

Reid Hospital and Health Care Services, Inc.

Auditor's Report and Consolidated Financial Statements

December 31, 2012 and 2011

Reid Hospital and Health Care Services, Inc.

December 31, 2012 and 2011

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Independent Auditor's Report on Consolidated Financial Statements and Other Information

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

We have audited the accompanying consolidated financial statements of Reid Hospital and Health Care Services, Inc., which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating information listed in the table of contents, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, and accordingly, we do not express an opinion on it.

BKD, LLP

Indianapolis, Indiana
April 17, 2013

Reid Hospital and Health Care Services, Inc.

Consolidated Balance Sheets December 31, 2012 and 2011

Assets

	2012	2011
Current Assets		
Cash and cash equivalents	\$ 22,297,844	\$ 20,353,621
Assets limited as to use - current	2,975,000	3,060,000
Patient accounts receivable, net of allowance; 2012 - \$32,700,000, 2011 - \$23,800,000	50,582,461	47,042,289
Supplies	2,878,280	2,748,256
Prepaid expenses and other	9,222,388	6,952,981
Total current assets	87,955,973	80,157,147
Investments Limited As To Use		
Internally designated	188,736,359	160,068,849
Internally designated - alternative investments carried at fair value	12,037,263	11,812,936
Held by trustee	8,209,094	8,123,192
	208,982,716	180,004,977
Less amounts required to meet current obligations	2,975,000	3,060,000
	206,007,716	176,944,977
Property and Equipment, at cost		
Less accumulated depreciation	462,677,526	448,128,042
	176,970,664	144,936,224
	285,706,862	303,191,818
Other Assets		
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	23,695,530	20,971,728
Deferred financing costs	1,617,321	2,872,690
Other	4,874,572	1,925,041
	30,187,423	25,769,459
Total assets	\$ 609,857,974	\$ 586,063,401

Reid Hospital and Health Care Services, Inc.
Consolidated Balance Sheets (Continued)
December 31, 2012 and 2011

Liabilities and Net Assets

	2012	2011
Current Liabilities		
Accounts payable and accrued expenses	\$ 16,619,591	\$ 12,932,861
Salaries, wages and related liabilities	14,199,892	11,055,067
Estimated amounts due to third-party payers	3,551,618	4,808,995
Current maturities of long-term debt	2,975,000	3,060,000
Total current liabilities	37,346,101	31,856,923
Long-Term Debt	170,350,230	173,195,876
Interest Rate Swap Agreement	22,802,799	23,891,128
Pension Plan and Postretirement Benefits	21,800,891	21,984,144
Total liabilities	252,300,021	250,928,071
Net Assets		
Unrestricted		
Reid Hospital and Health Care Services, Inc.	332,640,549	312,058,018
Noncontrolling interest	1,221,874	2,105,584
Total unrestricted net assets	333,862,423	314,163,602
Temporarily restricted	23,529,737	20,811,738
Permanently restricted	165,793	159,990
Total net assets	357,557,953	335,135,330
Total liabilities and net assets	\$ 609,857,974	\$ 586,063,401

Reid Hospital and Health Care Services, Inc.
Consolidated Statements of Operations
Years Ended December 31, 2012 and 2011

	2012	2011
Unrestricted Revenues, Gains and Other Support		
Patient service revenue, net of contractual allowance	\$ 373,010,440	\$ 315,009,988
Provision for uncollectible accounts	(30,773,075)	(27,365,168)
Net patient service revenue less provision for uncollectible accounts	342,237,365	287,644,820
Other	9,027,223	6,494,337
Net assets released from restrictions used for operations	512,672	576,426
Total unrestricted revenues, gains and other support	351,777,260	294,715,583
Expenses and Losses		
Salaries, wages and benefits	165,084,933	153,433,846
Purchased services and professional fees	22,009,957	19,494,610
Supplies and other	97,980,741	86,796,325
Depreciation and amortization	33,899,751	34,114,986
Interest and amortization of financing costs	10,361,756	11,973,056
Loss on disposal of property and equipment	988,849	511,549
Hospital assessment fee	15,297,367	-
Total expenses and losses	345,623,354	306,324,372
Operating Income (Loss)	6,153,906	(11,608,789)
Other Income (Expense)		
Investment return	18,217,262	(8,002,924)
Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreement	(10,224,654)	(195,530)
Loss on bond refunding	(1,359,307)	-
Total other income (expense)	6,633,301	(8,198,454)
Excess (Deficiency) of Revenues Over Expenses	\$ 12,787,207	\$ (19,807,243)

Reid Hospital and Health Care Services, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2012 and 2011

	2012	2011
Unrestricted Net Assets		
Excess (deficiency) of revenues over expenses	\$ 12,787,207	\$ (19,807,243)
Change in fair value of interest rate swap agreement	845,245	(12,444,258)
Amortization of 2005 interest rate swap agreement	10,467,738	195,530
Net assets released from restriction used for purchase of property and equipment	381,689	221,270
Net loss arising during the period related to defined-benefit plans	(567,126)	(12,956,722)
Distributions	(4,194,882)	(2,702,030)
Other	(21,050)	691,387
Increase (decrease) in unrestricted net assets	19,698,821	(46,802,066)
Temporarily Restricted Net Assets		
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	3,612,360	473,862
Net assets released from restriction	(894,361)	(797,696)
Increase (decrease) in temporarily restricted net assets	2,717,999	(323,834)
Permanently Restricted Net Assets		
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	5,803	-
Change in Net Assets	22,422,623	(47,125,900)
Net Assets, Beginning of Year	335,135,330	382,261,230
Net Assets, End of Year	\$ 357,557,953	\$ 335,135,330

