MARGARET MARY COMMUNITY HOSPITAL

FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

CPAS / ADVISORS

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MARGARET MARY COMMUNITY HOSPITAL, INC.

TABLE OF CONTENTS
DECEMBER 31, 2011 AND 2010

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Margaret Mary Community Hospital, Inc.
Batesville, Indiana

We have audited the accompanying balance sheets of Margaret Mary Community Hospital, Inc. (Hospital) as of December 31, 2011 and 2010, and the related statements of operations, 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 audits 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 financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2011 and 2010, and the results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Blue & Co., LLC

March 9, 2012

MARGARET MARY COMMUNITY HOSPITAL, INC.

BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

ASSETS

	2011	2010
Current assets		
Cash and cash equivalents	$ 7,250,911	$ 2,892,223
Investments	19,688	19,370
Patient accounts receivable, net of allowance for uncollectible accounts of $4,552,348 in 2011 and $4,047,935 in 2010	7,086,953	7,270,089
Inventories and other current assets	2,964,851	1,689,007
Current portion of assets whose use is limited	1,147,585	1,107,879
Total current assets	18,469,988	12,978,568
Assets whose use is limited		
Board designated for capital improvements	37,665,930	35,866,800
Board designated for retirement plan	594,782	535,727
Donor restricted	94,727	147,924
Held by trustee for capital improvements	4,448,003	8,042,324
	42,803,442	44,592,775
Less current portion	1,147,585	1,107,879
Assets whose use is limited - noncurrent	41,655,857	43,484,896
Property and equipment, net	51,330,282	49,956,584
Bond issue costs, net	433,737	490,514
Total assets	$ 111,889,864	$ 106,910,562

LIABILITIES AND NET ASSETS

	2011	2010
Current liabilities		
Accounts payable	$ 2,596,127	$ 1,484,609
Accrued wages and related liabilities	3,620,574	3,315,568
Estimated third-party settlements	1,384,170	1,521,961
Current portion of long-term debt	1,147,585	1,107,879
Total current liabilities	8,748,456	7,430,017
Derivative liability	3,364,601	1,849,503
Long-term debt, less current portion	32,634,488	33,817,356
Total liabilities	44,747,545	43,096,876
Net assets		
Unrestricted	67,047,592	63,665,762
Temporarily restricted	94,727	147,924
Total net assets	67,142,319	63,813,686
Total liabilities and net assets	$ 111,889,864	$ 106,910,562

See accompanying notes to financial statements.

MARGARET MARY COMMUNITY HOSPITAL, INC.

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Unrestricted revenue, gains and other support		
Patient service revenue	$ 71,736,916	62,734,822
Other revenue	970,085	748,406
Net assets released from restrictions	174,070	35,690
Total revenue, gains and other support	72,881,071	63,518,918
Expenses		
Salaries and wages	25,352,738	22,917,538
Employee benefits	8,147,108	7,405,714
Physician fees	2,695,068	2,552,542
Medical and surgical supplies	8,346,889	6,709,617
Other supplies	323,962	324,856
Purchased services	5,592,032	4,756,933
Equipment rentals	241,318	123,331
Food	385,136	329,801
Utilities	919,872	894,086
Bad debts	6,324,882	5,257,832
Insurance	592,709	523,057
Depreciation and amortization	4,999,428	4,821,243
Interest	1,443,156	1,571,105
Other	1,503,692	1,231,435
Total expenses	66,867,990	59,419,090
Operating income	6,013,081	4,099,828
Nonoperating gain (loss)		
Investment gain (loss)	1,192,144	(404,442)
Unrealized loss on derivative	(1,515,098)	(625,649)
Total nonoperating gain (loss)	(322,954)	(1,030,091)
Excess revenue and gain over expenses and loss	5,690,127	3,069,737
Other changes in unrestricted net assets		
Unrealized gain (loss) on investments	(2,308,297)	4,401,929
Change in unrestricted net assets	$ 3,381,830	$ 7,471,666

See accompanying notes to financial statements.

MARGARET MARY COMMUNITY HOSPITAL, INC.

STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Unrestricted net assets		
Change in unrestricted net assets	$ 3,381,830	$ 7,471,666
Temporarily restricted net assets		
Contributions	120,873	154,181
Net assets released from restrictions	(174,070)	(35,690)
Change in temporarily restricted net assets	(53,197)	118,491
Change in net assets	3,328,633	7,590,157
Net assets		
Beginning of year	63,813,686	56,223,529
End of year	$ 67,142,319	$ 63,813,686

See accompanying notes to financial statements.

MARGARET MARY COMMUNITY HOSPITAL, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Operating activities		
Change in net assets	$ 3,328,633	$ 7,590,157
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	4,999,428	4,821,243
Bad debts	6,324,882	5,257,832
Realized and unrealized (gain) loss on investments, net	2,004,616	(2,875,233)
Loss on disposal of property and equipment	13,253	-0-
Unrealized loss on derivative	1,515,098	625,649
Change in operating assets and liabilities		
Patient accounts receivable	(6,141,746)	(5,989,341)
Inventories and other current assets	(1,275,844)	(409,005)
Accounts payable	928,377	(95,538)
Accrued wages and related liabilities	305,006	289,684
Estimated third-party settlements	(137,791)	(103,650)
Net cash flows from operating activities	11,863,912	9,111,798
Investing activities		
Proceeds from sale of investments	15,332,248	25,667,613
Purchases of investments	(15,547,531)	(38,669,564)
Additions to property and equipment	(6,146,461)	(3,210,526)
Other changes in investing activities	(318)	(434)
Net cash flows from investing activities	(6,362,062)	(16,212,911)
Financing activities		
Payments for bond issuance costs	-0-	(102,689)
Proceeds from long-term debt	-0-	16,625,235
Principal payments on long-term debt	(1,143,162)	(9,450,675)
Net cash flows from financing activities	(1,143,162)	7,071,871
Net change in cash and cash equivalents	4,358,688	(29,242)
Cash and cash equivalents		
Beginning of year	2,892,223	2,921,465
End of year	$ 7,250,911	$ 2,892,223
Noncash investing, capital and related financing activities		
Property and equipment included in liabilities	$ 183,141	$ -0-
Supplemental disclosure of cash flows information		
Cash paid for interest net of amounts capitalized of $328,000 in 2011 and $-0- in 2010	$ 1,443,156	$ 1,571,105

See accompanying notes to financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by Margaret Mary Community Hospital, Inc. (Hospital) in the preparation of its financial statements are summarized below:

Organization

The Hospital, located in Batesville, Indiana, is a not-for-profit acute care hospital providing inpatient, outpatient, and other ancillary services to the residents of Ripley and surrounding counties. Admitting physicians are primarily practitioners in the local area.

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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Patient Accounts Receivable and Revenues

Patient service revenue and the related accounts receivable are recorded at the time services to patients are performed. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). In 2006, the Hospital was granted Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate, with final settlement determined after submission of annual cost reports. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients.

The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The year-end cost reports filed with the Medicare and Medicaid programs through December 31, 2008 have been audited by these programs and any resulting differences are reflected in the financial statements. During 2011 and 2010, the Hospital recognized increase in net assets of approximately $-0- and $161,000, respectively due to the differences between original estimates and subsequent revisions for the final settlement of cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements.

Management estimates an allowance for uncollectible accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's customer base.

A summary of patient service revenue for 2011 and 2010 follows:

	2011	2010
Gross patient service revenue		
Inpatient routine	$ 6,889,348	$ 6,258,996
Inpatient ancillary	16,908,162	14,760,625
Outpatient services	102,550,877	86,947,116
Total gross patient service revenue	126,348,387	107,966,737
Less provisions for		
Contractual adjustments under third-party reimbursement programs	52,755,737	43,821,524
Charity care	1,855,734	1,410,391
Total provisions	54,611,471	45,231,915
Patient service revenue	$ 71,736,916	$ 62,734,822

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue.

Of the Hospital's total expenses reported (approximately $66,868,000 and $59,419,000 during 2011 and 2010, respectively), an estimated $889,000 and $708,000 arose from providing services to charity patients during 2011 and 2010, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses (less bad debt expense) divided by gross patient service revenue.

