred each year was:

	2010	2009
Interest costs capitalized	\$ 318,000	\$ 426,348
Interest costs charged to expense	9,487,991	9,226,526
Total interest incurred	<u>\$ 9,805,991</u>	<u>\$ 9,652,874</u>

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2010 and 2009

Long-Lived Asset Impairment

The Hospital evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2010 and 2009.

Interest in Net Assets of Reid Hospital and Health Care Services Foundation, Inc.

Reid Hospital and Health Care Services Foundation, Inc. (Foundation) and the Hospital are financially interrelated organizations. The Foundation seeks private support for and holds net assets on behalf of the Hospital. The Hospital accounts for its interest in the net assets of the Foundation (Interest) in a manner similar to the equity method. Changes in the Interest are included in change in net assets. Transfers of assets between the Foundation and the Hospital are recognized as increases or decreases in the Interest.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital 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 Hospital in perpetuity.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2010 and 2009

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

The Hospital also provides unreimbursed services to the community, which include free or low cost health screenings, educational programs and information, and financial support to, and meeting space for various community groups. In addition, services to beneficiaries of governmental programs (principally those relating to the Medicare and Medicaid programs) are generally provided at governmentally established rates which are substantially lower than the Hospital's standard rates and are considered part of the Hospital's benefits to the community. Assistance is also provided to senior citizens and other patients and their families for the submission of forms for insurance, financial counseling and the application to the Medicare and Medicaid programs for health service coverage. The costs of these programs are included in operating expenses. During 2010, the Hospital changed its charity policy to allow more patients to qualify for the Hospital's charitable programs.

Estimated Malpractice Costs

An annual estimated provision is accrued for the self-insured portion of medical malpractice claims and includes an estimate of the ultimate costs for both reported claims and claims incurred but not reported.

Excess (Deficiency) of Revenues Over Expenses

The consolidated statements of operations include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, the change in fair value of the effective portion of interest rate swap agreements, permanent transfers to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets).

Income Taxes

The Hospital and RPA have been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Hospital and its controlled subsidiaries file tax returns in the U.S. federal jurisdiction. With a few exceptions, the Hospital and its controlled subsidiaries are no longer subject to U.S. federal examinations by tax authorities for years before 2007.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2010 and 2009

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through April 18, 2011, which is the date the consolidated financial statements were available to be issued.

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. The Hospital receives enhanced Medicare reimbursement from its designation as a Sole Community Hospital.

Medicaid. Inpatient and outpatient services rendered to the Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to the service provided and the patient diagnosis.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge and prospectively determined daily rates.

The mix of net patient service revenue at December 31, 2010 and 2009 is:

	2010	2009
Medicare	43%	43%
Medicaid	5%	4%
Other third-party payers	47%	50%
Uninsured patients, including coinsurance and deductibles	5%	3%
	<u>100%</u>	<u>100%</u>

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2010 and 2009

Note 3: Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at December 31, 2010 and 2009 is:

	2010	2009
Medicare	39%	27%
Medicaid	5%	4%
Other third-party payers	44%	47%
Uninsured patients, including coinsurance and deductibles	12%	22%
	100%	100%

Note 4: Investments and Investment Return

Assets Limited as to Use

Assets limited as to use at December 31 are as follows:

	2010	2009
Internally designated by Board		
Trading		
Cash and cash equivalents	\$ 19,836,910	\$ 49,875,632
Non-U.S. equity securities	9,199,791	7,837,203
Domestic equity mutual funds	60,237,435	44,278,091
Non-U.S. equity mutual funds	11,131,263	7,661,164
Domestic fixed income mutual funds	29,116,086	25,444,332
Non-U.S. fixed income mutual funds	12,966,693	3,495,983
Other than trading		
Alternative investments - corporate hedge funds	42,284,591	46,377,308
Alternative investments - real estate hedge funds	7,354,705	7,098,122
	\$ 192,127,474	\$ 192,067,835
Held by trustee under indenture agreement		
Cash and cash equivalents	\$ 8,285,842	\$ 8,266,780

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Total investment return is comprised of the following:

	2010	2009
Interest and dividend income	\$ 3,229,847	\$ 14,991,477
Realized gains on trading securities	2,443,044	2,246,541
Unrealized gains on trading securities	9,159,611	13,725,266
Realized and unrealized gains on other than trading securities	<u>4,850,204</u>	<u>8,702,368</u>
	<u>\$ 19,682,706</u>	<u>\$ 39,665,652</u>

Total investment return is reflected in the consolidated statements of operations and changes in net assets as follows:

	2010	2009
Unrestricted net assets		
Investment return	\$ 4,633,654	\$ 6,943,335
Unrealized gain on trading securities, including reclassification	9,159,611	28,438,671
Change in unrealized gains and losses on other than trading securities	<u>5,889,441</u>	<u>4,283,646</u>
	<u>\$ 19,682,706</u>	<u>\$ 39,665,652</u>

Effective January 1, 2009, the Hospital changed the accounting classification of substantially all of its investments in debt and equity securities from nontrading to trading. This change in classification required the Hospital to recognize unrealized gains and losses on substantially all of its investments in debt and equity securities as nonoperating gains (losses) in the consolidated statements of operations and changes in unrestricted net assets.

Previous to 2009, these investments had been classified as nontrading, and changes in the fair value of these investment securities were recorded as other changes in net assets. Accordingly, the cumulative amount of unrealized gains on investments at January 1, 2009, of \$14,713,405, has been included in unrealized gains in trading securities and removed from other changes in unrestricted net assets within the 2009 consolidated statement of operations and changes in unrestricted net assets.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2010 and 2009

Alternative Investments Carried at Fair Value

The fair value of alternative investments - corporate hedge funds has been estimated using the net asset value per share of the investments. Alternative investments held at December 31 consist of the following:

	December 31, 2010			Redemption Notice Period
	Fair Value	Unfunded Commitments	Redemption Frequency	
Corporate hedge funds	\$ 24,956,874	\$ -	Quarterly - Yearly	60 - 95 days
	December 31, 2009			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Corporate hedge funds	\$ 32,933,799	\$ -	Quarterly - Yearly	60 - 95 days

Alternative Investments Carried Under Equity Method

The six alternative investments reported on the equity method consist of various real estate and corporate hedge funds. These funds invest in other limited partnerships in equity and real estate sectors. One of the funds has an initial lock-up period of 1 year with a 70-day redemption notice period and no redemption fees. The remaining five funds have lock-up periods of the life of the investment. Outstanding commitments for these funds approximate \$2.0 million. See Note 4 for summarized financial information on these funds. The financial position and results of operations of the more significant investment positions, are summarized below for the most recent period that audited consolidated financial statements are available.