Reid Hospital and Health Care Services, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Activities		
Change in net assets	\$ 22,422,623	\$ (47,125,900)
Change in net assets attributable to noncontrolling interest	883,710	(115,104)
Change in net assets attributable to Reid Hospital and Health Care Services, Inc.	23,306,333	(47,241,004)
Items not requiring (providing) cash		
Loss on sale of property and equipment	988,849	511,549
Depreciation and amortization	33,899,751	34,114,986
Amortization of deferred financing costs and bond discount	225,416	348,059
Loss on bond refunding	1,359,307	-
Provision for uncollectible accounts	30,773,075	27,365,168
Unrealized (gain) loss on investments	(6,510,286)	14,510,235
Realized gain on investments	(3,469,557)	(5,291,675)
Investment (gains) losses on investments carried under equity method	(4,393,952)	2,580,060
Change in fair value of interest rate swap agreement	(1,088,329)	12,444,258
Undistributed portion of change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	(2,723,802)	323,834
Change in pension obligations	(183,253)	14,828,372
Changes in		
Patient accounts receivable	(34,313,247)	(26,117,515)
Estimated amounts due from and to third-party payers	(1,257,377)	4,199,080
Accounts payable and accrued expenses	3,686,730	(4,612,228)
Salaries, wages and related liabilities	3,144,825	675,969
Other current assets and liabilities	(5,348,962)	(920,247)
Noncontrolling interest in net income of equity investees	(883,710)	115,104
Net cash provided by operating activities	<u>37,211,811</u>	<u>27,834,005</u>
Investing Activities		
Purchase of investments	(95,061,687)	(79,447,794)
Proceeds from disposition of investments	80,457,743	88,057,513
Purchase of property and equipment	(17,493,844)	(19,913,384)
Proceeds from sale of property and equipment	90,200	21,549
Net cash used in investing activities	<u>(32,007,588)</u>	<u>(11,282,116)</u>
Financing Activities		
Payment of deferred financing costs	(200,000)	-
Proceeds from issuance of long-term debt	80,130,000	-
Principal payments on long-term debt	(3,060,000)	(2,955,000)
Redemptions of long-term debt	(80,130,000)	(5,660,000)
Net cash used in financing activities	<u>(3,260,000)</u>	<u>(8,615,000)</u>
Increase in Cash and Cash Equivalents	1,944,223	7,936,889
Cash and Cash Equivalents, Beginning of Year	<u>20,353,621</u>	<u>12,416,732</u>
Cash and Cash Equivalents, End of Year	<u>\$ 22,297,844</u>	<u>\$ 20,353,621</u>
Supplemental Cash Flows Information		
Interest paid (net of amount capitalized)	\$ 9,010,048	\$ 10,278,204

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2012 and 2011

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 65% of Reid MOB, LLC (Reid MOB). In 2011, the Hospital owned 58% 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 were completed 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. As such, RPA and RA, LLC are exempt 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. Reid MOB, ROSE, RPA 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 in which 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.

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Noncontrolling Interest

Noncontrolling interest represents the following amounts not owned by the Hospital - a 35% and 42% interest in Reid MOB at December 31, 2012 and 2011, respectively, and a 45% interest in ROSE at December 31, 2012 and 2011.

	Total	Controlling Interest	Noncontrolling Interest
Balance January 1, 2011	\$ 360,965,668	\$ 358,975,188	\$ 1,990,480
Excess (deficiency) of revenues over expenses	(19,807,243)	(22,489,246)	2,682,003
Change in fair value of interest rate swap agreement	(12,444,258)	(12,444,258)	-
Amortization of 2005 interest rate swap agreement	195,530	195,530	-
Net assets released from restriction used for purchase of property and equipment	221,270	221,270	-
Net loss arising during the period related to defined-benefit plan	(12,956,722)	(12,956,722)	-
Distributions to noncontrolling interest	(2,702,030)	-	(2,702,030)
Other	691,387	556,256	135,131
Increase (decrease) in unrestricted net assets	<u>(46,802,066)</u>	<u>(46,917,170)</u>	<u>115,104</u>
Balance December 31, 2011	314,163,602	312,058,018	2,105,584
Excess of revenues over expenses	12,787,207	9,284,194	3,503,013
Change in fair value of interest rate swap agreement	845,245	845,245	-
Amortization of 2005 interest rate swap agreement	10,467,738	10,467,738	-
Net assets released from restriction used for purchase of property and equipment	381,689	381,689	-
Net loss arising during the period related to defined-benefit plans	(567,126)	(567,126)	-
Distributions to noncontrolling interest	(4,194,882)	-	(4,194,882)
Other	(21,050)	170,791	(191,841)
Increase (decrease) in unrestricted net assets	<u>19,698,821</u>	<u>20,582,531</u>	<u>(883,710)</u>
Balance December 31, 2012	<u>\$ 333,862,423</u>	<u>\$ 332,640,549</u>	<u>\$ 1,221,874</u>

The change in temporarily restricted and permanently restricted net assets related only to the controlling interest.

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.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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, 2012 and 2011, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposits.

At December 31, 2012, the Company's cash accounts exceeded federally insured limits by approximately \$300,000.

Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions. This legislation expired on December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the \$250,000 limit on FDIC insurance per covered institution.

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 valued on the income tax basis of accounting, which approximates the equity method of accounting, and investments in limited partnerships carried at fair value. 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.

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

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2012 and 2011

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

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.

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 estimated future cash flows expected to result from the use and eventual disposition of the asset are 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, 2012 and 2011.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2012 and 2011

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 which 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.

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. Charges excluded from revenue under the Hospital's charity care policy were \$22,866,539 and \$16,728,880 for 2012 and 2011, respectively. Total cost for these charges based on the Hospital's overall cost-to-charge ratio was approximately \$10,163,634 and \$7,848,909 for 2012 and 2011, respectively.

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.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2012 and 2011

Professional Liability Claims

The Hospital recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully later in these notes.

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 (deficiency) of revenues over expenses, consistent with industry practice, include 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).

Self-Insurance

The Hospital has elected to self-insure certain costs related to employee health and accident benefit programs. Costs resulting from noninsured losses are charged to income when incurred. The Hospital has purchased insurance that limits its exposure for individual claims and that limits its aggregate exposure to \$250,000.

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 2009.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2012 and 2011

The Hospital recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2012, the Hospital completed the first-year requirements under the Medicaid program and has recorded revenue of approximately \$671,000, which is included in other operating revenue within the consolidated statement of operations. The Hospital has not met the requirements for the first-year payment under the Medicare program as of December 31, 2012. In 2012, various physicians of RPA completed the first-year requirements under the Medicare program and RPA recorded revenue of approximately \$821,000, which also is included in other operating revenue within the consolidated statement of operations.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were available to be issued.

Note 2: Net Patient Service Revenue

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided. This provision for bad debts is presented on the consolidated statement of operations as a component of net patient service revenue.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2012 and 2011

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 fiscal intermediary.

Management evaluates program compliance and records a reserve pertaining to certain inpatient and outpatient services that are probable of repayment to the Medicare program.

Medicaid. Inpatient acute care services and substantially all outpatient services rendered to Medicaid 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.