Investments

Investments consist of mutual funds recorded at fair market value.

Inventories and Other Current Assets

Inventories, consisting of mainly medical supplies and pharmaceuticals, are valued at the lower of cost or market with cost being determined on an average cost method. Inventories and other current assets are comprised of the following as of December 31, 2011 and 2010:

	2011	2010
Other receivables	$1,400,020	$ 354,827
Inventories	948,755	865,276
Prepaid expenses	616,076	468,904
	$ 2,964,851	$ 1,689,007

Property and Equipment and Provision for Depreciation

Property and equipment are recorded at historical cost except for donations, which are recorded at fair market value at the date of the donation. Property and equipment include expenditures for additions and repairs that substantially increase the useful lives of existing property and equipment. Maintenance, repairs and minor renewals are expensed as incurred.

The property and equipment of the Hospital are being depreciated over their estimated useful lives using the straight-line method. The ranges of useful lives used in computing depreciation are as follows:

Description	Range of Useful Lives
Land improvements	12-24 years
Buildings and improvements	10-40 years
Equipment	3-20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor restrictions about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. During 2011 and 2010, there were no gifts of long-lived assets with restrictions.

Assets Whose Use is Limited

Assets whose use is limited by internal board designation includes cash and cash equivalents, accrued interest receivable, and marketable securities. Marketable securities include mutual funds, private equity investments and common stock. Such securities are stated at fair market value. Donated securities are recorded at fair market value at the date of the donation.

Private equity investments consist of investments in limited partnerships investing in variety of financial instruments including equity and debt securities of both U.S. and foreign issuers, options and futures, forwards, and swap contracts. Investments in those limited partnerships are reported at fair value as determined by the individual manager of each partnership. Although the manager uses its best judgment in estimating the fair value of the investments in the investment funds, there are inherent limitations in any estimation technique. Therefore, the values reported are not necessarily indicative of the amount that the investments funds could realize in a current transaction.

These estimated values may differ significantly from the values that would have been used had a ready market for the investments in the investment funds existed and the difference could be material. Private equity investments totaled approximately $6,049,000 (14.1% of investment portfolio) and $-0- (0.0% of investment portfolio) as of December 31, 2011 and 2010, respectively.

Assets held by trustee include cash, certificates of deposit and investments for debt service payments and/or capital improvements in compliance with the Indiana Health Facility Financing Authority bond issues described in the long-term debt note.

Bond Issue Costs

Unamortized bond issue costs as of December 31, 2011 and 2010 were $433,737 and $490,514. Bond issue costs are amortized over the life of the bonds. Accumulated amortization as of December 31, 2011 and 2010 was approximately $257,000 and $199,900, respectively. Amortization expense for the years ending December 31, 2012 through 2016 is approximately $57,000.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by external sources for a specific time period or purpose. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restrictions. Restrictions that are met within the year of receipt are reflected with unrestricted net assets. As of December 31, 2011 and 2010, temporarily restricted net assets were $94,727 and $147,924, respectively. These assets are restricted for scholarships and other Hospital programs. A summary of temporarily restricted net assets as of December 31, 2011 and 2010 follows:

	2011	2010
Speaking of Women's Health	$ 10,978	$ 26,311
Oncology	31,288	27,576
Think Pink	11,566	11,489
Bioterrorism grant	17,717	71,437
Other	23,178	11,111
	$ 94,727	$ 147,924

Performance Indicator

The statements of operations include a performance indicator, excess revenue and gain over expenses and loss. Changes in unrestricted net assets that are excluded from performance indicator include unrealized gain and loss on investments other than trading securities and contributions of long-lived assets.

Federal and State Income Taxes

The Hospital is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. As such, the Hospital is generally exempt from income taxes. However, the Hospital is required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and recognize a tax liability if the Hospital has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital, and has concluded that as of December 31, 2011 and 2010, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. The Hospital is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Costs of Borrowing

Except for capital assets acquired through gifts, contributions or capital grants, interest cost on borrowed funds, as well as interest earned on those funds, during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Capitalized interest cost was approximately $328,000 and $-0- in 2011 and 2010, respectively, and capitalized interest income was $-0- in 2011 and 2010.