	December 31, 2009
Current assets	\$ 6,854,310
Noncurrent assets	96,614,874
	\$ 103,469,184
Liabilities	\$ 1,517,888
Equity	\$ 101,951,296
Investment return	\$ 596,789
Net income	\$ 303,911

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 5: Interest in Net Assets of Reid Hospital and Health Services Foundation, Inc.

Reid Hospital and Health Services Foundation, Inc. (Foundation) was organized to support the activities of Reid Hospital and Health Care Services, Inc. in Richmond, Indiana. Funds are distributed to the Hospital as determined by the Foundation's Board of Directors. The Hospital's interest in the net assets of the Foundation is accounted for in a manner similar to the equity method. Changes in the interest are included in change in net assets. Transfers of assets between the Foundation and the Hospital are recognized as increases or decreases in the interest in the net assets of the Foundation with corresponding decreases or increases in the assets transferred and have no effect on change in net assets. The Hospital's interest in the net assets of the Foundation is reported in the balance sheets and was \$21,295,562 and \$18,874,618 at December 31, 2010 and 2009, respectively.

Certain Hospital officers and board members also serve on the Foundation's board of directors.

Note 6: Medical Malpractice Claims

Malpractice insurance coverage is provided on a claims-made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be uninsured. However, the Indiana Malpractice Act (the Act) limits professional liability for claims prior to July 1, 1999 to a maximum recovery of \$750,000 per occurrence (\$3,000,000 annual aggregate), \$100,000 of which would be paid through malpractice insurance coverage, and the balance would be paid by the State of Indiana patient Compensation Fund (the Fund). For claims on or after July 1, 1999, the maximum recovery is \$1,250,000 per occurrence (\$7,500,000 annual aggregate), \$250,000 of which would be paid through insurance coverage and the remainder by the Fund.

During 2003, the Hospital became a subscriber in a Vermont captive insurance company, Indiana Healthcare (previously named VHA Central), a reciprocal risk retention group. This captive insurance company was fully recognized by the Fund as of October 1, 2003. The Hospital's capital contribution is reported in other assets. Effective February 1, 2004, the captive insurer provided insurance coverage to the Hospital for the required portion of the insurance coverage pursuant to the Act as well as its liability insurance.

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Note 7: Long-Term Debt

	2010	2009
Hospital Revenue Bonds, Series 2005A	\$ 83,890,000	\$ 85,730,000
Hospital Revenue Bonds, Series 2009A	98,835,000	99,850,000
Subordinated Revenue Bonds, Series 2005	5,660,000	5,660,000
	188,385,000	191,240,000
Less current maturities	2,955,000	2,855,000
	\$ 185,430,000	\$ 188,385,000

In April 2005, the Hospital Authority of Richmond (Authority) obligated itself in a trust indenture with U.S. Bank National Association for the issuance of \$175,000,000 in bonds to construct and equip a new hospital facility, which opened in 2008. The Authority loaned the proceeds of the bond issue to the Hospital in an agreement dated April 1, 2005. The original 2005 bonds are insured through a municipal bond insurance policy issued by Assured Guaranty Municipal Corp. The obligations are secured by the Hospital's revenues and substantially all of the Hospital's assets.

In connection with the bond issues, the Hospital entered into various agreements benefiting the respective bond stakeholders. Among other provisions, the Hospital has covenanted not to incur indebtedness secured by an encumbrance on, or mortgage of its facilities except under certain circumstances.

In March 2009, the Hospital entered into a forbearance agreement in consideration of the bond covenant failures during the Hospital's 2008 fiscal period. The Hospital complied with the forbearance agreement and the agreement was formally dissolved on January 1, 2010.

Hospital Revenue Bonds 2005A Series, Variable Rate Demand Obligations

The Series 2005A of \$87,500,000 are structured as variable rate demand bonds, which are remarketed daily. In the event the bonds are not remarketed, the bond holder has the right to demand payment on the bonds. The Hospital entered into a liquidity facility in the form of a standby bond purchase agreement with JP Morgan Chase Bank, National Association, which provides up to \$87,500,000 of liquidity to benefit the tender agent. Drawings under the standby bond purchase agreement are due the earlier of (i) the original scheduled payment; (ii) the date on which the bonds are remarketed pursuant to the trust indenture; (iii) the date on which the standby bond purchase agreement is replaced by a substitute credit facility or (iv) the expiration of the standby bond purchase agreement, which is April 8, 2013.

The bonds are payable in amounts ranging from \$1,770,000 to \$3,990,000, including monthly interest, which was .30% at December 31, 2010.

Reid Hospital and Health Care Services, Inc.

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Hospital Revenue Bonds Series 2009A

The Authority issued Revenue Bonds Series 2009A pursuant to a Trust Indenture dated as of March 1, 2009 between the Authority and U.S. Bank National Association, as Trustee. The bonds are special and limited obligations of the Authority and are payable solely from and secured exclusively by payments, revenues and other amounts pledged under the Trust Indenture, including payments to be made by the Hospital, under a loan agreement dated March 1, 2009 between the Authority and the Corporation.

Proceeds from the bond issue were to refund the Series 2005B and 2005C bonds and also to fund a debt service reserve fund.

The bonds are subject to mandatory sinking fund requirements and required to maintain a debt service reserve fund with the trustee. Amounts on deposit with the trustee at December 31, 2010 totaled \$8,285,842.

The fixed rate serial bonds require annual principal payments on January 1 of each year beginning in 2010 in amounts ranging from \$1,015,000 to \$7,940,000. Interest payments due are on January 1 and July 1 and rates vary from 3% to 7% at final maturity.

The Hospital recognized a loss in 2009 of approximately \$2,500,000 related to unamortized bond costs associated with the refunding of the 2005B and 2005C bonds.

Subordinated Revenue Bonds, Series 2005

In March 2005, the subordinated bonds were issued, whose proceeds were used to construct and equip a diagnostic medical imaging center. The bonds bear interest at a fixed rate of 11% with a balloon payment of \$5,660,000 due in 2025. The bonds are secured by pledged revenue of the diagnostic center and equipment.

Subsequent to year end, the Hospital exercised its right through a Notice of Redemption and prepayment of loan to prepay the 2005 subordinated bonds effective June 1, 2011.

Aggregate annual maturities and sinking fund requirements of bonds payable at December 31, 2010, are:

2011	\$ 2,955,000
2012	3,060,000
2013	3,175,000
2014	3,245,000
2015	3,440,000
Thereafter	<u>172,510,000</u>
	<u>\$ 188,385,000</u>

Interest expense for the years ended December 31, 2010 and 2009 was \$9,487,991 and \$9,226,526, respectively.

Reid Hospital and Health Care Services, Inc.