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 received approximately \$24.6 million during 2012 due to the enactment of a state specific provider assessment program to increase Medicaid payments to hospitals. This revenue is recorded within net patient service revenue. Approximately \$8.2 million of these increased payments were related to the Hospital's fiscal year 2011. The Hospital paid approximately \$15.3 million of fees to the program, which is recorded as an operating expense. Approximately \$5.1 million of the fees paid to the program were related to the Hospital's fiscal year 2011, but are included in 2012 as a result of when the assessment program was approved. There is no assurance this program will continue in the future.

The Hospital also receives payment from other third-party payers such as commercial insurance carriers, health maintenance organizations and preferred organizations. Payments are based on Hospital-established charges and prospectively determined daily rates.

The mix of net patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the years ended December 31, 2012 and 2011 is:

	<u>2012</u>	<u>2011</u>
Medicare	\$ 151,300,793	\$ 129,619,065
Medicaid	31,921,806	12,097,992
Other third-party payers	150,024,986	140,948,084
Uninsured patients, including coinsurance and deductibles	<u>39,762,855</u>	<u>32,344,847</u>
	<u>\$ 373,010,440</u>	<u>\$ 315,009,988</u>

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2012 and 2011

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, 2012 and 2011 is:

	2012	2011
Medicare	31%	37%
Medicaid	9%	10%
Other third-party payers	54%	51%
Uninsured patients, including coinsurance and deductibles	6%	2%
	100%	100%

Note 4: Investments and Investment Return

Assets Limited as to Use

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

	2012	2011
Internally designated by Board		
Trading		
Cash and cash equivalents	\$ 8,721,251	\$ 12,463,107
Non-U.S. equity securities	-	637,288
Domestic equity mutual funds	97,699,211	58,740,193
Non-U.S. equity mutual funds	2,438,908	7,013,638
Domestic fixed income mutual funds	52,654,075	43,970,247
Non-U.S. fixed income mutual funds	9,756,827	15,093,671
Other than trading		
Alternative investments - corporate hedge funds	20,708,330	24,556,855
Alternative investments - real estate hedge funds	8,795,020	9,406,786
	\$ 200,773,622	\$ 171,881,785
Held by trustee under indenture agreement		
Cash and cash equivalents	\$ 8,209,094	\$ 8,123,192

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
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Total investment return is comprised of the following:

	2012	2011
Interest and dividend income	\$ 3,843,467	\$ 3,795,696
Realized gains on trading securities	3,469,557	3,656,239
Realized gains on other investments carried at fair value	-	1,635,436
Unrealized gains (losses) on trading securities	5,810,389	(10,124,591)
Unrealized gains (losses) on other investments carried at fair value	699,897	(4,385,644)
Investment gains (losses) on investments carried under equity method	4,393,952	(2,580,060)
	\$ 18,217,262	\$ (8,002,924)

The Hospital classifies substantially all of its investments in debt and equity securities as trading. This classification requires 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.

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, 2012			Redemption Notice Period
	Fair Value	Unfunded Commitments	Redemption Frequency	
Corporate hedge funds	\$ 12,037,263	\$ -	Quarterly - Yearly	60 - 95 days
	December 31, 2011			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Corporate hedge funds	\$ 11,812,936	\$ -	Quarterly - Yearly	60 - 95 days

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2012 and 2011

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 \$1.4 million. The financial position and results of operations of the more significant investment positions of which Reid owns a portion of, are summarized below on a combined basis for the most recent period in which audited consolidated financial statements are available.

	December 31, 2011
Current assets	\$ 5,753,404
Noncurrent assets	112,636,380
	<u>\$ 118,389,784</u>
Liabilities	<u>\$ 81,987</u>
Equity	<u>\$ 118,307,797</u>
Investment return	<u>\$ 4,046,880</u>
Net income	<u>\$ (3,791,386)</u>

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

The Foundation was organized to support the activities of the Hospital 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 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 consolidated balance sheets and was \$23,695,530 and \$20,971,728 at December 31, 2012 and 2011, respectively.

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

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2012 and 2011

Note 6: Medical Malpractice Claims

The Hospital is a qualified health care provider under the Indiana Medical Malpractice Act and is fully insured under a claims-made policy on a fixed premium basis. The Indiana Medical Malpractice Act limits a qualified provider's liability for an occurrence to the amount of required insurance. The Indiana patient compensation fund is liable for the excess up to an overall damage cap. The Hospital is a subscriber in a Vermont captive insurance company, Indiana Healthcare (previously named VHA Central), a reciprocal risk retention group. The Hospital's capital contribution is reported in other assets.

Reserves for professional liability claims were \$346,515 and \$283,500 at December 31, 2012 and 2011, respectively, and are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets. The provision for losses related to professional liability risks is presented net of expected insurance recoveries in the consolidated statements of operations; there was no provision in 2012 and 2011. Although considerable variability is inherent in professional liability reserve estimates, we believe the reserves for losses and loss expenses are adequate based on information currently known. It is reasonably possible that this estimate could change materially in the near term.

The Hospital's professional liability risks, in excess of certain per claim and aggregate deductible amounts, are insured through the policies described above. The amounts receivable under these insurance contracts comprised \$346,515 and \$283,500 included in prepaid expenses and other at December 31, 2012 and 2011, respectively.

Note 7: Long-Term Debt

	<u>2012</u>	<u>2011</u>
Hospital Revenue Bonds, Series 2005A	\$ -	\$ 82,015,000
Hospital Revenue Bonds, Series 2009A	96,580,000	97,755,000
Hospital Revenue Bonds, Series 2012A	80,130,000	-
	<u>176,710,000</u>	<u>179,770,000</u>
Less unamortized discount	(3,384,770)	(3,514,124)
Less current maturities	<u>(2,975,000)</u>	<u>(3,060,000)</u>
	<u>\$ 170,350,230</u>	<u>\$ 173,195,876</u>

The Hospital Authority of Richmond (Authority) obligated itself in a trust indenture with U.S. Bank National Association. The Authority loaned the proceeds of the bond issues in various loan agreements, which are more fully described below. The current 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. These agreements require the Hospital to meet certain financial performance ratios among other covenants. Management believes they are in compliance with all covenants.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2012 and 2011

Hospital Revenue Bonds 2005A Series, Variable Rate Demand Obligations

The Revenue Bonds Series 2005A of \$87,500,000 were structured as variable rate demand bonds, which were remarketed daily. In the event the bonds were not remarketed, the bond holder had 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 JPMorgan Chase Bank, National Association, which provided up to \$87,500,000 of liquidity to benefit the tender agent. Drawings under the standby bond purchase agreement were due the earlier of (i) the original scheduled payment; (ii) the date on which the bonds were remarketed pursuant to the trust indenture; (iii) the date on which the standby bond purchase agreement was replaced by a substitute credit facility or (iv) the expiration of the standby bond purchase agreement, which was scheduled to be in 2013.