Advertising Costs

The Hospital's policy is to expense advertising costs when the advertising first takes place. Advertising expenses were approximately $165,000 and $186,000 in 2011 and 2010, respectively.

Electronic Health Records (EHR) Incentive Payments

The Hospital receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, the Hospital must meet "meaningful use" criteria that become more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30th). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Hospital's cost reports. The payment calculation is based upon an initial amount as adjusted for discharges, Medicare and Medicaid utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in first payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

The Hospital recognizes EHR incentive payments as grant income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2011 and 2010, the Hospital recognized approximately $260,000 and $-0-, respectively, in EHR incentive payments as grant income using the ratable recognition method. Under the ratable recognition method, the Hospital recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

EHR incentive income is included in other revenue in the statement of operations. EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the Hospital as prescribed by the program, subject to future audits and may be subject to repayment upon a determination of noncompliance.

Statements of Cash Flows

For the purposes of reporting cash flows, cash and cash equivalents include all cash held in checking and money market accounts available for operating purposes with original maturities of 90 days or less.

Reclassification

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the current year presentation. The reclassifications have no impact on previously reported net assets or change in net assets.

Subsequent Events

The Hospital has evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued which is March 9, 2012.

2. INVESTMENTS

Investments are recorded at fair market value and consist of the following as of December 31, 2011 and 2010:

	2011	2010
Mutual funds	$ 19,688	$ 19,370

3. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include board designated funds as of December 31:

	2011	2010
Cash and cash equivalents	$ 6,574,748	$ 10,323,352
Marketable securities	36,228,694	34,269,423
	$ 42,803,442	$ 44,592,775

The following is a summary of market value and cost for board designated marketable securities as of December 31:

	2011		2010	
	Market Value	Cost	Market Value	Cost
Mutual funds	$ 29,704,139	$ 29,954,476	$ 33,713,204	$ 32,087,226
Private equity	6,048,583	6,400,000	-0-	-0-
Common stock	475,972	447,858	556,219	447,858
	$ 36,228,694	$ 36,802,334	$ 34,269,423	$ 32,535,084

The following is a reconciliation of investment return for 2011 and 2010:

	2011	2010
Interest and dividends	$ 888,463	$ 1,122,254
Realized gain (loss) on investments	303,681	(1,526,696)
Investment income (loss)	$ 1,192,144	$ (404,442)
Unrealized gain (loss) on investments	$ (2,308,297)	$ 4,401,929

The following schedules summarize the fair value of securities included in assets whose use is limited that have gross unrealized losses (the amount by which historical cost exceeds the fair value) as of December 31, 2011 and 2010. The schedules further segregate the securities that have been in a gross unrealized position as of December 31, 2011 and 2010, for less than twelve months and those for twelve months or more. The gross unrealized losses of less than twelve months are a reflection of the normal fluctuations of the market and are therefore considered temporary. The gross unrealized losses of twelve months or longer are reflective of current market fluctuations. The majority of the decline is attributable to securities which industry experts expect recovery in the short-term future.

The decline in value is determined by management to be temporary, and unrealized losses have not been reclassified to realized losses as of December 31, 2011 and 2010:

	December 31, 2011					
	Less Than 12 Months		12 Months or Longer		Total	
Description of securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual funds	$ 7,171,043	$ 767,281	$ 6,396,248	$ 177,215	$ 13,567,291	$ 944,496
Private equity	6,048,583	351,417	-0-	-0-	6,048,583	351,417
Total	$ 13,219,626	$ 1,118,698	$ 6,396,248	$ 177,215	$ 19,615,874	$ 1,295,913

	December 31, 2010					
	Less Than 12 Months		12 Months or Longer		Total	
Description of securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual funds	$ 8,766,794	$ 188,335	$ -0-	$ -0-	$ 8,766,794	$ 188,335

The Hospital's investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying financial statements.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

During 2011, the Hospital changed its accounting policies to expand the level of detail provided on assets and liabilities by disaggregating mutual funds by investment objective and common stocks by industry sector. The change was made to adopt Financial Accounting Standards Board's Accounting Standards Update No. 2010-06, Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures about Fair Value Measurements. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used.