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Note 8: Interest Rate Swap Agreement

Cash Flow Hedge

In March 2005, the Hospital entered into two interest rate swaps (the 2005 Swaps) for notional amounts totaling \$87,500,000. The 2005 Swaps are fixed rate payer swaps that terminate in January 2045 and prior to April 1, 2008, amortized in coordination with the 2005 B and C Series Bonds. Under this agreement, the Hospital pays a fixed rate of 3.702% and receives a floating rate equal to 63.10% + .25% of USD-LIBOR (.41% and .23% at December 31, 2010 and 2009, respectively). The original objective of the 2005 Swaps was to hedge the risk of overall changes in the variable interest payments on the 2005 Series B and C Bonds. The fair value of the 2005 Swaps represents a payable to the counterparty and is recorded as a liability of \$11,446,870 and \$8,028,622 at December 31, 2010 and 2009, respectively.

The 2005 Swaps qualified as an effective hedge through March 31, 2008, and changes in fair value of the 2005 Swaps were recorded as other changes in net assets through that date.

Beginning on April 1, 2008, the 2005 Swaps no longer qualified as an effective hedge due to volatility in the variable interest rate market. Changes in fair value of the 2005 Swap since this date up to the date of re-election of the swap to the 2005A bond as discussed below, have been recorded in other income (expense). The fair value of the agreement at March 31, 2008 of \$7,185,735 is being amortized from other changes in unrestricted net assets into other income (expense) over the remaining term of the 2005 A Series Bonds through January 2045. During 2010 and 2009, \$195,530, respectively, of the March 31, 2008 fair value was amortized from other changes in unrestricted net assets into other income (expense).

Beginning on April 1, 2009, the 2005 Swaps were re-designated to hedge the 2005A Series Bonds. The hedge qualified as an effective hedge and all changes in the swap subsequent to the accounting election will be reported in other changes in unrestricted net assets.

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The table below presents certain information regarding the Hospital's interest rate swap agreement.

	2010	2009
Fair value of interest rate swap agreement	\$ (11,446,870)	\$ (8,028,622)
Balance sheet location of fair value amount	Interest Rate Swap Agreement Liability	Interest Rate Swap Agreement Liability
Gain (loss) recognized in unrestricted net assets (effective portion)	\$ (3,418,248)	\$ 11,002,020
Gain reclassified from unrestricted net assets into excess revenues over expenses (effective portion)	\$ 195,530	\$ 195,530
Location of gain reclassified from unrestricted net assets into excess revenues over expenses	Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreement	Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreement
Gain (loss) recognized in excess revenues over expenses (ineffective portion and amount excluded from effectiveness testing)	\$ -	\$ 4,114,913
Location of gain (loss) recognized in excess revenues over expenses (ineffective portion and amount excluded from effectiveness testing)	Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreement	Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreement

Reid Hospital and Health Care Services, Inc.

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Note 9: Property and Equipment

Property and equipment and related accumulated depreciation as of December 31 are as follows:

	<u>2010</u>	<u>2009</u>
Land and land improvements	\$ 41,206,017	\$ 38,835,007
Buildings and improvements	113,566,000	109,414,518
Building equipment	152,208,389	147,828,455
Moveable equipment	115,438,570	112,870,907
Construction in progress	8,297,828	4,178,919
	<u>430,716,804</u>	<u>413,127,806</u>
Accumulated depreciation	<u>(112,790,286)</u>	<u>(82,528,298)</u>
	<u>\$ 317,926,518</u>	<u>\$ 330,599,508</u>

Note 10: Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets are restricted for the interest in net assets of the Foundation. Temporarily restricted net assets totaled \$21,135,572 and \$18,844,628 at December 31, 2010 and 2009, respectively. Permanently restricted net assets totaled \$159,990 and \$29,990 at December 31, 2010 and 2009, respectively.

Net assets of \$249,282 were released to purchase property and equipment for 2009. Net assets of \$423,628 and \$320,353 were released for use in operations for 2010 and 2009, respectively.

Note 11: Functional Expenses

The Hospital provides health care services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

	<u>2010</u>	<u>2009</u>
Health care services	\$ 290,409,989	\$ 273,240,494
General and administrative	<u>26,285,745</u>	<u>23,115,790</u>
	<u>\$ 316,695,734</u>	<u>\$ 296,356,284</u>

Reid Hospital and Health Care Services, Inc.
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Note 12: Operating Leases

Noncancellable operating equipment leases expire in various years through 2017.

Future minimum lease payments at December 31, 2010, were:

2011	\$ 960,667
2012	502,806
2013	279,179
2014	237,652
2015	115,818
Later years	<u>162,005</u>
Future minimum lease payments	<u><u>\$ 2,258,127</u></u>

Total operating lease expense was \$1,144,776 and \$1,028,537 for 2010 and 2009, respectively.

The Hospital leases space in its Medical Office Building and Outpatient Care Center and other properties under agreements that expire at various times through 2017. The expected rental revenue for years after December 31, 2010 are summarized as follows:

2011	\$ 189,970
2012	135,255
2013	114,893
2014	94,007
2015	43,720
Later years	<u>218,599</u>
Future minimum lease receipts	<u><u>\$ 796,444</u></u>

Note 13: Pension Plans

Defined-Contribution Plan

Effective April 1, 2008, the Hospital implemented a defined-contribution pension plan covering substantially all employees hired after April 1, 2008. Employees hired prior to April 1, 2008 who met the eligibility requirements participate in the defined-benefit plan. Substantially all employees are eligible to participate in the Hospital's 403b plan. The Board of Trustees annually determines the amount, if any, of the Hospital's contributions to the plan. Pension expense was \$604,632 and \$290,771 for 2010 and 2009, respectively.

Reid Hospital and Health Care Services, Inc.

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Defined-Benefit Plan

The Hospital has a noncontributory defined-benefit pension plan covering all employees who meet the eligibility requirements. The Hospital's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Hospital may determine to be appropriate from time to time. The Hospital expects to contribute \$7,000,000 to the plan in 2011.

The defined-benefit pension plan is currently frozen to all new participants effective April 1, 2008. Subsequently, management has elected to freeze the plan to all participants effective December 31, 2011.

The Hospital has a contributory defined-benefit postretirement health care plan covering all employees who meet the eligibility requirements. The Hospital's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Hospital may determine to be appropriate from time to time. The Hospital expects to contribute \$33,753 to the plan in 2011. The postretirement benefit obligation represents the present value of expected future postretirement benefits.