Upon issuance and delivery of the 2012 Bonds, the Hospital refunded its outstanding 2005A bonds in the total principal amount of \$80,130,000.

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 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 are due on January 1 and July 1, and rates vary from 3.0% to 6.6% at final maturity.

Hospital Revenue Bonds Series 2012

The Authority issued Revenue Bonds Series 2012 pursuant to a Trust Indenture dated as of December 1, 2012 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 December 1, 2012, between the Authority and the Corporation.

Proceeds from the bond issue were primarily to refund the Series 2005A bonds.

The fixed rate serial bonds require annual principal payments on January 1 of each year beginning in 2013 in amounts ranging from \$1,815,000 to \$3,990,000 and are due in full in December 2019. Interest payments are due on January 1 and July 1, at a fixed rate of 2.15%.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2012 and 2011

Annual Maturities

The bonds listed above are subject to mandatory sinking fund requirements and are required to maintain a debt service reserve fund with the Trustee. Amounts on deposit with the Trustee at December 31, 2012 totaled \$8,209,094.

Aggregate annual maturities and sinking fund requirements of bonds payable at December 31, 2012, are:

2013	\$ 2,975,000
2014	3,255,000
2015	3,450,000
2016	3,600,000
2017	3,760,000
Thereafter	<u>159,670,000</u>
	<u>\$ 176,710,000</u>

Interest expense for the years ended December 31, 2012 and 2011 was \$9,041,135 and \$10,508,052, respectively.

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 (.38% and .44% at December 31, 2012 and 2011, 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 \$22,802,799 and \$23,891,128 at December 31, 2012 and 2011, 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 Swaps since this date up to the date of re-election of the 2005 Swaps 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 was 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 the years ended 2012 and 2011, \$187,383 and \$195,530, respectively, of the March 31, 2008 fair value was amortized from other changes in unrestricted net assets into other income (expense).

Reid Hospital and Health Care Services, Inc.
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Beginning on April 1, 2009, the 2005 Swaps were re-designated to hedge the 2005 A Series Bonds. The hedge qualified as an effective hedge through December 17, 2012, the date the 2005A Series Bonds were refunded, and all changes in the 2005 Swaps subsequent to the accounting election date through the date of refinance are reported in other changes in unrestricted net assets. Beginning December 17, 2012, the 2005 Swaps no longer qualified as an effective hedge due to the refinancing of the 2005A Series Bonds with a fixed rate instrument. At this time, the Hospital incurred a one-time charge totaling \$10,280,355, which represented the fair value of the swap at the refinancing date less amounts already recognized in earnings during periods of ineffectiveness and the remaining unamortized loss which was being amortized over the life of the 2005 A Series Bonds. Changes in fair value of the 2005 Swaps since this date have been recorded in other income (expense).

The table below presents certain information regarding the Hospital's interest rate swap agreement at December 31:

	2012	2011
Fair value of interest rate swap agreement	\$ (22,802,799)	\$ (23,891,128)
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)	\$ 845,245	\$ (12,444,258)
Loss reclassified from unrestricted net assets into excess revenues over expenses (effective portion)	\$ (10,467,738)	\$ (195,530)
Location of loss reclassified from unrestricted net assets into deficiency of revenues over expenses	Other Income (Expense) - Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreement	Other Income (Expense) - Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreement
Gain recognized in excess revenues over expenses (ineffective portion)	\$ 243,084	\$ -
Location of gain recognized in excess revenues over expenses (ineffective portion)	Other Income (Expense) - Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreement	

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2012 and 2011

Note 9: Property and Equipment

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

	<u>2012</u>	<u>2011</u>
Land and land improvements	\$ 43,791,393	\$ 42,311,860
Buildings and improvements	125,332,567	120,859,353
Building equipment	156,135,258	154,354,688
Moveable equipment	133,732,471	126,879,850
Construction in progress	3,685,837	3,722,291
	<u>462,677,526</u>	<u>448,128,042</u>
Accumulated depreciation	<u>(176,970,664)</u>	<u>(144,936,224)</u>
	<u>\$ 285,706,862</u>	<u>\$ 303,191,818</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 \$23,529,737 and \$20,811,738 at December 31, 2012 and 2011, respectively. Permanently restricted net assets totaled \$165,793 and \$159,990 at December 31, 2012 and 2011, respectively.

Net assets of \$894,361 and \$797,696 were released for use in operations for 2012 and 2011, 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>2012</u>	<u>2011</u>
Health care services	\$ 320,205,904	\$ 274,596,655
General and administrative	25,417,450	31,727,717
	<u>\$ 345,623,354</u>	<u>\$ 306,324,372</u>

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2012 and 2011

Note 12: 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 Directors annually determines the amount, if any, of the Hospital's contributions to the plan. Pension expense was \$3,011,973 and \$864,448 for 2012 and 2011, respectively.

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 does not expect to contribute to the plan in 2013.

The defined-benefit pension plan was frozen to all new participants effective April 1, 2008. Effective December 31, 2011, management elected to freeze the plan to all participants. As a result of this freeze, participants will receive no additional credit for service or future wage adjustments. During 2011, as a result of an outsourcing agreement, approximately 145 participants were terminated from the Hospital and subsequently hired by the third-party processor. This termination led to additional benefit payments for terminated employees. Settlement costs in 2012 and 2011 represent the recognition of net periodic benefit costs related to benefit payments made to the terminated employees.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2012 and 2011

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

	2012	2011
Changes in projected benefit obligation		
Beginning balance	\$ 60,564,366	\$ 48,811,396
Service cost	-	3,121,370
Interest cost	2,797,362	3,097,040
Benefits paid	(5,738,021)	(13,107,829)
Actuarial loss	5,571,189	19,359,304
Effect of settlement/curtailment	-	(716,915)
Ending balance	63,194,896	60,564,366
Changes in fair value of assets		
Fair value at beginning of year	38,580,222	42,410,445
Actual return on plan assets	3,251,804	1,477,606
Employer contributions	5,300,000	7,800,000
Benefits paid	(5,738,021)	(13,107,829)
Ending balance	41,394,005	38,580,222
Funded status	\$ (21,800,891)	\$ (21,984,144)