The Hospital's investments are reported at fair value in the accompanying balance sheets. Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction value hierarchy, which requires an entity to maximize the use of observable inputs when measuring fair value.

The following provides a description of the three levels of inputs that may be used to measure fair value under the standard, the types of the Hospital's investments that fall under each category and the valuation methodologies used to measure these investments at fair value.

Level 1 Fair Value Measurements

Inputs to the valuation methodology are quoted prices available in the active markets for identical investments as of the reporting date.

The fair value of mutual funds is based on quoted net asset values of the shares held by the Hospital at year-end. The net asset value is based on the value of the underlying assets owned by the fund, minus its liabilities and then divided by the number of shares outstanding. The net asset value is quoted in an active market.

The fair value of common stock is valued at the closing price reported on the active market on which the individual securities are traded.

Level 2 Fair Value Measurements

Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date and fair value can be determined through the use of models or other valuation methodologies.

Private equity investments, consisting of mainly limited partnerships, are valued at the percentage ownership of the net asset value as reported to the Hospital by the individual managers. The limited partnerships invest in a variety of domestic and foreign equity and debt securities, managed accounts and other investment vehicles that employ diversified styles and strategies.

Level 3 Fair Value Measurements

Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

The preceding methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Hospital 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 fair value measurement at the reporting date.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 and 2010 are as follows:

	December 31, 2011			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds - short-term bond	$ 19,688	$ 19,688	$ -0-	$ -0-
Assets whose use is limited				
Mutual funds				
Large blend	$ 8,907,981	$ 8,907,981	$ -0-	$ -0-
Intermediate term bond	7,026,133	7,026,133	-0-	-0-
Large growth	4,034,379	4,034,379	-0-	-0-
Large value	2,316,801	2,316,801	-0-	-0-
Mid value	2,261,541	2,261,541	-0-	-0-
World bond	1,060,571	1,060,571	-0-	-0-
Other	4,096,733	4,096,733	-0-	-0-
Total mutual funds	29,704,139	29,704,139	-0-	-0-
Private equity				
Multi-strategy funds	5,461,870	-0-	5,461,870	-0-
Other	586,713	-0-	586,713	-0-
Total private equity	6,048,583	-0-	6,048,583	-0-
Common stock - healthcare	475,972	475,972	-0-	-0-
	36,228,694	$ 30,180,111	$ 6,048,583	$ -0-
Cash and equivalents	6,574,748			
Total assets whose use is limited	$ 42,803,442			
Liabilities				
Derivative	$ 3,364,601	$ -0-	$ 3,364,601	$ -0-

	December 31, 2010			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Mutual funds - fixed income	$ 19,370	$ 19,370	$ -0-	$ -0-
Assets whose use is limited				
Mutual funds				
Large blend	$ 10,110,260	$ 10,110,260	$ -0-	$ -0-
Intermediate term bond	7,974,426	7,974,426	-0-	-0-
Large growth	4,578,885	4,578,885	-0-	-0-
Large value	2,629,492	2,629,492	-0-	-0-
Mid value	2,566,773	2,566,773	-0-	-0-
World bond	1,203,713	1,203,713	-0-	-0-
Other	4,649,655	4,649,655	-0-	-0-
Total mutual funds	33,713,204	33,713,204	-0-	-0-
Common stock - healthcare	556,219	556,219	-0-	-0-
	34,269,423	$ 34,269,423	$ -0-	$ -0-
Cash and equivalents	10,323,352			
Total assets whose use is limited	$ 44,592,775			
Liabilities				
Derivative	$ 1,849,503	$ -0-	$ 1,849,503	$ -0-

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and cash equivalents, accounts payable, accrued expenses and estimated third party settlements: The carrying amount reported in the balance sheets for cash and cash equivalents, accounts payable, accrued expenses and estimated third-party settlements approximate fair value based on short-term maturity.

Long-term debt: Fair value of the Hospital's revenue bonds approximates its carrying value based on incremental borrowing rates available to similar entities with similar credit ratings.