The Hospital uses a December 31 measurement date for the plans. Information about the plan's funded status follows:

	Pension Benefits		Postretirement Benefits	
	2010	2009	2010	2009
Changes in projected benefit obligation				
Beginning balance	\$ 49,999,338	\$ 42,445,175	\$ 927,500	\$ 909,817
Service cost	3,878,770	2,962,834	80,120	64,530
Interest cost	3,309,065	3,099,222	59,966	64,786
Benefits paid	(3,104,658)	(4,728,483)	(79,534)	(93,707)
Actuarial loss (gain)	7,947,536	6,220,590	(83,231)	(17,926)
Effect of settlement/curtailment	(13,218,655)	-	-	-
Ending balance	<u>48,811,396</u>	<u>49,999,338</u>	<u>904,821</u>	<u>927,500</u>
Changes in fair value of assets				
Fair value at beginning of year	35,615,518	25,820,805	-	-
Actual return on plan assets	4,899,585	6,448,196	-	-
Employer contributions	5,000,000	8,075,000	79,534	93,707
Benefits paid	(3,104,658)	(4,728,483)	(79,534)	(93,707)
Ending balance	<u>42,410,445</u>	<u>35,615,518</u>	<u>-</u>	<u>-</u>
Funded status	<u>\$ (6,400,951)</u>	<u>\$ (14,383,820)</u>	<u>\$ (904,821)</u>	<u>\$ (927,500)</u>

Reid Hospital and Health Care Services, Inc.
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Liabilities recognized in the consolidated balance sheets:

	Pension Benefits		Postretirement Benefits	
	2010	2009	2010	2009
Noncurrent liabilities	\$ (6,400,951)	\$ (14,383,820)	\$ (904,821)	\$ (927,500)

Amounts recognized in unrestricted net assets not yet recognized as components of net periodic benefit cost consist of:

	Pension Benefits		Postretirement Benefits	
	2010	2009	2010	2009
Net loss	\$ 17,081,255	\$ 25,073,222	\$ 73,397	\$ 160,887
Prior service cost	-	27,424	-	-
Transition obligation	-	-	171,076	190,084
	<u>\$ 17,081,255</u>	<u>\$ 25,100,646</u>	<u>\$ 244,473</u>	<u>\$ 350,971</u>

The accumulated benefit obligation for the defined-benefit pension plan was \$47,047,952 and \$40,040,590 at December 31, 2010 and 2009, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	December 31	
	2010	2009
Projected benefit obligation	\$ 48,811,396	\$ 49,999,338
Accumulated benefit obligation	47,047,952	40,040,590
Fair value of plan assets	42,410,445	35,615,518

The following table shows the components of net periodic benefit costs.

	Pension Benefits		Postretirement Benefits	
	2010	2009	2010	2009
Service cost	\$ 3,878,770	\$ 2,962,834	\$ 80,120	\$ 64,530
Interest cost	3,309,065	3,099,222	59,966	64,786
Expected return on assets	(3,612,543)	(2,627,873)	-	-
Amortization of transition obligation	-	-	19,008	19,008
Amortization of prior service cost	27,424	46,111	-	-
Recognition of net loss	1,433,806	1,417,572	4,259	5,855
Net period benefit cost	<u>\$ 5,036,522</u>	<u>\$ 4,897,866</u>	<u>\$ 163,353</u>	<u>\$ 154,179</u>

Reid Hospital and Health Care Services, Inc.

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Other changes in plan assets and benefit obligations recognized in other changes in unrestricted net assets at December 31, 2010:

	Pension Benefits	Postretirement Benefits
Transition obligation recognized in current year	\$ -	\$ (19,008)
Prior service cost recognized in the current year	(27,424)	-
Gain recognized in current year	(1,433,806)	(5,855)
Gain incurred in current year	(6,558,161)	(81,635)
Other comprehensive gain in current year	\$ (8,019,391)	\$ (106,498)

The estimated net loss and transition obligation for the other defined-benefit postretirement plans that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are \$938,470 and \$19,008, respectively.

Significant assumptions include:

	Pension Benefits		Postretirement Benefits	
	2010	2009	2010	2009
Weighted-average assumptions used to determine benefit obligations:				
Discount rate	6.50%	6.75%	6.50%	6.75%
Rate of compensation increase	3.00%	3.00%	n/a	n/a
Health care trend rate - initial	n/a	n/a	8.50%	9.00%
Health care trend rate - ultimate	n/a	n/a	5.00%	5.00%
Years to ultimate	n/a	n/a	7	6
Weighted-average assumptions used to determine benefit costs:				
Discount rate	6.75%	7.50%	6.75%	7.50%
Expected return on plan assets	9.00%	9.00%	n/a	n/a
Rate of compensation increase	3.00%	3.00%	n/a	n/a
Health care trend rate - initial	n/a	n/a	9.00%	10.00%
Health care trend rate - ultimate	n/a	n/a	5.00%	5.00%
Years to ultimate	n/a	n/a	6	7

The Hospital has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

Reid Hospital and Health Care Services, Inc.

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The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31, 2010:

	Pension Benefits	Postretirement Benefits
2011	\$ 2,329,239	\$ 33,753
2012	2,819,695	34,514
2013	3,600,591	42,729
2014	2,931,153	62,122
2015	4,439,514	71,198
2016 - 2020	22,712,820	552,414

Plan assets are held by a bank-administered trust fund, which invests the plan assets in accordance with the provisions of the plan agreement. The plan agreement permits investment in common stocks, corporate bonds and debentures, U.S. Government securities, certain insurance contracts, real estate and other specified investments, based on certain target allocation percentages.

Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plans to recognize potentially higher returns through a limited investment in equity securities. The target asset allocation percentages for 2010 and 2009 are as follows:

	Pension Benefits
Equity securities	52.5 - 62.5%
Debt securities	17.5 - 27.5%
Real estate	0%
Other	15.0 - 25.0%

Plan assets are re-balanced quarterly. At December 31, 2010 and 2009, plan assets by category are as follows:

	Pension Benefits	
	2010	2009
Equity securities	53%	56%
Debt securities	40%	31%
Real estate	0%	3%
Other	7%	10%
	100%	100%

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2010 and 2009

Pension Plan Assets

Following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include money market funds, equity securities and debt securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets include certain alternative investments. As a practical expedient, fair value of alternative investments without quoted market prices, is determined using the net asset value (or its equivalent) provided by the fund providing the Plan can redeem its investment at the net asset value per share at December 31 or within a reasonable period of time. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy. The Plan does not have any Level 3 categories.