Liabilities recognized in the consolidated balance sheets:

	2012	2011
Noncurrent liabilities	\$ (21,800,891)	\$ (21,984,144)

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

	2012	2011
Net loss	\$ 31,309,509	\$ 30,782,454

The accumulated benefit obligation for the defined-benefit pension plan was \$63,194,896 and \$60,564,366 at December 31, 2012 and 2011, respectively.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2012 and 2011

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

	2012	2011
Projected benefit obligation	\$ 63,194,896	\$ 60,564,366
Accumulated benefit obligation	63,194,896	60,564,366
Fair value of plan assets	41,394,005	38,580,222

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

	2012	2011
Service cost	\$ -	\$ 3,121,370
Interest cost	2,797,362	3,097,040
Expected return on assets	(2,828,539)	(4,027,124)
Recognition of net loss	1,902,001	938,470
Net period benefit cost	1,870,824	3,129,756
Settlement cost	2,718,868	6,552,238
Net benefit cost	\$ 4,589,692	\$ 9,681,994

Other changes in plan assets and benefit obligations recognized in other changes in unrestricted net assets at December 31, 2012:

	2012	2011
Gain recognized in current year	\$ (4,620,869)	\$ (7,490,708)
Loss incurred in current year	5,147,924	21,191,907
Other comprehensive loss in current year	\$ 527,055	\$ 13,701,199

The estimated net loss for the defined-benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is \$1,922,309.

Reid Hospital and Health Care Services, Inc.
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Significant assumptions include:

	2012	2011
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	4.25%	4.75%
Rate of compensation increase	0.00%	0.00%
Health care trend rate - initial	n/a	n/a
Health care trend rate - ultimate	n/a	n/a
Years to ultimate	n/a	n/a
Weighted-average assumptions used to determine benefit costs:		
Discount rate	4.75%	6.50%
Expected return on plan assets	7.00%	9.00%
Rate of compensation increase	0.00%	3.00%
Health care trend rate - initial	n/a	n/a
Health care trend rate - ultimate	n/a	n/a
Years to ultimate	n/a	n/a

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.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31, 2012:

2013	\$ 3,759,144
2014	3,075,464
2015	5,184,286
2016	4,343,574
2017	5,089,304
2018 - 2022	26,311,825

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.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2012 and 2011

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 2012 and 2011 are as follows:

	2012	2011
Equity securities	15 - 35%	15 - 35%
Debt securities	45 - 65%	45 - 65%
Other	0 - 40%	0 - 40%

Plan assets are re-balanced quarterly. At December 31, 2012 and 2011, plan assets by category are as follows:

	2012	2011
Equity securities	37%	20%
Debt securities	57%	53%
Other	6%	27%
	<u>100%</u>	<u>100%</u>

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, the fair value of alternative investments without quoted market prices is determined using the net asset value (or its equivalent) provided by the fund given 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 assets at December 31, 2012 or 2011.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2012 and 2011

The fair values of the Hospital's pension plan assets at December 31, 2012 and 2011, by asset class, are as follows:

	2012			
	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	\$ 949,838	\$ 949,838	\$ -	\$ -
Domestic equity mutual funds	11,243,139	11,243,139	-	-
Non-U.S. equity mutual funds	3,824,860	3,824,860	-	-
Domestic fixed income mutual funds	20,174,555	20,174,555	-	-
Non-U.S. fixed income mutual funds	3,549,571	3,549,571	-	-
Alternative investments - hedge funds	1,652,042	-	1,652,042	-
	<u>\$ 41,394,005</u>	<u>\$ 39,741,963</u>	<u>\$ 1,652,042</u>	<u>\$ -</u>

	2011			
	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	\$ 370,908	\$ 370,908	\$ -	\$ -
Domestic equity mutual funds	10,971,633	10,971,633	-	-
Non-U.S. equity mutual funds	2,670,132	2,670,132	-	-
Domestic fixed income mutual funds	19,313,198	19,313,198	-	-
Non-U.S. fixed income mutual funds	3,759,866	3,759,866	-	-
Alternative investments - hedge funds	1,494,485	-	1,494,485	-
	<u>\$ 38,580,222</u>	<u>\$ 37,085,737</u>	<u>\$ 1,494,485</u>	<u>\$ -</u>

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2012 and 2011

Note 13: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of 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 supported by little or no market activity and 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.

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.

The value of certain investments, classified as alternative investments, is determined using net asset value (or its equivalent) as a practical expedient. Investments for which the Hospital expects to have the ability to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 2. Investments for which the Hospital does not expect to be able to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 3.

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.

Reid Hospital and Health Care Services, Inc.
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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.

The following table presents estimated fair values of the Hospital's financial instruments at December 31, 2012 and 2011.

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 39,228,189	\$ 39,228,189	\$ 40,939,920	\$ 40,939,920
Debt securities	62,410,902	62,410,902	59,063,918	59,063,918
Equity securities	112,175,382	112,175,382	78,204,055	78,204,055
Interest in net assets of Foundation	23,695,530	23,695,530	20,971,728	20,971,728
Financial liabilities				
Long-term debt	173,325,230	211,352,802	176,255,876	213,085,325
Interest rate swap agreement	22,802,799	22,802,799	23,891,128	23,891,128

Note 14: The Fair Value Option

The Hospital has elected to measure certain alternative investments at fair value because it more accurately reflects its financial position. Included in the accompanying consolidated balance sheets are nine alternative investments of which three are reported at fair value of \$12,037,263 and \$11,812,936 at December 31, 2012 and 2011, respectively; the other six are reported on the equity method at \$17,466,087 and \$22,150,702 at December 31, 2012 and 2011, respectively. Unrealized gains (losses) on investments elected to be measured at fair value were \$699,897 and \$(4,385,644) at December 31, 2012 and 2011, respectively. These gains and losses are reported as a component of investment return 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 not having readily determinable fair value.

Reid Hospital and Health Care Services, Inc.
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Note 15: 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.

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.

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 expense when incurred.