Derivative liability: Fair value of the Hospital's derivative liability approximates its carrying value based on discounted cash flows and market yields.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31:

	2011	2010
Land	$ 2,371,158	$ 2,371,158
Land improvements	372,269	372,269
Buildings and improvements	61,736,747	61,461,851
Fixed equipment	6,337,858	6,136,642
Movable and minor equipment	31,462,822	29,099,763
	102,280,854	99,441,683
Less accumulated depreciation	54,989,189	50,076,122
	47,291,665	49,365,561
Construction in progress	4,038,617	591,023
	$ 51,330,282	$ 49,956,584

The Hospital has remaining construction commitments of approximately $4 million as of December 31, 2011.

6. DERIVATIVE FINANCIAL INSTRUMENTS – INTEREST RATE SWAPS

Objectives and Strategies for Using Derivatives

The Hospital makes limited use of derivative financial instruments for the purpose of managing interest rate risk. In particular, forward interest rate swaps (which are designated as cash flow hedges) are used to manage the risk associated with interest rates on variable-rate borrowings and to lower its overall borrowing costs.

At December 31, 2011, the Hospital had outstanding one interest rate swap agreement with a financial institution, having a total principal amount of $17,605,000. The agreement effectively changes the Hospital's interest rate exposure on its Variable Rate Demand Revenue Bonds Series 2004A-1 due 2029 to a fixed 3.48%. The interest rate swap agreements mature at the time the related notes mature. The Hospital is exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreements. However, the Hospital does not anticipate nonperformance by the counterparties.

The derivative is not designated as a hedging instrument, and is marked-to-market on the balance sheet at fair value. The related gains and losses are included in excess revenue and gains over expenses and losses, the performance indicator, for the reporting period. Cash flows from interest rate swap contracts are classified as an operating activity on the statement of cash flows.

The asset derivatives are reported in the balance sheets as other assets and liability derivatives are reported as derivative liabilities. As of December 31, 2011 and 2010, the fair values of derivatives recorded in the balance sheets are as follows:

	2011	2010
Derivative liability	$ 3,364,601	$ 1,849,503

During 2011 and 2010, the amount of gain or loss recognized in the statement of operations and reported as a component of nonoperating gain (loss) is as follows:

	2011	2010
Unrealized loss on derivative	$ (1,515,098)	$ (625,649)

Additional information regarding fair value measurements of the interest rate swap agreements is disclosed in Fair Value of Financial Instruments note.

7. LONG-TERM DEBT

The following is the summary of long-term debt as of December 31:

	2011	2010
Indiana Finance Authority Health Facility Variable Rate Demand Revenue Bonds Series 2004A-1; dated March 1, 2004, due 2029	$ 17,605,000	$ 18,300,000
Indiana Finance Authority Health Facility Revenue Bonds Series 2010; dated December 1, 2010, due 2035	16,177,073	16,625,235
	33,782,073	34,925,235
Less current portion	1,147,585	1,107,879
	$ 32,634,488	$ 33,817,356

In 2004, the Hospital borrowed from the Indiana Finance Authority (the Authority) $22,000,000 for the addition and improvement of the Hospital facilities. The Authority, created under Indiana Code 5-1-16, provides funds to eligible health facilities for financing capital expenditures.

In 2009, the Hospital, the Authority and Branch Banking and Trust Company, Inc. (BB&T) entered into a Bond Purchase Agreement (Agreement) whereby BB&T purchased from the Authority all of the Series 2004A Bonds in a private placement. The Agreement provides that BB&T will hold the Series 2004A Bonds during the Initial Long Mode Period which runs through October 2014. During this Initial Long Mode Period, the Series 2004A Bonds bear interest at a variable rate of 68% of one month LIBOR plus 1.30% with a floor of 2.35% (rate as of December 31, 2011 - 2.35%). At the end of the Initial Long Mode Period, the Series 2004A Bonds may be converted to another interest rate mode and remarketed to another bondholder or holders or renewed for another Long Mode Period with BB&T. The Series 2004A Bonds could be converted to another interest rate mode to accommodate market conditions at that time. If the Series 2004A Bonds cannot be remarketed at the end of the Initial Long Mode Period, the Hospital would be subject to payment of the remaining principal of approximately $16,145,000 at the end of the Initial Long Mode Period. The Series 2004A Bonds are secured ultimately by the gross revenues of the Hospital.