The fair values of the Hospital's pension plan assets at December 31, 2010 and 2009, by asset class, are as follows:

	2010			
	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 735,480	\$ 735,480	\$ -	\$ -
Domestic equity mutual funds	17,224,310	17,224,310	-	-
Non-U.S. equity mutual funds	5,329,946	5,329,946	-	-
Domestic fixed income mutual funds	13,096,599	13,096,599	-	-
Non-U.S. fixed income mutual funds	3,960,188	3,960,188	-	-
Alternative investments - hedge funds	2,063,922	-	2,063,922	-
	<u>\$ 42,410,445</u>	<u>\$ 40,346,523</u>	<u>\$ 2,063,922</u>	<u>\$ -</u>

Reid Hospital and Health Care Services, Inc.
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	2009				
	Fair Value Measurements Using				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	
		Significant Unobservable Inputs (Level 3)			
Money market funds	\$ 271,431	\$ 271,431	\$ -	\$ -	
Domestic equity mutual funds	15,648,181	15,648,181	-	-	
Non-U.S. equity mutual funds	4,471,225	4,471,225	-	-	
Domestic fixed income mutual funds	9,120,263	9,120,263	-	-	
Non-U.S. fixed income mutual funds	1,770,910	1,770,910	-	-	
Alternative investments - hedge funds	4,333,508	-	4,333,508	-	
	\$ 35,615,518	\$ 31,282,010	\$ 4,333,508	\$ -	

Note 14: Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Money Market Funds

Where quoted market prices are available in an active market, money market mutual funds are classified within Level 1 of the valuation hierarchy.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2010 and 2009

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include equity securities, equity mutual funds and fixed income mutual funds. Level 2 securities include corporate hedge funds.

As a practical expedient, fair value of alternative investments without quoted market prices, is determined using the net asset value (or its equivalent) provided by the fund providing the Hospital can redeem its investment at the net asset value per share at December 31 or within a reasonable period of time.

Interest Rate Swap Agreement

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2010 and 2009:

	Fair Value	2010 Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Money market funds	\$ 28,122,752	\$ 28,122,752	\$ -	\$ -
Non-U.S. equity securities	9,199,791	9,199,791	-	-
Domestic equity mutual funds	60,237,165	60,237,165	-	-
Non-U.S. equity mutual funds	11,131,263	11,131,263	-	-
Domestic fixed income mutual funds	29,116,086	29,116,086	-	-
Non-U.S. fixed income mutual funds	12,966,963	12,966,963	-	-
Alternative investments - corporate hedge funds	24,956,875	-	24,956,875	-
	<u>175,730,895</u>	<u>150,774,020</u>	<u>24,956,875</u>	<u>-</u>
Cash and cash equivalents - money market funds	<u>13,215,031</u>	<u>13,215,031</u>	<u>-</u>	<u>-</u>
	<u>\$ 188,945,926</u>	<u>\$ 163,989,051</u>	<u>\$ 24,956,875</u>	<u>\$ -</u>
Interest rate swap agreement liability	<u>\$ 11,446,870</u>	<u>\$ -</u>	<u>\$ 11,446,870</u>	<u>\$ -</u>

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	2009				
	Fair Value Measurements Using				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments					
Money market funds	\$ 58,142,412	\$ 58,142,412	\$ -	\$ -	
Non-U.S. equity securities	7,837,203	7,837,203	-	-	
Domestic equity mutual funds	44,278,092	44,278,092	-	-	
Non-U.S. equity mutual funds	7,661,164	7,661,164	-	-	
Domestic fixed income mutual funds	25,444,332	25,444,332	-	-	
Non-U.S. fixed income mutual funds	3,495,983	3,495,983	-	-	
Alternative investments - corporate hedge funds	32,933,799	-	32,933,799	-	
	179,792,985	146,859,186	32,933,799	-	
Cash and cash equivalents - money market funds	12,974,100	12,974,100	-	-	
	\$ 192,767,085	\$ 159,833,286	\$ 32,933,799	\$ -	
Interest rate swap agreement liability	\$ 8,028,622	\$ -	\$ 8,028,622	\$ -	

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents

The carrying amount approximates fair value.

Interest in Net Assets of Reid Hospital and Health Care Services Foundation, Inc.

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement.

Notes Payable and Long-Term Debt

Fair value is estimated based on the borrowing rates currently available to the Hospital for bank loans with similar terms and maturities.

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The following table presents estimated fair values of the Hospital's financial instruments not previously disclosed at December 31, 2010 and 2009.

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 40,539,484	\$ 40,539,484	\$ 71,223,421	\$ 71,223,421
Debt securities	29,116,086	29,116,086	25,444,332	25,444,332
Equity securities	119,076,522	119,076,522	105,590,724	105,590,724
Interest in net assets of Foundation	21,295,562	21,295,562	18,874,618	18,874,618
Financial liabilities				
Long-term debt	188,385,000	191,223,120	191,240,000	194,105,126
Interest rate swap agreement	11,446,870	11,446,870	8,028,622	8,028,622

Note 15: The Fair Value Option

The Hospital has elected to measure certain alternative investments at fair value because it more accurately reflects their financial position. Included in the accompanying consolidated balance sheets are nine alternative investments of which three are reported at fair value of \$24,956,874 and \$32,933,799 at December 31, 2010 and 2009, respectively; the other six are reported on the equity method at \$24,682,422 and \$20,541,629 at December 31, 2010 and 2009, respectively. Unrealized gains on investments elected to be measured at fair value were \$810,227 and \$2,150,805 at December 31, 2010 and 2009, respectively. These gains are reported on the consolidated statements of operations and changes in net assets. The fair value option was not elected for all of the alternative investments due to a portion being reported on the equity method and fair value is not readily determinable.

Note 16: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 2.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2010 and 2009

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Notes 1 and 6.

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

The Hospital and Turner Construction Company of Indiana (and other parties) are arbitrating a dispute arising from the construction of The New Reid in 2008. Turner has asserted a claim against the Hospital due to construction delays; the Hospital has a counterclaim for similar reasons. The outcome of the arbitration is not reasonably determinable, and as such, management has not recorded any amounts that may ultimately be realized as a result of the arbitration settlement.

Self Insurance

The Hospital has elected to self-insure certain costs related to employee health insurance programs. In connection with the self-insurance program, the Hospital purchases reinsurance to protect them from catastrophic losses per occurrence. Costs resulting from noninsured losses are charged to income when incurred.