Pension and Other Postretirement Benefit Obligations

The Hospital has a noncontributory defined-benefit pension plan whereby it agrees to provide certain postretirement benefits to eligible employees. As previously described in these footnotes, the noncontributory defined-benefit pension plan was frozen as of December 31, 2011. 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.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements December 31, 2012 and 2011

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.

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 the Hospital's 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 receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

Note 16: Patient Protection and Affordable Care Act

The Patient Protection and Affordable Care Act (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

Reid Hospital and Health Care Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

The state of Indiana has not affirmatively indicated whether or not it will participate in the expansion of the Medicaid program. The impact of that decision on the overall reimbursement to the Hospital cannot be quantified at this point.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Hospital's net patient service revenue. Additionally, it is possible the Hospital will experience payment delays and other operational challenges during PPACA's implementation.

Other Information

Reid Hospital and Health Care Services, Inc.
Consolidating Schedule - Balance Sheet Information
December 31, 2012

Assets

	Hospital	Reid MOB	ROSE	RPA	RA, LLC	Eliminations	Total
Current Assets							
Cash and cash equivalents	\$ 21,088,460	\$ 468,021	\$ 796,088	\$ (54,825)	\$ 100	\$ -	\$ 22,297,844
Assets limited as to use - current	2,975,000	-	-	-	-	-	2,975,000
Patient accounts receivable, net of allowance; 2012 - \$32,700,000	44,678,287	-	-	5,904,174	-	-	50,582,461
Supplies	2,878,280	-	-	-	-	-	2,878,280
Prepaid expenses and other	120,858,781	38,868	636,483	3,858,032	278,837	(116,448,613)	9,222,388
Total current assets	<u>192,478,808</u>	<u>506,889</u>	<u>1,432,571</u>	<u>9,707,381</u>	<u>278,937</u>	<u>(116,448,613)</u>	<u>87,955,973</u>
Assets Limited As To Use							
Internally designated	188,736,359	-	-	-	-	-	188,736,359
Internally designated - fair value option	12,037,263	-	-	-	-	-	12,037,263
Held by trustee	8,209,094	-	-	-	-	-	8,209,094
	<u>208,982,716</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>208,982,716</u>
Less amounts required to meet current obligations	2,975,000	-	-	-	-	-	2,975,000
	<u>206,007,716</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>206,007,716</u>
Property and Equipment, at cost							
	417,807,669	30,019,100	6,489,596	10,141,828	-	(1,780,667)	462,677,526
Less accumulated depreciation	165,975,082	4,293,103	4,248,913	4,234,233	-	(1,780,667)	176,970,664
	<u>251,832,587</u>	<u>25,725,997</u>	<u>2,240,683</u>	<u>5,907,595</u>	<u>-</u>	<u>-</u>	<u>285,706,862</u>
Other Assets							
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	23,695,530	-	-	-	-	-	23,695,530
Deferred financing costs	1,617,321	-	-	-	-	-	1,617,321
Other	7,194,226	-	-	-	-	(2,319,654)	4,874,572
	<u>32,507,077</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,319,654)</u>	<u>30,187,423</u>
Total assets	<u>\$ 682,826,188</u>	<u>\$ 26,232,886</u>	<u>\$ 3,673,254</u>	<u>\$ 15,614,976</u>	<u>\$ 278,937</u>	<u>\$ (118,768,267)</u>	<u>\$ 609,857,974</u>
Liabilities and Net Assets							
Current Liabilities							
Accounts payable and accrued expenses	\$ 15,530,780	\$ 719,431	\$ 519,269	\$ 90,219,214	\$ 2,000	(90,371,103)	\$ 16,619,591
Salaries, wages and related liabilities	10,317,304	-	-	3,882,588	-	-	14,199,892
Estimated amounts due to third-party payers	3,551,618	-	-	-	-	-	3,551,618
Current maturities of long-term debt	2,975,000	-	-	-	-	-	2,975,000
Total current liabilities	<u>32,374,702</u>	<u>719,431</u>	<u>519,269</u>	<u>94,101,802</u>	<u>2,000</u>	<u>(90,371,103)</u>	<u>37,346,101</u>
Long-Term Debt							
	170,350,230	26,077,512	-	-	-	(26,077,512)	170,350,230
Interest Rate Swap Agreement Liability							
	22,802,799	-	-	-	-	-	22,802,799
Pension Plan and Postretirement Benefits							
	21,800,891	-	-	-	-	-	21,800,891
Total liabilities	<u>247,328,622</u>	<u>26,796,943</u>	<u>519,269</u>	<u>94,101,802</u>	<u>2,000</u>	<u>(116,448,615)</u>	<u>252,300,021</u>
Net Assets							
Unrestricted							
Reid Hospital and Health Care Services, Inc.	411,802,036	(564,057)	3,153,985	(78,486,826)	276,937	(3,541,526)	332,640,549
Noncontrolling interest	-	-	-	-	-	1,221,874	1,221,874
Total unrestricted net assets	<u>411,802,036</u>	<u>(564,057)</u>	<u>3,153,985</u>	<u>(78,486,826)</u>	<u>276,937</u>	<u>(2,319,652)</u>	<u>333,862,423</u>
Temporarily restricted	23,529,737	-	-	-	-	-	23,529,737
Permanently restricted	165,793	-	-	-	-	-	165,793
Total net assets	<u>435,497,566</u>	<u>(564,057)</u>	<u>3,153,985</u>	<u>(78,486,826)</u>	<u>276,937</u>	<u>(2,319,652)</u>	<u>357,557,953</u>
Total liabilities and net assets	<u>\$ 682,826,188</u>	<u>\$ 26,232,886</u>	<u>\$ 3,673,254</u>	<u>\$ 15,614,976</u>	<u>\$ 278,937</u>	<u>\$ (118,768,267)</u>	<u>\$ 609,857,974</u>

Reid Hospital and Health Care Services, Inc.