In December 2010, the Hospital borrowed $16,625,235 from the Authority the Health Facility Revenue Bonds, Series 2010 to pay in full the Series 2008 Bonds and to provide for future capital projects. The Series 2010 Bonds could bear interest at fixed rates as determined by daily, weekly, flexible, semiannual or long modes. The Series 2010 Bonds are secured by an interest in the gross revenues of the Hospital.

On December 16, 2010, the Hospital, the Authority and Key Government Finance, Inc. (Key) entered into an Agreement whereby Key purchased from the Authority all of the Series 2010 Bonds in a private placement. The Agreement provided that Key would hold the Series 2010 Bonds during the Initial Long Mode Period which runs through November 2020. During the Initial Long Mode Period, the Series 2010 Bonds would bear interest at the fixed rate long mode (4.64%) for 120 months with principal and interest payments determined using a 25-year amortization schedule. At the end of the Initial Long Mode Period, the Series 2010 Bonds could be converted to another interest rate mode and remarketed to another bondholder or holders or renewed for another Long Mode Period with Key. The Series 2010 Bonds could be converted to another interest rate mode to accommodate market conditions at that time. If the Series 2010 Bonds could not be remarketed at the end of the Initial Long Mode Period, the Hospital would be subject to payment of the remaining principal of approximately $11,487,000 at the end of the Initial Long Mode Period.

The Series 2008 Bonds were defeased with a portion of the proceeds from the Series 2010 Bonds. The defeasance resulted in a loss of approximately $42,000 for 2010, which is recorded in other expenses on the statement of operations.

Annual maturities of long-term debt for the years succeeding December 31, 2011 are as follows:

Year Ending December 31,	
2012	$ 1,147,585
2013	1,198,232
2014	16,619,864
2015	497,529
2016	521,276
Thereafter	13,797,587
	$ 33,782,073

8. RETIREMENT PLANS

The Hospital has a defined contribution pension plan, which covers all eligible employees. Allocations of plan contributions are made based upon the earnings of qualified employees. Contribution percentages are at the discretion of the Hospital.

The Hospital has a 457(b) deferred compensation plan that provides for non-elective employer deferrals covering a select group of management or highly compensated individuals.

Total pension expense under all retirement plans was approximately $662,000 and $571,000 for 2011 and 2010, respectively.

9. CONCENTRATIONS OF CREDIT RISK

The Hospital is located in Batesville, Indiana. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Accounts receivable and revenues from self-pay and third party payors were as follows:

	Receivables		Revenues	
	2011	2010	2011	2010
Medicare	32%	28%	42%	43%
Medicaid	5%	4%	9%	9%
Blue Cross	13%	14%	22%	23%
Other third-party payors	17%	16%	23%	21%
Self pay	33%	38%	4%	4%
	100%	100%	100%	100%

The Hospital maintains its cash in accounts, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on cash and cash equivalents.

10. COMMITMENTS AND CONTINGENCIES

Self-Funded Health Plan

The Hospital is committed to pay for employees' health care costs. A third-party administrator has been retained to process and present all benefit claims to the Hospital for payment. Under a stop loss agreement, the Hospital is responsible for the funding of all claims and related administrative costs up to $150,000 per individual per policy year. There is no aggregate limit for the Plan under the stop loss agreement. Group health insurance expense for the years ended December 31, 2011 and 2010 totaled approximately $5,169,000 and $4,591,000, respectively.

Litigation

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without adverse effect on the Hospital's future position or results from operations.

11. FUNCTIONAL EXPENSES

The Hospital is an acute care hospital also providing long-term care and home health services. The Hospital has provided inpatient, outpatient and other ancillary services to the residents within its geographical region. Expenses related to providing these services for 2011 and 2010 are as follows:

	2011	2010
Health care services	$ 58,592,693	$ 52,065,637
General and administrative	8,275,297	7,353,453
	$ 66,867,990	$ 59,419,090