Pension and Other Postretirement Benefit Obligations

The Hospital has a noncontributory defined-benefit pension plan and a contributory postretirement health care plan whereby it agrees to provide certain postretirement benefits to eligible employees. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date based on the projected unit credit cost method. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

Investments

The Hospital invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2010 and 2009

Current Economic Conditions

The current protracted economic decline continues to presents hospitals with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The consolidated financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the consolidated financial statements could change rapidly, resulting in material future adjustments in investment values (including defined-benefit pension plan investments) and allowances for accounts and contributions receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

Supplementary Information

Reid Hospital and Health Care Services, Inc.
Consolidating Schedule - Balance Sheet Information
December 31, 2010

Assets

	<u>Hospital</u>	<u>Reid MOB</u>	<u>ROSE</u>	<u>RPA</u>	<u>RA, LLC</u>	<u>Eliminations</u>	<u>Total</u>
Current Assets							
Cash and cash equivalents	\$ 11,329,367	\$ 376,521	\$ 756,654	\$ (148,745)	\$ 102,935	\$ -	\$ 12,416,732
Assets limited as to use - current	2,955,000	-	-	-	-	-	2,955,000
Patient accounts receivable, net of allowance; 2010 - \$20,800,000	44,538,324	-	-	3,751,618	-	-	48,289,942
Supplies	2,597,378	-	-	-	-	-	2,597,378
Prepaid expenses and other	58,582,775	17,382	766,292	1,764,083	717,588	(55,587,590)	6,260,530
Total current assets	<u>120,002,844</u>	<u>393,903</u>	<u>1,522,946</u>	<u>5,366,956</u>	<u>820,523</u>	<u>(55,587,590)</u>	<u>72,519,582</u>
Assets Limited As To Use							
Internally designated	167,170,600	-	-	-	-	-	167,170,600
Internally designated - fair value option	24,956,874	-	-	-	-	-	24,956,874
Held by trustee	8,285,842	-	-	-	-	-	8,285,842
	<u>200,413,316</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,413,316</u>
Less amounts required to meet current obligations	2,955,000	-	-	-	-	-	2,955,000
	<u>197,458,316</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>197,458,316</u>
Property and Equipment, at cost							
	389,467,374	29,988,876	8,883,948	4,157,273	-	(1,780,667)	430,716,804
Less accumulated depreciation	104,948,515	2,707,737	4,930,218	1,272,215	-	(1,068,399)	112,790,286
	<u>284,518,859</u>	<u>27,281,139</u>	<u>3,953,730</u>	<u>2,885,058</u>	<u>-</u>	<u>(712,268)</u>	<u>317,926,518</u>
Other Assets							
Interest in net assets of Reid Hospital and Health Care Services							
Foundation, Inc.	21,295,562	-	-	-	-	-	21,295,562
Deferred financing costs	6,612,798	-	-	-	-	-	6,612,798
Other	5,873,132	-	-	-	-	(3,902,934)	1,970,198
	<u>33,781,492</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,902,934)</u>	<u>29,878,558</u>
Total assets	<u>\$ 635,761,511</u>	<u>\$ 27,675,042</u>	<u>\$ 5,476,676</u>	<u>\$ 8,252,014</u>	<u>\$ 820,523</u>	<u>\$ (60,202,792)</u>	<u>\$ 617,782,974</u>
Liabilities and Net Assets							
Current Liabilities							
Accounts payable and accrued expenses	\$ 17,617,602	\$ 278,081	\$ 327,952	\$ 27,457,070	\$ 297,475	(28,433,091)	\$ 17,545,089
Salaries, wages and related liabilities	8,942,959	-	180,373	1,105,766	-	-	10,229,098
Estimated amounts due to third-party payers	609,915	-	-	-	-	-	609,915
Current maturities of long-term debt	2,955,000	-	-	-	-	-	2,955,000
Total current liabilities	<u>30,125,476</u>	<u>278,081</u>	<u>508,325</u>	<u>28,562,836</u>	<u>297,475</u>	<u>(28,433,091)</u>	<u>31,339,102</u>
Long-Term Debt							
	185,430,000	27,154,499	-	-	-	(27,154,499)	185,430,000
Interest Rate Swap Agreement Liability							
	11,446,870	-	-	-	-	-	11,446,870
Pension Plan and Postretirement Benefits							
	7,305,772	-	-	-	-	-	7,305,772
Total liabilities	<u>234,308,118</u>	<u>27,432,580</u>	<u>508,325</u>	<u>28,562,836</u>	<u>297,475</u>	<u>(55,587,590)</u>	<u>235,521,744</u>
Net Assets							
Unrestricted	380,157,831	242,462	4,968,351	(20,310,822)	523,048	(6,605,682)	358,975,188
Noncontrolling interest	-	-	-	-	-	1,990,480	1,990,480
Temporarily restricted	21,135,572	-	-	-	-	-	21,135,572
Permanently restricted	159,990	-	-	-	-	-	159,990
Total net assets	<u>401,453,393</u>	<u>242,462</u>	<u>4,968,351</u>	<u>(20,310,822)</u>	<u>523,048</u>	<u>(4,615,202)</u>	<u>382,261,230</u>
Total liabilities and net assets	<u>\$ 635,761,511</u>	<u>\$ 27,675,042</u>	<u>\$ 5,476,676</u>	<u>\$ 8,252,014</u>	<u>\$ 820,523</u>	<u>\$ (60,202,792)</u>	<u>\$ 617,782,974</u>

Reid Hospital and Health Care Services, Inc.
Consolidating Schedule - Statement of Operations and Changes in Net Assets Information
December 31, 2010