Consolidating Schedule - Statement of Operations and Changes in Net Assets Information

Year Ended December 31, 2012

	Hospital	Reid MOB	ROSE	RPA	RA, LLC	Eliminations	Total
Unrestricted Revenues, Gains and Other Support							
Net patient service revenue	\$ 332,364,168	\$ -	\$ -	\$ 40,646,272	\$ -	\$ -	\$ 373,010,440
Provision for uncollectible accounts	(26,000,176)	-	-	(4,772,899)	-	-	(30,773,075)
Net patient service revenue less provision for uncollectible accounts	306,363,992	-	-	35,873,373	-	-	342,237,365
Other	9,865,310	4,499,491	24,070,252	1,550,839	5,813,954	(36,772,623)	9,027,223
Net assets released from restrictions used for operations	512,672	-	-	-	-	-	512,672
Total unrestricted revenues, gains and other support	316,741,974	4,499,491	24,070,252	37,424,212	5,813,954	(36,772,623)	351,777,260
Expenses and Losses							
Salaries, wages and benefits	109,146,933	74,587	9,094,931	51,235,358	28,848	(4,495,724)	165,084,933
Purchased services and professional fees	15,532,500	9,871	290,418	5,803,686	6,875,320	(6,501,838)	22,009,957
Supplies and other	102,942,452	1,941,762	5,563,009	13,302,889	5,690	(25,775,061)	97,980,741
Depreciation and amortization	31,498,314	775,763	503,214	1,478,595	-	(356,135)	33,899,751
Interest and amortization of financing costs	10,361,756	1,780,792	-	-	-	(1,780,792)	10,361,756
Loss on disposal of property and equipment	197,214	-	776,885	14,750	-	-	988,849
Provider hospital assessment fee	15,297,367	-	-	-	-	-	15,297,367
Total expenses and losses	284,976,536	4,582,775	16,228,457	71,835,278	6,909,858	(38,909,550)	345,623,354
Operating Income (Loss)	31,765,438	(83,284)	7,841,795	(34,411,066)	(1,095,904)	2,136,927	6,153,906
Other Income (Expense)							
Investment return	24,798,453	4,657	3,832	-	-	(6,589,680)	18,217,262
Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreement	(10,224,654)	-	-	-	-	-	(10,224,654)
Loss on bond refunding	(1,359,307)	-	-	-	-	-	(1,359,307)
Total other income (expense)	13,214,492	4,657	3,832	-	-	(6,589,680)	6,633,301
Excess (Deficiency) of Revenues Over Expenses	44,979,930	(78,627)	7,845,627	(34,411,066)	(1,095,904)	(4,452,753)	12,787,207
Other Changes in Unrestricted Net Assets							
Change in fair value of interest rate swap agreement	845,245	-	-	-	-	-	845,245
Amortization of 2005 interest rate swap agreement	10,467,738	-	-	-	-	-	10,467,738
Net assets released from restriction used for purchase of property and equipment	381,689	-	-	-	-	-	381,689
Net loss arising during the period related to defined-benefit plans	(567,126)	-	-	-	-	-	(567,126)
Distributions	-	(425,990)	(9,440,724)	-	(50,000)	5,721,832	(4,194,882)
Other	-	-	-	-	-	(21,050)	(21,050)
Increase (decrease) in unrestricted net assets	56,107,476	(504,617)	(1,595,097)	(34,411,066)	(1,145,904)	1,248,029	19,698,821
Temporarily Restricted Net Assets							
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	3,612,360	-	-	-	-	-	3,612,360
Net assets released from restriction	(894,361)	-	-	-	-	-	(894,361)
Increase in temporarily restricted net assets	2,717,999	-	-	-	-	-	2,717,999
Permanently Restricted Net Assets							
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	5,803	-	-	-	-	-	5,803
Change in Net Assets	58,831,278	(504,617)	(1,595,097)	(34,411,066)	(1,145,904)	1,248,029	22,422,623
Net Assets, Beginning of Year	376,666,288	(59,440)	4,749,082	(44,075,760)	1,422,841	(3,567,681)	335,135,330
Net Assets, End of Year	\$ 435,497,566	\$ (564,057)	\$ 3,153,985	\$ (78,486,826)	\$ 276,937	\$ (2,319,652)	\$ 357,557,953

Reid Hospital and Health Care Services, Inc.
Consolidating Schedule - Balance Sheet Information
December 31, 2011

Assets

	Hospital	Reid MOB	ROSE	RPA	RA, LLC	Eliminations	Total
Current Assets							
Cash and cash equivalents	\$ 18,577,096	\$ 250,881	\$ 1,110,385	\$ (241,606)	\$ 656,865	\$ -	\$ 20,353,621
Assets limited as to use - current	3,060,000	-	-	-	-	-	3,060,000
Patient accounts receivable, net of allowance; 2011 - \$23,800,000	42,890,292	-	-	4,151,997	-	-	47,042,289
Supplies	2,748,256	-	-	-	-	-	2,748,256
Prepaid expenses and other	83,245,580	46,102	870,991	2,273,992	1,357,932	(80,841,616)	6,952,981
Total current assets	<u>150,521,224</u>	<u>296,983</u>	<u>1,981,376</u>	<u>6,184,383</u>	<u>2,014,797</u>	<u>(80,841,616)</u>	<u>80,157,147</u>
Assets Limited As To Use							
Internally designated	160,068,849	-	-	-	-	-	160,068,849
Internally designated - fair value option	11,812,936	-	-	-	-	-	11,812,936
Held by trustee	8,123,192	-	-	-	-	-	8,123,192
	<u>180,004,977</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>180,004,977</u>
Less amount required to meet current obligations	3,060,000	-	-	-	-	-	3,060,000
	<u>176,944,977</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>176,944,977</u>
Property and Equipment, at cost							
	404,744,875	30,019,100	8,120,418	7,024,316	-	(1,780,667)	448,128,042
Less accumulated depreciation	135,888,629	3,517,340	4,492,396	2,462,391	-	(1,424,532)	144,936,224
	<u>268,856,246</u>	<u>26,501,760</u>	<u>3,628,022</u>	<u>4,561,925</u>	<u>-</u>	<u>(356,135)</u>	<u>303,191,818</u>
Other Assets							
Interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	20,971,728	-	-	-	-	-	20,971,728
Deferred financing costs	2,872,690	-	-	-	-	-	2,872,690
Other	5,136,589	-	-	-	-	(3,211,548)	1,925,041
	<u>28,981,007</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,211,548)</u>	<u>25,769,459</u>
Total assets	<u>\$ 625,303,454</u>	<u>\$ 26,798,743</u>	<u>\$ 5,609,398</u>	<u>\$ 10,746,308</u>	<u>\$ 2,014,797</u>	<u>\$ (84,409,299)</u>	<u>\$ 586,063,401</u>
Liabilities and Net Assets							
Current Liabilities							
Accounts payable and accrued expenses	\$ 12,933,081	\$ 224,061	\$ 860,316	\$ 52,530,943	\$ 591,956	\$ (54,207,496)	\$ 12,932,861
Salaries, wages and related liabilities	8,763,942	-	-	2,291,125	-	-	11,055,067
Estimated amounts due to third-party payers	4,808,995	-	-	-	-	-	4,808,995
Current maturities of long-term debt	3,060,000	-	-	-	-	-	3,060,000
Total current liabilities	<u>29,566,018</u>	<u>224,061</u>	<u>860,316</u>	<u>54,822,068</u>	<u>591,956</u>	<u>(54,207,496)</u>	<u>31,856,923</u>
Long-Term Debt	173,195,876	26,634,122	-	-	-	(26,634,122)	173,195,876
Interest Rate Swap Agreement Liability	23,891,128	-	-	-	-	-	23,891,128
Pension Plan and Postretirement Benefits	21,984,144	-	-	-	-	-	21,984,144
Total liabilities	<u>248,637,166</u>	<u>26,858,183</u>	<u>860,316</u>	<u>54,822,068</u>	<u>591,956</u>	<u>(80,841,618)</u>	<u>250,928,071</u>
Net Assets							
Unrestricted							
Reid Hospital and Health Care Services, Inc.	355,694,560	(59,440)	4,749,082	(44,075,760)	1,422,841	(5,673,265)	312,058,018
Noncontrolling interest	-	-	-	-	-	2,105,584	2,105,584
Total unrestricted net assets	<u>355,694,560</u>	<u>(59,440)</u>	<u>4,749,082</u>	<u>(44,075,760)</u>	<u>1,422,841</u>	<u>(3,567,681)</u>	<u>314,163,602</u>
Temporarily restricted	20,811,738	-	-	-	-	-	20,811,738
Permanently restricted	159,990	-	-	-	-	-	159,990
Total net assets	<u>376,666,288</u>	<u>(59,440)</u>	<u>4,749,082</u>	<u>(44,075,760)</u>	<u>1,422,841</u>	<u>(3,567,681)</u>	<u>335,135,330</u>
Total liabilities and net assets	<u>\$ 625,303,454</u>	<u>\$ 26,798,743</u>	<u>\$ 5,609,398</u>	<u>\$ 10,746,308</u>	<u>\$ 2,014,797</u>	<u>\$ (84,409,299)</u>	<u>\$ 586,063,401</u>

Reid Hospital and Health Care Services, Inc.
Consolidating Schedule - Statement of Operations and Changes in Net Assets Information
Year Ended December 31, 2011

	Hospital	Reid MOB	ROSE	RPA	RA, LLC	Eliminations	Total
Unrestricted Revenues, Gains and Other Support							
Net patient service revenue	\$ 288,641,379	\$ -	\$ -	\$ 26,368,609	\$ -	\$ -	\$ 315,009,988
Provision for uncollectible accounts	(24,040,460)	-	-	(3,324,708)	-	-	(27,365,168)
Net patient service revenue less provision for uncollectible accounts	264,600,919	-	-	23,043,901	-	-	287,644,820
Other	7,600,837	5,023,663	20,597,085	198,989	5,997,767	(32,924,004)	6,494,337
Net assets released from restrictions used for operations	576,426	-	-	-	-	-	576,426
Total unrestricted revenues, gains and other support	272,778,182	5,023,663	20,597,085	23,242,890	5,997,767	(32,924,004)	294,715,583
Expenses and Losses							
Salaries, wages and benefits	112,031,219	71,506	8,814,395	36,793,568	22,349	(4,299,191)	153,433,846
Purchased services and professional fees	20,717,482	16,218	250,275	118,034	5,074,285	(6,681,684)	19,494,610
Supplies and other	92,436,004	1,945,658	5,392,201	8,964,250	1,340	(21,943,128)	86,796,325
Depreciation and amortization	31,894,261	780,631	664,003	1,132,226	-	(356,135)	34,114,986
Interest and amortization of financing costs	11,973,056	1,817,904	-	-	-	(1,817,904)	11,973,056
(Gain) loss on disposal of property and equipment	521,479	-	(9,680)	(250)	-	-	511,549
Total expenses and losses	269,573,501	4,631,917	15,111,194	47,007,828	5,097,974	(35,098,042)	306,324,372
Operating Income (Loss)	3,204,681	391,746	5,485,891	(23,764,938)	899,793	2,174,038	(11,608,789)
Other Income (Expense)							
Investment return	(2,488,242)	6,341	5,256	-	-	(5,526,279)	(8,002,924)
Change in fair value of interest rate swap agreements and amortization of 2005 interest rate swap agreement	(195,530)	-	-	-	-	-	(195,530)
Total other income	(2,683,772)	6,341	5,256	-	-	(5,526,279)	(8,198,454)
Excess (Deficiency) of Revenues Over Expenses	520,909	398,087	5,491,147	(23,764,938)	899,793	(3,352,241)	(19,807,243)
Other Changes in Unrestricted Net Assets							
Change in fair value of interest rate swap agreement	(12,444,258)	-	-	-	-	-	(12,444,258)
Amortization of 2005 interest rate swap agreement	195,530	-	-	-	-	-	195,530
Net assets released from restriction used for purchase of property and equipment	221,270	-	-	-	-	-	221,270
Net gain arising during the period related to defined-benefit plans	(12,956,722)	-	-	-	-	-	(12,956,722)
Distributions	-	(699,989)	(5,710,416)	-	-	3,708,375	(2,702,030)
Other	-	-	-	-	-	691,387	691,387
Increase (decrease) in unrestricted net assets	(24,463,271)	(301,902)	(219,269)	(23,764,938)	899,793	1,047,521	(46,802,066)
Temporarily Restricted Net Assets							
Change in interest in net assets of Reid Hospital and Health Care Services Foundation, Inc.	473,862	-	-	-	-	-	473,862
Net assets released from restriction	(797,696)	-	-	-	-	-	(797,696)
Decrease in temporarily restricted net assets	(323,834)	-	-	-	-	-	(323,834)
Change in Net Assets	(24,787,105)	(301,902)	(219,269)	(23,764,938)	899,793	1,047,521	(47,125,900)
Net Assets, Beginning of Year	401,453,393	242,462	4,968,351	(20,310,822)	523,048	(4,615,202)	382,261,230
Net Assets, End of Year	\$ 376,666,288	\$ (59,440)	\$ 4,749,082	\$ (44,075,760)	\$ 1,422,841	\$ (3,567,681)	\$ 335,135,330