	Hospital	Reid MOB	ROSE	RPA	RA, LLC	Eliminations	Total
Unrestricted Revenues, Gains and Other Support							
Net patient service revenue	\$ 272,829,787	\$ -	\$ -	\$ 14,838,645	\$ -	\$ -	\$ 287,668,432
Other	7,016,298	5,221,831	19,319,992	76,645	5,518,205	(30,941,827)	6,211,144
Net assets released from restrictions used for operations	423,628	-	-	-	-	-	423,628
Total unrestricted revenues, gains and other support	<u>280,269,713</u>	<u>5,221,831</u>	<u>19,319,992</u>	<u>14,915,290</u>	<u>5,518,205</u>	<u>(30,941,827)</u>	<u>294,303,204</u>
Expenses and Losses							
Salaries, wages and benefits	114,198,607	76,883	9,072,439	18,894,169	317,691	(4,511,382)	138,048,407
Purchased services and professional fees	18,209,839	5,876	281,272	777,801	4,831,908	(6,165,604)	17,941,092
Supplies and other	93,302,695	2,231,586	5,152,741	8,026,252	50	(20,264,841)	88,448,483
Depreciation and amortization	30,874,208	751,273	669,985	739,287	-	(356,133)	32,678,620
Interest and amortization of financing costs	10,676,348	1,850,899	-	-	-	(1,850,899)	10,676,348
Provision for uncollectible accounts	26,556,897	-	-	2,043,861	-	-	28,600,758
Loss on disposal of property and equipment	284,330	-	10,960	6,736	-	-	302,026
Total expenses and losses	<u>294,102,924</u>	<u>4,916,517</u>	<u>15,187,397</u>	<u>30,488,106</u>	<u>5,149,649</u>	<u>(33,148,859)</u>	<u>316,695,734</u>
Operating Income (Loss)	<u>(13,833,211)</u>	<u>305,314</u>	<u>4,132,595</u>	<u>(15,572,816)</u>	<u>368,556</u>	<u>2,207,032</u>	<u>(22,392,530)</u>
Other Income (Expense)							
Investment return	9,086,287	2,962	4,397	-	-	(4,459,992)	4,633,654
Unrealized gain on trading securities	9,159,611	-	-	-	-	-	9,159,611
Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreement	(195,530)	-	-	-	-	-	(195,530)
Total other income	<u>18,050,368</u>	<u>2,962</u>	<u>4,397</u>	<u>-</u>	<u>-</u>	<u>(4,459,992)</u>	<u>13,597,735</u>
Excess (Deficiency) of Revenues Over Expenses	<u>4,217,157</u>	<u>308,276</u>	<u>4,136,992</u>	<u>(15,572,816)</u>	<u>368,556</u>	<u>(2,252,960)</u>	<u>(8,794,795)</u>
Excess of Revenues Over Expenses Attributable to Noncontrolling Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,025,033)</u>	<u>(2,025,033)</u>
Excess (Deficiency) of Revenues Over Expenses Attributable to the Hospital	<u>4,217,157</u>	<u>308,276</u>	<u>4,136,992</u>	<u>(15,572,816)</u>	<u>368,556</u>	<u>(4,277,993)</u>	<u>(10,819,828)</u>
Other Changes in Unrestricted net Assets							
Investment return - change in unrealized gains and losses on other-than-trading securities	5,889,441	-	-	-	-	-	5,889,441
Change in fair value of interest rate swap agreement	(3,418,248)	-	-	-	-	-	(3,418,248)
Amortization of 2005 interest rate swap agreement	195,530	-	-	-	-	-	195,530
Net assets released from restriction used for purchase of property and equipment	-	-	-	-	-	-	-
Distributions	-	(275,821)	(4,002,172)	-	-	4,277,993	-
Net gain arising during the period related to defined-benefit plan	7,983,766	-	-	-	-	-	7,983,766
Change in noncontrolling interest	-	-	-	-	-	584,099	584,099
Increase (decrease) in unrestricted net assets	<u>14,867,646</u>	<u>32,455</u>	<u>134,820</u>	<u>(15,572,816)</u>	<u>368,556</u>	<u>584,099</u>	<u>414,760</u>
Temporarily Restricted Net Assets							
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	2,844,572	-	-	-	-	-	2,844,572
Net assets released from restriction	(423,628)	-	-	-	-	-	(423,628)
Increase in temporarily restricted net assets	<u>2,420,944</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,420,944</u>
Change in Net Assets	<u>17,288,590</u>	<u>32,455</u>	<u>134,820</u>	<u>(15,572,816)</u>	<u>368,556</u>	<u>584,099</u>	<u>2,835,704</u>
Net Assets, Beginning of Year	<u>384,164,803</u>	<u>210,007</u>	<u>4,833,531</u>	<u>(4,738,006)</u>	<u>154,492</u>	<u>(5,199,301)</u>	<u>379,425,526</u>
Net Assets, End of Year	<u>\$ 401,453,393</u>	<u>\$ 242,462</u>	<u>\$ 4,968,351</u>	<u>\$ (20,310,822)</u>	<u>\$ 523,048</u>	<u>\$ (4,615,202)</u>	<u>\$ 382,261,230</u>

Reid Hospital and Health Care Services, Inc.
Consolidating Schedule - Balance Sheet Information
December 31, 2009

Assets

	Hospital	Reid MOB	ROSE	RPA	RA, LLC	Eliminations	Total
Current Assets							
Cash and cash equivalents	\$ 12,428,734	\$ 48,551	\$ 623,996	\$ (104,908)	\$ 84,636	\$ -	\$ 13,081,009
Assets limited as to use - current	2,855,000	-	-	-	-	-	2,855,000
Patient accounts receivable, net of allowance; 2009 - \$20,200,000	32,360,916	-	-	2,177,011	-	-	34,537,927
Supplies	2,651,706	-	-	-	-	-	2,651,706
Prepaid expenses and other	40,453,536	45,313	766,353	285,806	69,856	(37,091,513)	4,529,351
Total current assets	<u>90,749,892</u>	<u>93,864</u>	<u>1,390,349</u>	<u>2,357,909</u>	<u>154,492</u>	<u>(37,091,513)</u>	<u>57,654,993</u>
Assets Limited As To Use							
Internally designated	159,134,036	-	-	-	-	-	159,134,036
Internally designated - fair value option	32,933,799	-	-	-	-	-	32,933,799
Held by trustee	8,266,780	-	-	-	-	-	8,266,780
	<u>200,334,615</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,334,615</u>
Less amount required to meet current obligations	2,855,000	-	-	-	-	-	2,855,000
	<u>197,479,615</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>197,479,615</u>
Property and Equipment, at cost	373,660,547	29,988,876	8,639,522	2,619,528	-	(1,780,667)	413,127,806
Less accumulated depreciation	76,149,910	1,956,464	4,649,799	484,391	-	(712,266)	82,528,298
	<u>297,510,637</u>	<u>28,032,412</u>	<u>3,989,723</u>	<u>2,135,137</u>	<u>-</u>	<u>(1,068,401)</u>	<u>330,599,508</u>
Other Assets							
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	18,874,618	-	-	-	-	-	18,874,618
Deferred financing costs	6,805,952	-	-	-	-	-	6,805,952
Other	5,953,030	-	-	-	-	(4,130,900)	1,822,130
	<u>31,633,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,130,900)</u>	<u>27,502,700</u>
Total assets	<u>\$ 617,373,744</u>	<u>\$ 28,126,276</u>	<u>\$ 5,380,072</u>	<u>\$ 4,493,046</u>	<u>\$ 154,492</u>	<u>\$ (42,290,814)</u>	<u>\$ 613,236,816</u>
Liabilities and Net Assets							
Current Liabilities							
Accounts payable and accrued expenses	\$ 9,803,848	\$ 275,268	\$ 405,251	\$ 8,827,574	\$ -	\$ (9,450,512)	\$ 9,861,429
Salaries, wages and related liabilities	8,595,170	-	141,290	403,478	-	-	9,139,938
Estimated amounts due to third-party payers	229,981	-	-	-	-	-	229,981
Current maturities of long-term debt	2,855,000	-	-	-	-	-	2,855,000
Total current liabilities	<u>21,483,999</u>	<u>275,268</u>	<u>546,541</u>	<u>9,231,052</u>	<u>-</u>	<u>(9,450,512)</u>	<u>22,086,348</u>
Long-Term Debt	188,385,000	27,641,001	-	-	-	(27,641,001)	188,385,000
Interest Rate Swap Agreement Liability	8,028,622	-	-	-	-	-	8,028,622
Pension Plan and Postretirement Benefits	15,311,320	-	-	-	-	-	15,311,320
Total liabilities	<u>233,208,941</u>	<u>27,916,269</u>	<u>546,541</u>	<u>9,231,052</u>	<u>-</u>	<u>(37,091,513)</u>	<u>233,811,290</u>
Net Assets							
Unrestricted	365,290,185	210,007	4,833,531	(4,738,006)	154,492	(6,605,682)	359,144,527
Noncontrolling interest	-	-	-	-	-	1,406,381	1,406,381
Temporarily restricted	18,844,628	-	-	-	-	-	18,844,628
Permanently restricted	29,990	-	-	-	-	-	29,990
Total net assets	<u>384,164,803</u>	<u>210,007</u>	<u>4,833,531</u>	<u>(4,738,006)</u>	<u>154,492</u>	<u>(5,199,301)</u>	<u>379,425,526</u>
Total liabilities and net assets	<u>\$ 617,373,744</u>	<u>\$ 28,126,276</u>	<u>\$ 5,380,072</u>	<u>\$ 4,493,046</u>	<u>\$ 154,492</u>	<u>\$ (42,290,814)</u>	<u>\$ 613,236,816</u>

Reid Hospital and Health Care Services, Inc.
Consolidating Schedule - Statement of Operations and Changes in Net Assets Information
December 31, 2009

	Hospital	Reid MOB	ROSE	RPA	RA, LLC	Eliminations	Total
Unrestricted Revenues, Gains and Other Support							
Net patient service revenue	\$ 269,847,446	\$ -	\$ -	\$ 6,522,965	\$ -	\$ -	\$ 276,370,411
Other	6,774,241	4,829,425	19,108,025	61,219	2,713,546	(27,325,312)	6,161,144
Net assets released from restrictions used for operations	320,353	-	-	-	-	-	320,353
Total unrestricted revenues, gains and other support	<u>276,942,040</u>	<u>4,829,425</u>	<u>19,108,025</u>	<u>6,584,184</u>	<u>2,713,546</u>	<u>(27,325,312)</u>	<u>282,851,908</u>
Expenses and Losses							
Salaries, wages and benefits	113,952,096	88,410	8,425,828	8,090,491	316,667	(4,170,839)	126,702,653
Purchased services and professional fees	16,247,900	15,943	242,994	400,556	2,483,998	(4,301,289)	15,090,102
Supplies and other	89,594,540	2,062,426	5,665,062	2,532,076	8,389	(18,853,184)	81,009,309
Depreciation and amortization	29,371,253	788,015	809,438	315,144	-	(356,133)	30,927,717
Interest and amortization of financing costs	9,426,441	1,770,806	-	-	-	(1,770,806)	9,426,441
Provision for uncollectible accounts	31,644,228	-	-	251,069	-	-	31,895,297
Loss on disposal of property and equipment	1,304,765	-	-	-	-	-	1,304,765
Total expenses and losses	<u>291,541,223</u>	<u>4,725,600</u>	<u>15,143,322</u>	<u>11,589,336</u>	<u>2,809,054</u>	<u>(29,452,251)</u>	<u>296,356,284</u>
Operating Income (Loss)	<u>(14,599,183)</u>	<u>103,825</u>	<u>3,964,703</u>	<u>(5,005,152)</u>	<u>(95,508)</u>	<u>2,126,939</u>	<u>(13,504,376)</u>
Other Income (Expense)							
Contributions received	-	-	-	-	250,000	(250,000)	-
Investment return	11,019,096	10,821	7,006	-	-	(4,093,588)	6,943,335
Unrealized gain (loss) on trading securities, including reclassification	28,438,671	-	-	-	-	-	28,438,671
Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreement	3,919,383	-	-	-	-	-	3,919,383
Loss on bond defeasance	(2,519,056)	-	-	-	-	-	(2,519,056)
Total other income	<u>40,858,094</u>	<u>10,821</u>	<u>7,006</u>	<u>-</u>	<u>250,000</u>	<u>(4,343,588)</u>	<u>36,782,333</u>
Excess (Deficiency) of Revenues Over Expenses	<u>26,258,911</u>	<u>114,646</u>	<u>3,971,709</u>	<u>(5,005,152)</u>	<u>154,492</u>	<u>(2,216,649)</u>	<u>23,277,957</u>
Excess of Revenues Over Expenses Attributable to Noncontrolling Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,740,171)</u>	<u>(1,740,171)</u>
Excess (Deficiency) of Revenues Over Expenses Attributable to the Hospital	<u>26,258,911</u>	<u>114,646</u>	<u>3,971,709</u>	<u>(5,005,152)</u>	<u>154,492</u>	<u>(3,956,820)</u>	<u>21,537,786</u>
Other Changes in Unrestricted net Assets							
Investment return - change in unrealized gains and losses on other-than-trading securities	4,283,646	-	-	-	-	-	4,283,646
Unrealized gains on investments reclassified as trading securities	(14,713,405)	-	-	-	-	-	(14,713,405)
Change in fair value of interest rate swap agreement	11,002,020	-	-	-	-	-	11,002,020
Amortization of 2005 interest rate swap agreement	195,530	-	-	-	-	-	195,530
Net assets released from restriction used for purchase of property and equipment	249,282	-	-	-	-	-	249,282
Distributions	-	(1,212,992)	(3,184,445)	-	-	4,397,437	-
Net loss arising during the period related to defined-benefit plan	(1,004,443)	-	-	-	-	-	(1,004,443)
Change in noncontrolling interest	-	-	-	-	-	(666,526)	(666,526)
Increase (decrease) in unrestricted net assets	<u>26,271,541</u>	<u>(1,098,346)</u>	<u>787,264</u>	<u>(5,005,152)</u>	<u>154,492</u>	<u>(225,909)</u>	<u>20,883,890</u>
Temporarily Restricted Net Assets							
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	4,097,121	-	-	-	-	-	4,097,121
Net assets released from restriction	(569,635)	-	-	-	-	-	(569,635)
Increase in temporarily restricted net assets	<u>3,527,486</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,527,486</u>
Change in Net Assets	<u>29,799,027</u>	<u>(1,098,346)</u>	<u>787,264</u>	<u>(5,005,152)</u>	<u>154,492</u>	<u>(225,909)</u>	<u>24,411,376</u>
Net Assets, Beginning of Year	<u>354,365,776</u>	<u>1,308,353</u>	<u>4,046,267</u>	<u>267,146</u>	<u>-</u>	<u>(4,973,392)</u>	<u>355,014,150</u>
Net Assets, End of Year	<u>\$ 384,164,803</u>	<u>\$ 210,007</u>	<u>\$ 4,833,531</u>	<u>\$ (4,738,006)</u>	<u>\$ 154,492</u>	<u>\$ (5,199,301)</u>	<u>\$ 379,425,526</u>